

State of Florida



# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

## -M-E-M-O-R-A-N-D-U-M-

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COMMISSION CLERK

**DATE:** June 7, 2012

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (Daniel, Mouring)  
Office of the General Counsel (Klancke)

PD M JS ALM JC

**RE:** Docket No. 110022-WU – Application for certificate to operate water utility in Pasco County by HV Utility Systems, L.L.C.  
County: Pasco

**AGENDA:** 06/19/12 – Regular Agenda – Proposed Agency Action for Issues 2-3 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brisé

**CRITICAL DATES:** 06/25/12 (Statutory Deadline for Original Certificates Pursuant to Section 367.031, Florida Statutes)

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\110022.RCM.DOC

### Case Background

On January 7, 2011, Equity LifeStyle Properties, Inc. (ELPI) filed an application for an original water certificate in Pasco County on behalf of its subsidiary, HV Utility Systems, L.L.C. (HV Utility or Utility). Since approximately 1973, the Utility has been providing potable water service to the Hacienda Village Mobile Home Park (Hacienda MHP), which is located east of U.S. Highway 19 near the city of New Port Richey. The Hacienda MHP is in the Southwest Florida Water Management District (SWFWMD) and is in the Northern Tampa Bay water use caution area.

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Wastewater service is currently provided by the Utility under Certificate No. 285-S, which the Commission granted in 2004.<sup>1</sup> HV Utility's 2011 annual report reflecting wastewater service indicates that the Utility had gross operating revenues of \$89,831 and a net operating loss of \$155,429.

HV Utility currently serves approximately 505 residential connections in addition to 2 clubhouses, an office, and a pool. Based on projected revenues, the Utility will be a Class C water utility. ELPI currently includes the cost of water service in customers' lot rental fees. Therefore, ELPI is exempt from the Commission's regulation, pursuant to Section 367.022(5), Florida Statutes (F.S.). If the Commission approves the Utility's application, ELPI intends to offset the establishment of rates and charges with appropriate decreases in lot rental fees.

The Commission recently granted certificates and initial rates and charges to three of ELPI's wholly-owned utilities, including OB Utility Systems, L.L.C. (Docket No. 110020-WS), COL Utility Systems, L.L.C. (Docket No. 110021-WS), and MFL Utility Systems, L.L.C. (Docket No. 110023-WS). Further, CC Utility Systems, LLC d/b/a Coral Cay Water & Sewer Company, a Class C water and wastewater utility in Broward County,<sup>2</sup> and BE Utility Systems, LLC, a Class C water utility in Lee County,<sup>3</sup> are wholly-owned by ELPI and regulated by the Commission.

In the instant docket, Pasco County (County) and the City of New Port Richey (City) filed objections to the application on July 13, 2011. Following several rounds of meetings and discussions in which the Utility, County, and City participated, the County and City withdrew their objections on March 19, 2012, and March 27, 2012, respectively. Commission staff conducted a customer meeting on May 1, 2012, in order to allow HV Utility's customers to provide input regarding the Utility's quality of service and to answer customers' questions about the Utility's proposed rates and charges.

Pursuant to Section 367.031, F.S., the Commission shall grant or deny an application for a certificate of authorization within 90 days after the official filing date of the completed

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<sup>1</sup> See Order No. PSC-04-1148-PAA-SU, issued November 18, 2004, in Docket No. 030747-SU, In re: Application for transfer of assets and Certificate No. 285-S in Pasco County to HV Utility Systems, L.L.C., by Hacienda Utilities, Ltd.

<sup>2</sup> In 1995, the Commission granted the transfer of water and wastewater certificates to CC Utility Systems, LLC, which underwent two name changes in Dockets Nos. 010670-WS and 030454-WS. See Order No. PSC-95-0622-FOF-WS, issued May 22, 1995, in Docket No. 940850-WS, In re: Application for transfer of Certificates Nos. 481-W and 417-S in Broward County from Colonies Water Company to MHC-DeAnza Financing Limited Partnership d/b/a Colonies Water Company; Order No. PSC-01-1499-FOF-WS, issued July 18, 2001, in Docket No. 010670-WS, In re: Application for acknowledgement of corporate reorganization and name change on Certificate Nos. 417-S and 481-W in Broward County from MHC-DeAnza Financing Limited Partnership, d/b/a Colonies Water Company, to CM Utility Systems, L.L.C. d/b/a Colonies Water Company; Order No. PSC-03-0919-FOF-WS, issued August 11, 2003, in Docket No. 030454-WS, In re: Application for name change on Certificate Nos. 481-W and 417-S in Broward County from CM Utility Systems, L.L.C. d/b/a Colonies Water Company to CC Utility Systems, L.L.C. d/b/a Coral Cay Water & Sewer Company.

<sup>3</sup> In 1995, the Commission granted the transfer of a water certificate to BE Utility Systems, LLC, which underwent a name change in Docket No. 010563-WU. See Order No. PSC-95-0623-FOF-WU, issued May 22, 1995, in Docket No. 940849-WU, In re: Application for transfer of Certificate No. 366-W in Lee County from DeAnza Properties-XI, Ltd., d/b/a Buccaneer Water Service, to MHC-DeAnza Financing Limited Partnership, d/b/a Buccaneer Water Service.

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application. The official filing date of HV Utility's application is May 18, 2012; therefore, the Commission must grant or deny the Utility's application by June 25, 2012. The purpose of this recommendation is to address the Utility's application for an original water certificate, as well as the appropriate initial rates and charges for HV Utility. The Commission has jurisdiction pursuant to Sections 367.031, 367.045, 367.081, 367.091, and 367.101, F.S.

### **Discussion of Issues**

**Issue 1:** Should the Commission grant HV Utility's application for an original water certificate?

**Recommendation:** Yes. The Commission should grant HV Utility Certificate No. 659-W to serve the territory described in Attachment A, effective the date of the Commission's vote. The resultant order should serve as the Utility's water certificate and should be retained by the Utility as such. Pursuant to Rule 25-30.033(1)(j), Florida Administrative Code (F.A.C.), HV Utility should submit an executed and recorded copy of the warranty deed within 30 days after the date of the order granting the certificate. (Daniel, Klancke)

**Staff Analysis:** As previously stated, ELPI filed an application for an original water certificate on January 7, 2011. The Utility subsequently provided additional information to correct deficiencies in the original filing. However, as previously noted, the County and the City filed objections to the application on July 13, 2011, but withdrew those objections on March 19, 2012, and March 27, 2012, respectively. The Utility's application is in compliance with the governing statutes, Sections 367.031 and 367.045, F.S., and other pertinent statutes and administrative rules concerning an application for an original certificate.

**Notice.** The application contained proof of compliance with the noticing provisions of Rule 25-30.030, F.A.C. On July 13, 2011, objections were filed by the County and the City. HV Utility subsequently filed three Unopposed Motions for Extension of Time to File Motion to Dismiss (Unopposed Motions) on July 28, 2011, September 14, 2011, and December 14, 2011. In its Unopposed Motions, the Utility stated that it was continuing discussions with the County and the City in an attempt to resolve the concerns raised. The Commission granted the Utility's July 28, 2011 Unopposed Motion,<sup>4</sup> as well as its September 14, 2011 Unopposed Motion.<sup>5</sup> In conjunction with each of the three Unopposed Motions, the Utility filed a Motion to Dismiss the County's and City's objections on August 2, 2011, September 14, 2011, and December 14, 2011. In each of the first two Motions to Dismiss, the Utility stated that it was filing the motion in an abundance of caution but requested that the Commission not rule upon the motion until it ruled upon the corresponding Unopposed Motion. The Utility withdrew each of the first two Motions to Dismiss after the Commission granted the corresponding Unopposed Motions. In the Utility's third Motion to Dismiss, it stated that the County's and City's objections were not timely filed and must be dismissed. On March 15, 2012, HV Utility filed a letter requesting that the Commission proceed to rule upon the Utility's December 14, 2011 Motion to Dismiss. Subsequently, the County withdrew its objection on March 19, 2012, and the City filed its withdrawal on March 27, 2012. No further objections from the County, the City, or any other entity have been received by the Commission, and the time for filing such has expired.

**Territory.** The Utility provided adequate service territory maps, as prescribed by Rule 25-30.033(1)(n), F.A.C. Staff verified that the maps represent HV Utility's proposed territory. The resulting description of the proposed service territory is appended to this recommendation as Attachment A.

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<sup>4</sup> See Order No. PSC-11-0333-PCO-WU, issued August 5, 2011, in Docket No. 110022-WU.

<sup>5</sup> See Order No. PSC-11-0398-PCO-WU, issued September 21, 2011, in Docket No. 110022-WU.

**Proof of Ownership.** Rule 25-30.033(1)(j), F.A.C., requires evidence in the form of a warranty deed that the utility owns the land upon which the utility treatment facilities are or will be located, or a copy of an agreement which provides for the continued use of the land, such as a 99-year lease. The application contained a copy of an unexecuted warranty deed conveying the property on which the water facilities are located from MHC Hacienda Village, L.L.C., a wholly-owned subsidiary of ELPI and the current owner of the property, to HV Utility. According to the application, the deed will be executed upon issuance of a final order granting a water certificate to the Utility. Staff recommends that, pursuant to Rule 25-30.033(1)(j), F.A.C., the Utility be required to submit an executed and recorded copy of the warranty deed within 30 days after the date of the order granting the certificate.

**Financial and Technical Ability.** In accordance with Rule 25-30.033(1)(e), F.A.C., HV Utility provided a statement describing its financial and technical ability to provide water service. The application included ELPI's 2009 10-K Annual Report, as filed with the U.S. Securities and Exchange Commission. According to ELPI, the information indicates that it has ample financial backing to ensure the safe, efficient, and sufficient provision of water and wastewater service to the proposed service territory. The Utility has the ability to raise cash when necessary to finance its operations through its parent company, ELPI, which is publicly traded on the New York Stock Exchange. Staff has reviewed ELPI's financial statements and other documentation included in the 10-K Annual Report, and they appear to show adequate resources to support HV Utility's water operations.

The Utility has been providing service to Hacienda MHP since approximately 1973. In addition, the application referenced ELPI's ownership interest in properties throughout the United States and Canada (307 properties as of December 31, 2010). As previously noted, properties owned and operated by ELPI in Florida include utilities that are currently regulated by the Commission. In addition, HV Utility's wastewater utility has been compliant with Commission rules since its certification. According to the applicant, utilities wholly owned by ELPI have a history of contracting professional, licensed companies that provide plant operation and maintenance services.

According to the SWFWMD, there are no outstanding compliance issues related to the Utility's Small General Water Use Permit, which expires on March 16, 2032. Additionally, the Florida Department of Environmental Protection (DEP) conducted an inspection of the water facilities on August 10, 2011; the report indicated that the Utility was substantially compliant and noted that deficiencies were promptly addressed by the Utility. The Utility also has an active wastewater facility permit issued by the DEP, which expires on June 30, 2016.

**Regulatory Requirements.** HV Utility understands that it must maintain its books and records according to the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA). The Utility also understands the requirements to file annual reports and pay regulatory assessment fees by March 31 for the preceding year ending December 31. In addition, the Utility is aware that it may not change its rates, serve outside its certificated territory, or transfer the Utility without prior Commission approval.

**Conclusion.** Based on the above information, staff believes it is in the public interest to grant HV Utility's request for an original water certificate. Accordingly, staff recommends that

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the Commission grant the Utility Certificate No. 659-W to serve the territory described in Attachment A, effective the date of the Commission's vote. The resultant order should serve as the Utility's water certificate and should be retained by the Utility as such. Pursuant to Rule 25-30.033(1)(j), F.A.C., the Utility should submit an executed and recorded copy of the warranty deed within 30 days after the date of the order granting the certificate.

**Issue 2:** What are the appropriate initial water rates and return on investment for HV Utility?

**Recommendation:** The water rates, as shown on Schedule No. 1, are reasonable and should be approved. HV Utility should be required to file a proposed customer notice to reflect the Commission-approved rates for the water system. The approved rates should be effective for services rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than ten days after the date of the notice. HV Utility should be required to charge the approved rates until authorized to change them by the Commission in a subsequent proceeding. A return on equity of 10.85 percent plus or minus 100 basis points should also be approved. (Daniel, Klancke)

**Staff Analysis:** Subsections (t), (u), (v), and (w) of Rule 25-30.033(1), F.A.C., specify the requirements for establishing rates and charges for original certificates, including submission of a cost study, growth projections, and data related to the utility plant, capital structure, and operating and maintenance (O&M) expenses. In the instant case, the Utility's water facilities are currently in operation and are built out. Therefore, the requested rates and charges in the application are based upon the actual operating costs of the existing systems at designed capacity. This is consistent with Commission policy for setting initial rates and charges. The cost study provided in the application includes data related to the existing plant, capital structure, and O&M expenses and excludes customer growth projections.

**Utility Facilities.** HV Utility's service territory covers a 67-acre area near New Port Richey. This area encompasses the Hacienda MHP, which consists of mobile homes, two clubhouses, an office, and a pool. ELPI is currently reviewing various metering companies to install meters throughout the Hacienda MHP and has not yet decided on a vendor. Thus, HV Utility has not yet completed installation and calibration of meters in conjunction with its application for initial rates and charges.

The existing water treatment facilities include a plant with 2 water supply wells and a hydropneumatic tank with a capacity of 5,000 gallons. The plant has a designed capacity of 0.375 million gallons per day (mgd). One of the plant's wells is equipped with a 350 gallon per minute (gpm) pump, while the other is equipped with a 150 gpm pump. The plant's treatment process consists of hypochlorination for disinfection and a sequestering agent for iron control. The facilities are interconnected for reliability with L W V Utilities, Inc.<sup>6</sup>

**Rate Base.** In setting initial rates and charges for a new utility, Commission practice has been to set rates so that the utility will have an opportunity to earn a fair return on its investment when approximately 80 percent of its projected customers are being served. Typically, in the early years of development, the customer base of a utility is not sufficient to allow the utility to recover its O&M expenses and earn a fair return on its investment; but, as growth reaches 80 percent of a utility's projected designed capacity, the initial rates become compensatory. In the

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<sup>6</sup> The Commission granted L W V Utilities, Inc., Certificate No. 152-W in 1986. According to a DEP inspection report (most recent inspection conducted on August 10, 2011), the plant has a designed capacity of 0.146 MGD, 2 water supply wells, and a hydropneumatic tank with a capacity of 3,000 gallons.

instant case, HV Utility's water facilities are in existence and serving its customers at designed capacity. Schedule Nos. 1 and 2 contain the Utility's estimated rate base and revenue requirement and the resulting proposed rates and charges.

HV Utility did not have documentation to support the original cost of the water facilities. Therefore, an original cost study was prepared by an accounting firm to estimate the cost of the assets when first dedicated to public service. The Utility's estimated cost for Utility Plant in Service (UPIS) is \$553,351 for the water facilities.

Rule 25-30.580(1)(a), F.A.C., provides that the maximum amount of contributions-in-aid-of-construction (CIAC), net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of a utility's facilities and plant when at their designed capacity. Rule 25-30.580(1)(b), F.A.C., provides that the minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution systems. Because the proposed service territory is a mobile home park in which ELPI rents, rather than sells, lots to customers, no CIAC have been collected by the Utility. Therefore, the CIAC balance is \$0 for the water system. Should the Utility wish to extend its service territory outside of the Hacienda MHP in the future, it must request a service availability policy and charges that are consistent with the guidelines in Rule 25-30.580, F.A.C., which require that at a minimum the cost of the lines should be contributed.

The Utility's estimated accumulated depreciation balance is based on the average service life guidelines for Class C utilities, as set forth in Rule 25-30.140, F.A.C. Based on the guidelines, the water accumulated depreciation balance is \$357,286. An estimated working capital allowance of \$10,128 is based on 1/8 of the estimated O&M expenses for the water system, pursuant to Rule 25-30.433(2), F.A.C.

Staff recommends that HV Utility's estimated rate base of \$206,193 for water, as shown on Schedule No. 1, is reasonable. This rate base is established only as a tool to aid the Commission in setting initial rates and is not intended to formally establish rate base. This is consistent with Commission practice in applications for original certificates.<sup>7</sup>

**Cost of Capital.** As required by Rule 25-30.033(1)(w), F.A.C., the application contained a schedule of HV Utility's capital structure, including a statement of the methods of financing

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<sup>7</sup> See Order No. PSC-11-0586-PAA-WS, issued December 21, 2011, in Docket No. 110023-WS, In re: Application for certificates to provide water and wastewater service in Lake County by MFL Utility Systems, L.L.C.; Order No. PSC-11-0583-PAA-WS, issued December 20, 2011, in Docket No. 110021-WS, In re: Application for certificates to provide water and wastewater service in Lake County by COL Utility Systems, L.L.C.; Order No. PSC-11-0580-PAA-WS, issued December 19, 2011, in Docket No. 110020-WS, In re: Application for certificates to provide water and wastewater service in Marion County by OB Utility Systems, L.L.C.; Order No. PSC-11-0113-PAA-WS, issued February 11, 2011, in Docket No. 050192-WS, In re: Application for certificates to provide water and wastewater service in Sumter County by Central Sumter Utility Company, L.L.C.; Order No. PSC-08-0540-PAA-WS, issued August 18, 2008, in Docket No. 080103-WS, In re: Application for certificates to provide water and wastewater service in Hardee and Polk Counties by TBBT Utility LLC; Order No. PSC-08-0228-PAA-WS, issued April 7, 2008, in Docket No. 060602-WS, In re: Application for certificate to provide water and wastewater service in Lee and Charlotte Counties by Town and Country Utilities Company; Order No. PSC-07-0983-PAA-WS, issued December 10, 2007, in Docket No. 060726-WS, In re: Application for certificates to provide water and wastewater service in Glades County and water service in Highlands County by Silver Lake Utilities, Inc.

the Utility's operations. The Utility's capital structure, as shown on Schedule No. 2, consists of 40 percent equity and 60 percent debt. Equity contributions or advances from related entities will be made as required by the Utility to finance and support its operations.

The Utility's proposed return on equity of 10.85 percent is consistent with the Commission's current leverage formula in effect at the time of the Commission's vote.<sup>8</sup> The Utility's cost of debt of 4.25 percent is based on the prime rate in effect at the time the application was filed (3.25 percent) plus 100 basis points.<sup>9</sup>

Staff recommends an overall cost of capital of 6.89 percent for HV Utility based on a capital structure consisting of 40 percent equity and 60 percent debt, a return on equity of 10.85 percent, and a cost of debt of 4.25 percent. Staff believes this is a reasonable overall cost of capital for calculating the revenue requirement for this original certificate case. Staff further recommends that the Commission set the Utility's authorized return on equity at 10.85 percent with a range of plus or minus 100 basis points.

**Net Operating Income.** HV Utility's estimated net operating income for water service is shown on Schedule No. 1 and is based on the rate base for the water system and the overall estimated cost of capital of 6.89 percent, as previously discussed. The resulting net operating income figure is \$14,207.

**Revenue Requirement.** HV Utility's proposed revenue requirement is based on O&M expenses, depreciation, taxes other than income, and net operating income, as previously described. Included in O&M expenses are chemicals, purchased power, plant maintenance, laboratory testing, insurance, and contractual services. Taxes other than income include property taxes and projected regulatory assessment fees of 4.50 percent of gross revenues.

The Utility's proposed revenue requirement for the water system of \$120,672 includes \$81,020 for O&M, \$16,973 for depreciation expense, and \$8,472 for taxes other than income. Staff recommends that the proposed revenue requirement for the water system of \$120,672 is reasonable and should be used to set initial rates for water service.

**Rates.** HV Utility's proposed residential and general service rates are based on a revenue requirement of \$120,672 for water service. As shown on Schedule No. 1, the Utility's requested

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<sup>8</sup> See Order No. PSC-11-0287-PAA-WS, issued July 5, 2011, in Docket No. 110006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.; see also Rules 25-30.415 and 25-30.033(1)(w) and (3), F.A.C.

<sup>9</sup> See Order No. PSC-11-0586-PAA-WS, issued December 21, 2011, in Docket No. 110023-WS, In re: Application for certificates to provide water and wastewater service in Lake County by MFL Utility Systems, L.L.C.; Order No. PSC-11-0583-PAA-WS, issued December 20, 2011, in Docket No. 110021-WS, In re: Application for certificates to provide water and wastewater service in Lake County by COL Utility Systems, L.L.C.; Order No. PSC-11-0580-PAA-WS, issued December 19, 2011, in Docket No. 110020-WS, In re: Application for certificates to provide water and wastewater service in Marion County by OB Utility Systems, L.L.C.; Order No. PSC-08-0540-PAA-WS, issued August 18, 2008, in Docket No. 080103-WS, In re: Application for certificates to provide water and wastewater service in Hardee and Polk Counties by TBBT Utility LLC; Order No. PSC-08-0228-PAA-WS, issued April 7, 2008, in Docket No. 060602-WS, In re: Application for certificate to provide water and wastewater service in Lee and Charlotte Counties by Town and Country Utilities Company.

rates include a monthly base facility charge (BFC) and a single gallonage charge for all water customers.

For water service, the Utility proposed a residential and general service BFC of \$7.58 for 5/8" x 3/4" meters. For both residential and general service water usage, the Utility proposed a gallonage charge of \$3.16 per 1,000 gallons for all levels of usage. Staff recommends that the Utility's proposed rates and rate structure are reasonable, consistent with Commission practice for setting initial water rates, and should be approved.

Section 723.037, F.S., which is enforced by the Florida Department of Business and Professional Regulation, requires that 90 days' written notice be provided to the affected residents when a mobile home park wishes to modify its lot rental fees. In addition, the Hacienda MHP's prospectus must be amended. If the Commission approves the Utility's request for initial rates, staff will work with the Utility to establish the effective date of its tariffs once Hacienda MHP's prospectus has been amended.

**Customer Meeting.** Approximately 175 HV Utility customers attended a noticed customer meeting held at the Hacienda MHP Clubhouse on May 1, 2012. The purpose of the meeting was to allow customers to ask questions and provide input regarding the Utility's quality of service. At the meeting, Commission staff gave opening remarks, and representatives of the Utility and the Office of Public Counsel (OPC) were present. Approximately 9 customers spoke and raised 10 specific concerns.

Of the 10 specific concerns expressed by customers, summarized in Table 2-1, staff identified the cost of future repairs to the facilities and billing as the most prevalent issues.

<u>Type of Complaint</u>	<u>Total</u>
Cost of repairs	2
Billing (BFC, tiers)	2
Discontinue service while away	2
Service to homes outside Hacienda MHP	2
Commission's procedures	1
Service to common areas	1
Provision of wastewater service	1
Billing while away	1
Water quality testing	1
Index and rate case	1
<b>Total</b>	<b>14</b>

The majority of those who attended the meetings expressed concern over the Utility's justification for charging rates and charges as specific compensation for the provision of water service. While some of the comments referenced the Utility's aging infrastructure and whether the cost of plant improvements would be borne by the customers, other comments addressed how service and bills will be provided when seasonal residents are away. Customers also described concerns with respect to water quality testing, the Commission's procedures in a case such as the instant case, and future index filings and rate cases.

**Conclusion.** The water rates, as discussed and recommended in staff's analysis and shown on Schedule No. 1, are reasonable and should be approved. HV Utility should be required to file a proposed customer notice to reflect the Commission-approved rates for the water system. The approved rates should be effective for services rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than ten days after the date of the notice. HV Utility should be required to charge the approved rates until authorized to change them by the Commission in a subsequent proceeding. A return on equity of 10.85 percent plus or minus 100 basis points should also be approved.

**Issue 3:** What are the appropriate miscellaneous service charges for HV Utility?

**Recommendation:** The appropriate miscellaneous service charges for HV Utility are those described in staff's analysis. HV Utility should be required to file a proposed customer notice to reflect the Commission-approved charges for the water system. The approved miscellaneous service charges should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charges should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than ten days after the date of the notice. HV Utility should be required to collect the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Daniel, Klancke)

**Staff Analysis:** Pursuant to Section 367.091, F.S., HV Utility requested authority to apply certain miscellaneous service charges. Utilities may apply for miscellaneous service charges, including initial connection, normal reconnection, violation reconnection, and premises visit charges, in accordance with Rule 25-30.460, F.A.C. HV Utility's proposed miscellaneous service charges, which are based upon actual expenses, are shown on Schedule No. 2. The Utility's proposed charges are similar to or lower than charges previously approved by the Commission for other Class C utilities.<sup>10</sup> Additionally, Commission practice has been to place the burden of such charges on the cost causer rather than the general body of ratepayers. This is consistent with one of the fundamental principles of rate making – ensuring that the cost of providing service is recovered from the cost causer.<sup>11</sup>

Staff recommends that HV Utility's request for authority to apply certain miscellaneous service charges, as reflected on Schedule No. 2, is reasonable and should be approved. In addition, staff recommends that the changes to the Utility's miscellaneous service charges recommended herein are reasonable and should be approved. HV Utility should be required to file a proposed customer notice to reflect the Commission-approved charges for the water and wastewater systems. The approved miscellaneous service charges should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than ten days after the date of the notice. HV Utility

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<sup>10</sup> See Order No. PSC-11-0583-PAA-WS, issued December 20, 2011, in Docket No. 110021-WS, In re: Application for certificates to provide water and wastewater service in Lake County by COL Utility Systems, L.L.C.; Order No. PSC-11-0580-PAA-WS, issued December 19, 2011, in Docket No. 110020-WS, In re: Application for certificates to provide water and wastewater service in Marion County by OB Utility Systems, L.L.C.; Order No. PSC-10-0552-PAA-WU, issued September 3, 2010, in Docket No. 090366-WU, In re: Application for certificate to operate water utility in Marion County by Arma Water Service, LLC; Order No. PSC-08-0228-PAA-WS, issued April 7, 2008, in Docket No. 060602-WS, In re: Application for certificate to provide wastewater service and to establish new water and wastewater rates in Lee and Charlotte Counties by Town and Country Utilities Company.

<sup>11</sup> See Order No. PSC-03-1119-PAA-SU, issued October 7, 2003, in Docket No. 030106-SU, In re: Application for staff-assisted rate case in Lee County by Environmental Protection Systems of Pine Island, Inc.; Order No. PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, In re: Application for transfer of Certificate No. 123-W in Lake County from Theodore S. Jansen d/b/a Ravenswood Water System to Crystal River Utilities, Inc.

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should be required to collect the approved charges until authorized to change them by the Commission in a subsequent proceeding.

**Issue 4:** Should this docket be closed?

**Recommendation:** If no timely protest to the proposed agency action issues is filed with the Commission by a substantially affected person, a Consummating Order should be issued. However, the docket should remain open to allow HV Utility to file a proposed customer notice reflecting the Commission-approved water rates and charges and to provide proof of the date notice was given no less than ten days after the date of the notice. (Klancke)

**Staff Analysis:** If no timely protest to the proposed agency action issues is filed with the Commission by a substantially affected person, a Consummating Order should be issued. However, the docket should remain open to allow HV Utility to file a proposed customer notice reflecting the Commission-approved water rates and charges and to provide proof of the date notice was given no less than ten days after the date of the notice.

HV Utility Systems, L.L.C.  
Hacienda Village Mobile Home Park  
Description of Water Territory  
Pasco County

A PARCEL OF LAND LYING AND BEING IN THE SOUTH ONE HALF OF SECTION 3, TOWNSHIP 26 SOUTH, RANGE 16 EAST, SAID LANDS LYING AND BEING IN PASCO COUNTY, FLORIDA, AND BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS;

COMMENCING AT THE SOUTHWEST CORNER OF THE SOUTHEAST 1/4 OF SAID SECTION 3; SAID POINT BEING THE POINT OF BEGINNING OF THE HEREIN DESCRIBED PARCEL; THENCE N89°38'46"W ALONG THE SOUTH LINE OF THE SOUTHWEST 1/4 OF SAID SECTION 3 A DISTANCE OF 1780.46 FEET; THENCE N00°29'16"E A DISTANCE OF 398.00 FEET; THENCE N89°32'38"W A DISTANCE OF 308.26 FEET TO THE EAST RIGHT OF WAY LINE OF ROWAN ROAD; THENCE N18°44'48"W ALONG SAID EAST RIGHT OF WAY LINE A DISTANCE OF 165.39 FEET TO THE POINT OF CURVATURE OF A CURVE CONCAVE TO THE WEST HAVING A RADIUS OF 830.00 FEET AND A CENTRAL ANGLE OF 08°31'42"; THENCE NORTHWESTERLY ALONG SAID CURVE FOR AN ARC DISTANCE OF 123.54 FEET TO THE POINT OF TANGENCY OF SAID CURVE; THENCE N27°16'30"W A DISTANCE OF 366.71 FEET; THENCE DEPARTING SAID EAST RIGHT OF WAY LINE S89°34'20"E A DISTANCE OF 3248.57 FEET TO THE WEST LINE OF CYPRESS KNOLLS SUBDIVISION AS RECORDED IN PLAT BOOK 15, PAGE 46 OF THE PUBLIC RECORDS OF PASCO COUNTY, FLORIDA; THENCE S00°26'03"W ALONG SAID WEST LINE OF CYPRESS KNOLLS SUBDIVISION A DISTANCE OF 988.85 FEET TO THE SOUTH LINE OF THE SOUTHEAST 1/4 OF SECTION 3; THENCE N89°38'46"W ALONG SAID SOUTH LINE OF THE SOUTHEAST 1/4 OF SECTION 3 A DISTANCE OF 886.26 FEET TO THE POINT OF BEGINNING. CONTAINS 66.55 ACRES MORE OR LESS.

**FLORIDA PUBLIC SERVICE COMMISSION**

authorizes

**HV Utility Systems, L.L.C.**

pursuant to

**Certificate Number 659-W**

to provide water service in Pasco County in accordance with the provisions of Chapter 367, Florida Statutes, and the Rules, Regulations, and Orders of this Commission in the territory described by the Orders of this Commission. This authorization shall remain in force and effect until superseded, suspended, cancelled or revoked by Order of this Commission.

<u>Order Number</u>	<u>Date Issued</u>	<u>Docket Number</u>	<u>Filing Type</u>
*	*	110022-WU	Original Certificate

**\*Order Number and date to be provided at time of issuance.**

**HV UTILITY SYSTEMS, L.L.C.  
 WATER SYSTEM**

**Rate Base**

Utility Plant in Service	\$ 553,351
Accumulated Depreciation	(357,286)
Working Capital Allowance (1/8 O&M)	<u>10,128</u>
Water Rate Base	<u>\$ 206,193</u>

**Revenue Requirement**

Operating Revenues	<u>\$ 120,672</u>
Operating and Maintenance (O&M)	81,020
Net Depreciation Expense	16,973
Taxes Other Than Income	8,472
Net Operating Income	<u>\$ 14,207</u>
Water Rate Base	\$ 206,193
Rate of Return	6.89%

**Monthly Service Rates – Residential & General Service**

Base Facility Charge	
5/8" x 3/4"	\$ 7.58
1"	18.95
1.5"	37.90
2"	60.64
3"	113.70
4"	189.50
6"	379.00
Charge per 1,000 gallons	\$ 3.16

**Comparison of Residential Service Bills**

3,000 gallons	\$ 17.06
5,000 gallons	\$ 23.38
10,000 gallons	\$ 39.18

**HV UTILITY SYSTEMS, L.L.C.**

**Cost of Capital**

<b>Capital Structure</b>	<b>Balance per Filing</b>	<b>Percent Ratio</b>	<b>Staff Recommended Cost Rate</b>	<b>Staff Recommended Weighted Cost</b>
Equity	\$ 82,477	40 %	10.85%	4.34%
Debt	<u>\$ 123,716</u>	<u>60 %</u>	4.25%	<u>2.55%</u>
Total	\$ 206,193	100%	--	6.89%
<b>Return on Equity</b>			<b>High</b>	<b>Low</b>
Range of Reasonableness			11.85%	9.85%

**Miscellaneous Service Charges**

<b>Description</b>	<b>Staff Recommended Business Hours Charges</b>
Initial Connection Charge	\$ 15.00
Normal Reconnection Charge	\$ 15.00
Violation Reconnection Charge	\$ 15.00
Premises Visit in Lieu of Disconnection Charge	\$ 10.00