

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 19, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Bennett, Norris) *WB*
Division of Economics (Bethea, Hudson) *TB St*
Division of Engineering (Graves, Knoblauch, M. Watts) *EK MFA*
Office of the General Counsel (Murphy) *Can TM* *ALM*

RE: Docket No. 20190113-WS – Application for staff-assisted rate case in Manatee County by Heather Hills Utilities, LLC.

AGENDA: 03/31/20 – Regular Agenda – Proposed Agency Action – Except for Issue Nos. 11, 13, and 14 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Clark

CRITICAL DATES: 9/10/2020 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

Heather Hills Utilities, LLC (Heather Hills or Utility) is a Class C water and wastewater utility providing service to approximately 354 residential customers and one general service customer in Manatee County. Effective October 30, 2018, Heather Hills was granted the approval of transfer for Certificate Nos. 577-W and 498-S from Heather Hills Estates Utilities, LLC.¹ According to Heather Hills' 2018 Annual Report, total gross revenues were \$63,397 for water and \$104,312 for wastewater, and total operating expenses were \$69,910 for water and \$114,689 for wastewater, resulting in net operating losses of \$6,513 and \$10,377, for water and wastewater, respectively.

On May 9, 2019, Heather Hills filed an application for a staff-assisted rate case (SARC). Pursuant to Section 367.0814(2), Florida Statutes (F.S.), the official filing date of the SARC is July 10, 2019. The 12-month period ended May 31, 2019, was selected as the test year for the instant docket.

During the test year the owner operated 14 utilities. Subsequent to the test year, the owner purchased an additional utility. As such, the Owner of the Utility now manages and owns 15 utilities. Common costs for each utility are allocated on the basis of customer count. Heather Hills' allocation is 5 percent for water and 5 percent for wastewater, for a total of 10 percent, unless otherwise noted.

This recommendation addresses Heather Hills' proposed rates. This Commission has jurisdiction pursuant to Sections 367.081, 367.0814, and 367.091, F.S.

¹ PSC-2018-0561-PAA-WS, issued November 26, 2018, in Docket No. 20170151-WS, *In re: Application for transfer of Certificate Nos. 577-W and 498-S in Manatee County from Heather Hills Estates Utilities, LLC to Heather Hills Utilities, LLC.*

Discussion of Issues

Issue 1: Is the quality of service provided by Heather Hills satisfactory?

Recommendation: Staff recommends that the overall quality of service for Heather Hills should be considered satisfactory. (Knoblauch, M. Watts)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission, in every rate case, shall make a determination of the quality of service provided by the utility by evaluating the quality of the utility's product (water) and the utility's attempt to address customer satisfaction (water and wastewater). In accordance with the Rule, the most recent chemical analyses, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department, along with any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints shall also be considered.

Quality of the Utility's Product (Water)

Heather Hills does not have its own wells or water treatment facilities. It provides water to its customers by purchasing bulk water from Manatee County; therefore, the Utility only maintains its distribution system. As a reseller of water, Heather Hills is not subject to the DEP's secondary water standards which regulate contaminants that may impact the taste, odor, and color of drinking water. The chemical analyses required within Heather Hills' distribution system include microbiological, disinfection byproducts, asbestos, lead and copper. Staff reviewed the Utility's most recent results for the distribution system, and all results were in compliance with the DEP's rules and regulations which protect public health.

Staff held a customer meeting on November 5, 2019, to receive customer comments regarding the quality of service. At the meeting, 13 customers spoke and of those customers, none of the comments concerned the quality of the water. The concerns voiced at the customer meeting were largely related to customer service and the rate increase, which are discussed in more detail below.

Heather Hills has no outstanding citations, violations, and consent orders on file with the DEP. Additionally, there have been no complaints regarding the quality of the Utility's product filed with the Utility, the Commission, or the DEP, over the last five years.

The Utility's Attempt to Address Customer Satisfaction (Water & Wastewater)

Table 1-1 shows a summary of the complaints received at the customer meeting, as well as complaints received by the Commission's complaint tracking system, the DEP, and Heather Hills over the past five years.

Table 1-1
Number of Complaints by Type and Source

Complaint Type	Customer Meeting	Commission Records	DEP Records	Utility Records
Billing	4	10	0	0
Customer Service	6	1	0	0
Leak	0	1	1	0
Wastewater	0	0	0	1
Rate Case	6	0	0	0
Infrastructure	3	0	0	0
Other*	0	1	0	1
Total**	19	13	1	2

*Other complaints relate to a meter and improper disconnect.

**A single customer complaint may be counted more than once if it fits into multiple categories.

Customer Meeting

At the customer meeting, six customers voiced dissatisfaction with Heather Hills' customer service; specifically, that it is difficult to reach the Utility by phone or that customers' calls are not returned. The customers also voiced concern about the distance of the Utility's office from the service territory, resulting in additional travel time for service problems to be addressed, as well as the excessive use of weed killer around the meter boxes. The remaining concerns were related to the rate case, billing issues, and the age of Heather Hills' infrastructure.

In response to the comments made at the customer meeting, Heather Hills stated that when Utility employees are unable to answer calls, customers can leave a voicemail and calls are returned the same day or by the following business day.² During non-business hours, the Utility employs an answering service; however, the service is for emergency calls only. In regard to the distance of the Utility's office from the service territory, Heather Hills asserted that there have been no instances of delays due to this distance, and a maintenance technician visits the system frequently. Additionally, as part of ongoing maintenance, the Utility stated that weed killer is used to ensure meters can be read in a timely manner.

The Utility further stated that a full-time position had been previously approved by the Commission, and this position would help to address comments about Heather Hills' customer service. In Order No. PSC-2018-0439-PAA-WU, the Commission found it appropriate to increase a part-time billing position to full time.³ However, the Utility indicated that the position is vacant and it is currently seeking applicants.

² Document No. 11248-2019, filed December 9, 2019, in Docket No. 20190113-WS, *In re: Application for staff-assisted rate case in Manatee County by Heather Hills Utilities, LLC*.

³ Order No. PSC-2018-0439-PAA-WU, issued August 28, 2018, in Docket No. 20170230-WU, *In re: Application for staff-assisted rate case in Pasco County by Orange Land Utilities, LLC*.

Complaints

As noted above, there were no complaints on the quality of the Utility's product over the last five years; however, 13 non-water quality and 1 wastewater complaints were found. A review of the Commission's complaint tracking system revealed 11 complaints in the previous five-year period. Eight complaints were related to billing and one complaint was related to an improper disconnection. The complaints were forwarded to the Utility for resolution, and each complaint has been closed. The remaining two complaints were recorded as quality of service complaints in the Commission's complaint tracking system, and were regarding a disconnection fee and leak repair work with a billing issue. For the first complaint, staff found that the disconnect fees being charged were correct according to Heather Hills' tariff. The second complaint was made about a delay in repairing a water leak, unprofessional customer service, and a late fee. The customer stated that the leak was addressed, and the late fee concern was resolved. It should be noted that in Table 1-1, both of these complaints have been recorded as relating to billing, and the second complaint was also recorded as a leak and a customer service complaint. Furthermore, of the 11 complaints received by the Commission, only 4 were received after the system was purchased by the current owner in 2017. All four of these complaints were regarding billing problems and were resolved.

In response to staff's first data request, Heather Hills provided two complaints that were received by the Utility. On July 19, 2018, a customer indicated that wastewater was backing up into her yard. The customer was advised to contact a plumber, who found that the problem was not with the customer's line, and the issue was resolved by the Utility. On March 28, 2019, the Utility received a complaint that a customer's water meter was not recording usage, and the customer's meter was replaced. In addition, staff contacted the DEP requesting complaints regarding Heather Hills for the prior five years, and one complaint was provided. The complaint was received on January 3, 2018, and was in regard to a leaking flow meter and that a precautionary boil water notice was not issued. The complaint was resolved after it was determined that, due to the location, the customer was responsible for the repair of the leak.

Conclusion

The Utility's water quality is in compliance with DEP rules and regulations and there were no water quality complaints. While there were some concerns raised about the Utility's responsiveness to customers, this does not appear to be a wide-spread issue considering Heather Hills' total customer base. The Utility stated that it is attempting to fill the approved billing position to assist with customer service. Therefore, in consideration of the information discussed above, staff recommends that the overall quality of service for Heather Hills should be satisfactory.

Issue 2: Are the infrastructure and operating conditions of Heather Hills’ water and wastewater systems in compliance with DEP regulations?

Recommendation: Yes, Heather Hills’ water and wastewater systems are currently in compliance with DEP regulations. (M. Watts, Knoblauch)

Staff Analysis: Rule 25-30.225(2), F.A.C., requires each water and wastewater utility to maintain and operate its plant and facilities by employing qualified operators in accordance with the rules of the DEP. Rule 25-30.433(2), F.A.C., requires consideration of whether the infrastructure and operating conditions of the plant and facilities are in compliance with Rule 25-30.225, F.A.C. In making this determination, the Commission must consider any testimony of the DEP and county health department officials, compliance evaluation inspections, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

Water and Wastewater System Operating Condition

Heather Hills does not have its own wells, water treatment facilities or wastewater treatment facilities. It provides water and wastewater service to its customers by purchasing bulk water and wastewater treatment service from Manatee County; therefore, the Utility only maintains its distribution and collection systems. Systems that purchase bulk water and/or wastewater treatment are referred to as “consecutive” systems. The most recent inspection report from the DEP, dated July 24, 2018, indicated that the Utility was substantially compliant with its regulations and requirements with the exception of on-site operation and maintenance procedures, manuals, and logs. The Utility provided a response to DEP’s inspection report that addressed its concerns on September 17, 2018. Additionally, Heather Hills has no outstanding citations, violations, and consent orders on file with the DEP.

Conclusion

Heather Hills’ water and wastewater systems are currently in compliance with DEP regulations.

Issue 3: What are the used and useful (U&U) percentages for the Utility's water distribution and wastewater collection system?

Recommendation: Staff recommends that the water distribution system and the wastewater collection system be considered 100 percent U&U. There is no excessive unaccounted for water (EUW). Staff is unable to calculate inflow and infiltration (I&I) due to the nature of the Utility's provision of wastewater service. Therefore, no adjustment to operating expenses is recommended. (M. Watts, Knoblauch)

Staff Analysis: As discussed in Issue 2, Heather Hills does not have its own wells or water and wastewater treatment plants. The Utility's water distribution system consists of 15,300 feet of three-quarter inch polyvinyl chloride pipe (PVC). The wastewater collection system is composed of 15,300 feet of six-inch PVC pipe with 38 manholes.

Water Distribution and Wastewater Collection System Used and Useful

Heather Hills serves a mobile home park that was built in 1967. The service territory is built out, with no growth occurring over the past five years and no prospect for further growth. Therefore, the U&U for the water distribution system and the wastewater collection system is 100 percent.

Excessive Unaccounted for Water

Rule 25-30.4325(1)(e), F.A.C., defines EUW as unaccounted for water in excess of 10 percent of the amount produced. The Commission recognizes that some uses of the water are readily measurable and others are not. Unaccounted for water is all water that is produced that is not sold, metered, or accounted for in the records of the utility. The rule provides that to determine whether adjustments to operating expenses, such as purchased water in the case of a consecutive system, are necessary the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The unaccounted for water is calculated by subtracting both the gallons used for other purposes, such as flushing, and the gallons sold to customers from the total gallons purchased for the test year. During the test year, Heather Hills purchased 7,505,800 gallons of water from Manatee County. The Utility sold 7,119,102 gallons to customers, and did not report any gallons used for other purposes. Subtracting the gallons sold from the gallons purchased, there are 386,698 gallons unaccounted for, or 5.2 percent of the total purchased. Since this is less than 10 percent of the amount purchased, there is no excessive unaccounted for water and no adjustment is recommended.

Infiltration and Inflow

Typically infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. Because the amount of wastewater treated by Manatee County Utilities on behalf of Heather Hills is not measured separately, staff is unable to calculate whether there is excessive infiltration and inflow and thus no adjustment is recommended.

Conclusion

Staff recommends that the water distribution system and the wastewater collection system be considered 100 percent U&U. There is no excessive unaccounted for water. Staff is unable to calculate inflow and infiltration due to the nature of the Utility's provision of wastewater service. Therefore, no adjustment to operating expenses is recommended.

Issue 4: What are the appropriate average test year water and wastewater rate bases for Heather Hills, LLC?

Recommendation: The appropriate average test year rate base for Heather Hills is \$46,622 for water and \$16,998 for wastewater. (Bennett, Knoblauch, M. Watts)

Staff Analysis: Rate base was last established for the Heather Hills water and wastewater systems on April 7, 2017. The test year ended May 31, 2019, was used for the instant case. A summary of each water and wastewater rate base component and recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The Utility recorded a UPIS balance of \$89,864 for water and \$73,240 for wastewater. Based on staff's review of the Utility's books and records, UPIS should be decreased by \$364 for wastewater to reflect an averaging adjustment. The Utility is requesting pro forma for a new van, a new computer, and a trailer. The Utility provided two bids for the van, as well as estimated costs for the trailer. In Order No. PSC-2019-0503-PAA-SU, the Commission approved two new maintenance technicians to be allocated to all of the Florida Utility Services 1's (FUS1) systems.⁴ The Utility indicated that the new van requested in this docket would be required for one of the new maintenance technicians and that the lowest bid was selected. Based on Heather Hills' allocation, this results in an increase of \$1,367 for each system. In the same order, the Commission approved the allocation of a new computer for FUS1. As such, UPIS has been increased by \$26 for each system to reflect Heather Hills' allocation. In regards to the trailer, Heather Hills stated that because the Utility is a reseller and does not have a plant, a trailer is needed to store parts and equipment needed for repairs. The trailer will be used at Heather Hills and Sunny Shores Utilities, Inc. Allocating the cost of the trailer between the two utilities by customer count results in an increase of \$1,210 for Heather Hills water and wastewater system. The Utility explored other alternatives, such as renting storage space; however, it determined that purchasing a used storage trailer would be a more cost-effective option. As such, staff recommends an increase of \$2,603 (\$1,367 + \$26 + \$1,210) for each system to reflect pro forma plant additions. Therefore staff recommends a UPIS balance of \$92,467 (\$89,864 + \$2,603) for water and \$75,479 (\$73,240 - \$364 + \$2,603) for wastewater.

Land & Land Rights

The Utility recorded a land balance of \$389 for water and \$389 for wastewater. Based on staff's review, no adjustment is necessary. Therefore, staff recommends that the appropriate balance is \$389 for water and \$389 for wastewater.

Used and Useful

As discussed in Issue 2, Heather Hill's water distribution system and the wastewater collection system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

⁴ Order No. PSC-2019-0503-PAA-SU, issued November 25, 2019, in Docket No. 20180202-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.*

Accumulated Depreciation

Heather Hills recorded an accumulated depreciation balance of \$55,042 for water and \$72,603 for wastewater. Staff increased accumulated depreciation by \$1,038 for water and decreased accumulated depreciation by \$6 for wastewater to reflect depreciation pursuant to Rule 25-30.140, F.A.C. In addition, staff decreased accumulated depreciation by \$2,091 for water and \$30 for wastewater to reflect an averaging adjustment. Staff also increased accumulated depreciation by \$431 for water and \$431 for wastewater to reflect pro forma plant requests staff is recommending. Staff's adjustments to accumulated depreciation result in a net decrease of \$622 ($\$1,038 - \$2,091 + \431) for water and a net increase of \$395 ($-\$6 - \$30 + \431) for wastewater. Therefore, staff recommends an accumulated depreciation balance of \$54,420 for water and \$72,998 for wastewater.

Contributions in Aid of Construction (CIAC)

The Utility recorded a CIAC balance of \$26,625 for water and \$0 for wastewater. Based on staff's review, no adjustment is necessary. Therefore, staff recommends that the appropriate balance is \$26,625 for water and \$0 for wastewater.

Accumulated Amortization of CIAC

The Utility recorded an accumulated amortization of CIAC balance of \$26,625 for water and \$0 for wastewater. Based on staff's review, no adjustment is necessary. Therefore, staff recommends that the appropriate balance is \$26,625 for water and \$0 for wastewater.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(3), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. As such, staff has removed the rate case expense balance of \$374 for this calculation resulting in an adjusted O&M expense balance of \$65,491 ($\$65,865 - \374) for water and \$113,019 ($\$113,393 - \374) for wastewater. Applying this formula approach to the adjusted O&M expense balance, staff recommends a working capital allowance of \$8,186 ($\$65,491 / 8$) for water and \$14,127 ($\$113,019 / 8$) for wastewater.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate test year average rate base is \$46,622 for water and \$16,998 for wastewater. Rate base is shown on Schedule Nos. 1-A and 1-B. The related adjustments are shown on Schedule No. 1-C.

Issue 5: What is the appropriate return on equity and overall rate of return for Heather Hills?

Recommendation: The appropriate return on equity (ROE) is 10.55 percent with a range of 9.55 percent to 11.55 percent. The traditional rate of return does not apply in this case due to rate base being less than 125 percent of O&M expenses. (Bennett)

Staff Analysis: As discussed in Issue 8, staff is recommending the operating ratio methodology be used in this case. Although the traditional rate of return does not apply in this case due to rate base being less than 125 percent of O&M expenses, staff recommends that an ROE still be established for this Utility.

According to staff's audit, Heather Hills' test year capital structure reflects negative equity, a long-term debt balance of \$142,515, and no customer deposits. It is Commission practice to set a negative equity balance to zero for rate making purposes.⁵ The appropriate ROE for the Utility is 10.55 percent based on the Commission approved leverage formula currently in effect.⁶ As such, staff recommends an ROE of 10.55 percent, with a range of 9.55 percent to 11.55 percent. The ROE is shown on Schedule No. 2. The traditional rate of return does not apply in this case due to rate base being less than 125 percent of O&M expenses.

⁵ Order Nos. PSC-2008-0548-PAA-WS, issued August 19, 2008, in Docket No. 20070416-WS, *In re: Application for staff-assisted rate case in Polk County by Plantation Landings, Ltd.*; PSC-1995-0480-FOF-WS, issued April 13, 1995, in Docket No. 19940895-WS, *In re: Application for a staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.*; and PSC-1997-0263-FOF-SU, issued March 11, 1997, in Docket No. 19960984-SU, *In re: Investigation of possible overearnings in Volusia County by North Peninsula Utilities Corporation.*

⁶ Order No. PSC-2019-0326-CO-WS issued July 1, 2019, in Docket No. 20190006, *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.*

Issue 6: What are the appropriate test year revenues for the water and wastewater systems?

Recommendation: The appropriate test year revenues for Heather Hills' water is \$65,206 and wastewater is \$117,484. (Bethea)

Staff Analysis: The Utility recorded total test year revenues of \$63,674 for water and \$104,642 for wastewater. The water revenues included \$62,662 of service revenues and \$1,012 of miscellaneous revenues. The wastewater revenues included \$104,642 of service revenues and no miscellaneous revenues. The Utility had a rate increase during the test year as well as subsequent to the test year as a result of price index and pass through adjustments. Staff annualized revenues to reflect those changes in rates.

By applying the rates subsequent to the end of the test year along with the test year billing determinants, staff determined test year service revenues to be \$64,700 for water and \$116,978 for wastewater. This results in an increase of \$2,038 ($\$64,700 - \$62,662$) for water and \$12,336 ($\$116,978 - \$104,642$) for wastewater test year service revenues. Staff also made adjustments to miscellaneous revenues for water and wastewater to equally allocate the revenues collected as a result of miscellaneous services. This results in miscellaneous revenues of \$506 ($\$1,012 / 2$) for water and \$506 for wastewater. Based on the above, the appropriate test year revenues for Heather Hills' water is \$65,206 ($\$64,700 + \506) and \$117,484 ($\$116,978 + \506) for wastewater.

Issue 7: What is the appropriate amount of operating expenses for Heather Hills?

Recommendation: The appropriate amount of operating expenses for Heather Hills is \$72,522 for water and \$118,902 for wastewater. (Bennett, Knoblauch, M. Watts)

Staff Analysis: Heather Hills recorded operating expenses of \$75,047 for water and \$122,162 for wastewater for the test year ended May 31, 2019. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made adjustments to the Utility's operating expenses as summarized below.

Operating & Maintenance Expense

Salaries and Wages – Employees Expense (601/701)

Heather Hills recorded salaries and wages – employees expense of \$13,233 for water and \$13,233 for wastewater. The Utility filed a request for two new maintenance technicians on September 18, 2019.⁷ However, the same request had also been filed in Docket No. 20180202-SU for West Lakeland Wastewater, LLC. The request for the two maintenance technicians was subsequently approved by Order No. PSC-2019-0503-PAA-SU, stating that the “two additional maintenance technicians are needed and shall be allocated to all of the FUS1's systems, including West Lakeland.”⁸ Therefore, staff allocated the two maintenance technicians to Heather Hills based on the approval of these positions in Docket No. 20180202-SU. Therefore, staff recommends an increase of \$1,835 each for water and wastewater. As such, staff recommends salaries and wages – employees expense of \$15,068 (\$13,233 + \$1,835) for water and \$15,068 (\$13,233 + \$1,835) for wastewater.

Salaries and Wages – Officers Expense (603/70)

The Utility recorded salaries and wages – officers expense of \$4,015 for water and \$4,015 for wastewater in the test year. In Order No. PSC-2018-0439-PAA-WU, the President was approved a salary of \$80,000.⁹ As such, staff annualized the approved salary which results in a salaries and wages – officers expense of \$4,000 ($\$80,000 \times 0.10 / 2$) for each system. Therefore, staff recommends a decrease of \$15 ($\$4,000 - \$4,015$) for each system.

Employees Pensions and Benefits Expense (604/704)

The Utility recorded employee pensions and benefits expenses of \$333 for each system. In Order No. PSC-2019-0503-PAA-SU,¹⁰ FUS1 was granted employees pensions and benefits for the two additional technicians. The corresponding allocation of employee pensions and benefits expense for Heather Hills associated with the two new technicians allocated across all systems results in an increase of \$567 for each system. As such, staff recommends employees pensions and benefits expense of \$900 ($\$333 + \567) for each system.

⁷ Document No. 08855-2019

⁸ Order No. PSC-2019-0503-PAA-SU, issued November 25, 2019, in Docket No. 20180202-SU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.*

⁹ Order No. PSC-2018-0439-PAA-WU, issued August 28, 2018, in Docket No. 20170230-WU, *In re: Application for staff-assisted rate case in Pasco County by Orange Land Utilities, LLC.*

¹⁰ Order No. PSC-2019-0503-PAA-SU, issued November 25, 2019, in Docket No. 20180202-WU, *In re: Application for staff-assisted rate case in Polk County by West Lakeland Wastewater, LLC.*

Purchased Water and Wastewater Expense (610/710)

The Utility recorded purchased water expense of \$33,638. The Utility recorded purchased wastewater treatment expense of \$84,012. Staff increased purchased water expense by \$40 and decreased purchased wastewater treatment by \$40 to reflect actual amount of invoices for Heather Hills. As such, staff recommends purchased water expense of \$33,678 ($\$33,638 + \40) and purchased wastewater treatment expense of \$83,972 ($\$84,012 - \40).

Purchased Power (615/715)

The Utility originally recorded purchased power in the miscellaneous expense account. Staff increased purchased power expense of \$134 for each system based on actual invoices and proper allocation for Heather Hills. As such, staff recommends purchased power expense of \$134 each for water and wastewater.

Materials and Supplies Expense (620/720)

The Utility recorded materials and supplies expense of \$548 for water and \$941 for wastewater in the test year. Staff decreased materials and supplies expense by \$155 for water and \$548 for wastewater to reflect actual amount of invoices and allocation for Heather Hills. As such, staff recommends a materials and supplies expense of \$393 ($\$548 - \155) for water and \$393 ($\$941 - \548) for wastewater.

Contractual Services – Professional Expense (631/731)

Heather Hills recorded contractual services - professional expense of \$389 for water and \$389 for wastewater in the test year. Staff increased contractual services - professional expense by \$235 for water and \$197 for wastewater to reflect actual amount of invoices and allocations for Heather Hills. Staff also increased contractual services – professional by \$526 for water and \$526 for wastewater to reclassify expenses from regulatory commission expense. The Utility requested pro forma expense allocations for accounting services to assist FUS1 in this docket. However, in Docket No. 20180202-SU the Commission did not approve this specific expense, as it determined the expense was primarily related to the preparation of the Owner’s personal tax return. Therefore, staff recommends contractual services – professional expense in the amount of \$1,150 ($\$389 + \$235 + \526) for water and \$1,112 ($\$389 + \$197 + \526) for wastewater.

Contractual Services – Testing Expense (635/735)

Heather Hills recorded contractual services testing of \$1,786 for water and \$108 for wastewater. Staff increased contractual services testing by \$212 for water and decreased this expense by \$108 for wastewater to reflect actual amount of invoices. Therefore, staff recommends contractual services – testing expense of \$1,998 ($\$1,786 + \212) for water and \$0 ($\$108 - \108) for wastewater.

Contractual Services – Other Expense (636/736)

The Utility recorded contractual services – other expense of \$573 for water and \$65 for wastewater. Staff increased this account by \$110 for water and decreased it by \$12 for wastewater to reflect actual amount of invoices and allocations. As such, staff recommends contractual services – other expense of \$683 ($\$573 + \110) for water and \$53 ($\$65 - \12) for wastewater.

Rent Expense (640/740)

Heather Hills recorded rent expense of \$1,894 for water and \$1,895 for wastewater. The rental expense for the test year was overstated by \$519 (\$1,894 - \$1,375) for water and \$520 (\$1,895 - \$520) for wastewater based on invoices and proper allocations. The Utility has requested pro forma expense for an increase in rent, property tax, and insurance associated with its office lease agreement. FUS1 has a triple net lease¹¹ for the office space that is allocated to all the utilities. As such, staff annualized the rental expense and recommends an increase of \$510 for both water and wastewater. Therefore, staff recommends rent expense of \$1,884 (\$1,894 - \$519 + \$510) for water and \$1,884 (\$1,895 - \$519 + \$510) for wastewater. As such, staff is recommending a decrease in rent expense of \$10 (\$1,884 - \$1,894) for water and \$11 (\$1,884 - \$1,895) for wastewater.

Transportation Expense (650/750)

Heather Hills recorded transportation expense of \$3,044 for water and \$3,044 for wastewater. Staff decreased this account by \$2,107 for water and \$2,107 for wastewater to reflect the correct allocation amount and to remove loan payments for FUS1 vehicles allocated to UPIS. Therefore, staff recommends transportation expense of \$937 (\$3,044 - \$2,107) for water and \$937 (\$3,044 - \$2,107) for wastewater.

Insurance Expense (655/755)

Heather Hills recorded insurance expense of \$2,442 for water and \$2,442 for wastewater. Staff decreased this account by \$631 for water and \$631 for wastewater to reflect actual invoices and proper allocations. Additionally, the Utility requested pro forma expense to recover the increased cost of workers compensation insurance. The Utility provided documentation of the policy increasing to \$8,149 and requests a total increase of \$422, based on an allocation of 12.02 percent, with \$211 ($\$422 / 2$) going to each system. Based on Heather Hills' 10 percent allocation, the updated policy would total \$816 annually, or \$408 ($\$816 / 2$) for each system. The test year expense for workers compensation insurance was \$328 for each system. As such, staff recommends an increase of \$80 ($\$408 - \328) for each system. Therefore, staff recommends insurance expense of \$1,891 ($\$2,442 - \$631 + \80) for water and \$1,891 ($\$2,442 - \$631 + \80) for wastewater.

Regulatory Commission Expense (665/775)

The Utility recorded regulatory commission expense of \$1,054 for water and \$1,054 for wastewater in the test year. Staff decreased this account by \$514 for each system to reflect actual invoices and the amortization of the Utility's transfer costs. In addition, staff decreased this account by \$526 for each system to reclassify contractual services professional.

Generally, the regulatory commission expense account includes expenses incurred by a utility in connection with formal cases before the regulatory commissions such as noticing costs and filing fees. The Utility is required by Rule 25-22.0407, F.A.C., to provide notices of the customer meeting and notices of final rates in this case to its customers. Staff is recommending that the Utility also be required to provide notice of the four-year rate reduction to its customers when the rates are reduced to remove the amortized rate case expense. For noticing, staff estimated \$586

¹¹ A Triple Net Lease is a lease agreement on a property whereby the tenant or lessee promises to pay all the expenses of the property including real estate taxes, building insurance, and maintenance.

Date: March 19, 2020

for postage expense, \$355 for printing expense, and \$53 for envelopes. This results in \$994 ($\$586 + \$355 + \53) for the noticing requirements. The Utility paid a total of \$2,000 in rate case filing fees (\$1,000 for water and \$1,000 for wastewater). Based on the above, staff recommends total rate case expense of \$2,994 ($\$994 + \$2,000$), which should be amortized pursuant to Section 367.081(8), F.S. Staff recommends that rate case expense be amortized over four years, as the Utility did not request a different amortization period be used. This represents an annual increase of \$374 ($\$2,994 / 4 / 2$) per system. As such, staff recommends a decrease to regulatory commission expense of \$666 ($-\$514 - \$526 + \374) for each system, respectively. Therefore staff recommends a regulatory commission expense amount of \$389 ($\$1,054 - \666) for each system.

Miscellaneous Expense (675/775)

The Utility recorded miscellaneous expense of \$5,957 for water and \$5,763 for wastewater. Staff decreased this account by \$3,323 for water and \$3,229 for wastewater to properly reflect the amount from provided invoices, remove purchased power expense, and correct allocations. As such, staff recommends miscellaneous expense of \$2,634 ($\$5,957 - \$3,323$) for water and \$2,534 ($\$5,763 - \$3,229$) for wastewater.

Operation & Maintenance Expense Summary

Based on the above adjustments, staff recommends that O&M expense be decreased by \$3,167 for water and \$4,027 for wastewater, resulting in total O&M expense of \$65,865 for water and \$113,393 for wastewater. Staff's recommended adjustments to O&M expense are shown on Schedule No 3-C.

Net Depreciation Expense

Heather Hills recorded depreciation expense of \$3,137 for water and \$73 for wastewater during the test year. Staff recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and has decreased depreciation expense by \$432 for water and \$28 for wastewater. Additionally, staff calculated the net depreciation expense for the pro forma plant additions and retirements discussed in Issue 3 and increased depreciation expense by \$431 for water and wastewater. Therefore, staff recommends net depreciation expense of \$3,136 ($\$3,137 - \$432 + \431) for water and \$476 ($\$73 - \$28 + \431) for wastewater.

Taxes Other Than Income (TOTI)

Heather Hills recorded a TOTI balance of \$2,878 for water and \$4,669 for wastewater. Staff increased TOTI by \$140 for water and \$140 for wastewater to reflect the requested pro forma increase of salaries and wages – employees expense as discussed above. This results in an increase of \$140 for water and \$140 for wastewater.

In addition, as discussed in Issue 8, revenues have been increased by \$11,179 for water and \$4,948 for wastewater to reflect the change in revenue required to cover expenses and allow the Commission-approved operating margin. TOTI should be increased by \$503 for water and \$223 for wastewater to reflect regulatory assessment fees (RAFs) of 4.5 percent on the change in revenues. Therefore, staff recommends TOTI of \$3,521 ($\$2,878 + \$140 + \503) for water and \$5,032 ($\$4,669 + \$140 + \223) for wastewater.

Operating Expense Summary

The application of staff's recommended adjustments to Heather Hills' test year operating expenses results in operating expenses of \$72,522 for water and \$118,902 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule Nos. 3-C, 3-D and 3-E.

Issue 8: Does the Utility meet the criteria for the application of the Operating Ratio Methodology?

Recommendation: Yes. The Utility meets the requirement for application of the operating ratio methodology for calculating the revenue requirement for Heather Hills. The margin should be 12 percent of O&M expenses. (Bennett)

Staff Analysis: Rule 25-30.4575(2), F.A.C., provides that, in rate cases processed under Rule 25-30.455 F.A.C., the Commission will use the operating ratio methodology to establish the utility's revenue requirement when the utility's rate base is no greater than 125 percent of O&M expenses and the use of the operating ratio methodology does not change the utility's qualification for a SARC. Under the operating ratio methodology, instead of calculating the utility's revenue requirement based on a rate of return on the utility's rate base, the revenue requirement is calculated using a margin of 12 percent of O&M expenses, not to exceed \$15,000. Purchased water and wastewater must be removed from O&M expenses prior to calculating the margin of 12 percent.

As discussed in Issues 4 and 7, staff has recommended a rate base of \$46,622 for water and \$16,998 for wastewater and O&M expenses of \$65,865 for water and \$113,393 for wastewater. Based on these recommended amounts, Heather Hills' water and wastewater rate bases are only 71 percent and 15 percent of its O&M expenses, respectively. Based on a margin of 12 percent, the operating margin for Heather Hills is \$3,862 for water and \$3,531 for wastewater, which does not exceed \$15,000. Furthermore, the application of the operating ratio methodology does not change the Utility's qualification for a SARC. As such, Heather Hills meets the criteria for the operating ratio methodology established in Rule 25-30.4575(2), F.A.C. Therefore, staff recommends the application of the operating ratio methodology at a margin of 12 percent of O&M expense for determining the revenue requirement for both the water and wastewater systems.

Issue 9: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$76,385 for water and \$122,432 for wastewater resulting in an annual increase of \$11,179 for water and \$4,788 for wastewater. (Bennett)

Staff Analysis: Heather Hills should be allowed an annual increase of \$11,179 for water (17.14 percent) and \$4,948 for wastewater (4.21 percent). The calculations are shown below in Table 9-1 for water and Table 9-2 for wastewater.

**Table 9-1
 Water Revenue Requirement**

Adjusted O&M (Less Purchased Water)	\$32,187
Operating Margin (%)	<u>x 12.00%</u>
Operating Margin (\$15,000 Cap)	\$3,862
Adjusted O&M Expense	65,865
Depreciation Expense (Net)	3,136
Taxes Other Than Income	<u>3,521</u>
Revenue Requirement	\$76,385
Less Adjusted Test Year Revenues	<u>65,206</u>
Annual Increase	<u>\$11,179</u>
Percent Increase	17.14%

**Table 9-2
 Wastewater Revenue Requirement**

Adjusted O&M (Less Purchased Wastewater Treatment)	\$29,421
Operating Margin (%)	<u>x 12.00%</u>
Operating Margin (\$15,000 Cap)	\$3,531
Adjusted O&M Expense	113,393
Depreciation Expense (Net)	476
Taxes Other Than Income	<u>5,032</u>
Revenue Requirement	\$122,432
Less Adjusted Test Year Revenues	<u>117,484</u>
Annual Increase	<u>\$4,948</u>
Percent Increase	4.21%

Issue 10: What are the appropriate rate structures and rates for the water and wastewater systems of Heather Hills Utilities, LLC?

Recommendation: The recommended rate structures and quarterly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet 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 and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of this notice. (Bethea)

Staff Analysis:

Water Rates

The Utility is located in Manatee County within the Southwest Florida Water Management District. Heather Hills provides water service to approximately 354 residential customers and one general service customer. Typically, staff evaluates the seasonality of Utility customers based on the percentage of bills at zero gallons, which is 12 percent. However, the Utility bills on a quarterly basis, so an average was used to determine the approximate monthly usage. Averaging the quarterly bill on a monthly basis may allocate usage to a month in the quarter where there could have been no usage. Therefore, staff believes it is appropriate to evaluate the seasonality based on the percentage of bills at the 1,000 gallon level, which is 40 percent. As a result, it appears that the customer base is seasonal, which is consistent with the Utility's assessment of the demographics for its customer base. The average residential water demand is 1,666 gallons per month. The average water demand excluding zero gallon bills is 1,894 gallons per month. The Utility's current water system rate structure for residential and general service customers consists of a quarterly base facility charge (BFC) based on meter size and uniform gallonage charge.

Staff performed an analysis of the Utility's billing data in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; 3) establish the appropriate non-discretionary usage threshold for restricting repression; and 4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

Due to the customers' low average monthly consumption and seasonal customer base, staff recommends that 60 percent of the revenue requirement be recovered through the BFC in an effort to maintain revenue stability. Consistent with Commission practice, monthly billing is the preferred method for conservation efforts because it allows customers to monitor their water usage in an effort to minimize the impact of their bill. However, in this instance, due to the usage characteristics of the customer base, the cost of implementing monthly billing outweighs any benefits because there are no issues with excessive usage. Therefore, staff recommends a continuation of the Utility's existing rate structure, which is a quarterly base facility charge based on meter size and uniform gallonage charge for both residential and general service

customers. Rates were designed based upon the recommended revenue requirement excluding miscellaneous service charges.

Wastewater Rates

Heather Hills provides wastewater service to approximately 354 residential customers and 1 general service customer. Currently, the wastewater rate structure for residential customers consists of a quarterly uniform BFC for all meter sizes and gallonage charge with no gallonage cap. General service customers are billed a BFC by meter size and gallonage charge that is 1.2 times higher than the residential gallonage charge.

Staff performed an analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages and gallonage caps for the residential wastewater customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) implement a gallonage cap, where appropriate, that considers approximately the amount of water that may return to the wastewater system.

Consistent with Commission practice, staff allocated 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. The Utility does not have a gallonage cap for residential customers because the Utility purchases water and wastewater treatment from Manatee County and is billed wastewater treatment on all water gallons purchased. As a result, staff recommends a continuation of no residential wastewater gallonage cap. In addition, for the same reasons provided for the water system, staff recommends a continuation of quarterly billing. Staff recommends a continuation of the existing wastewater rate structure for residential customers, which consists of a quarterly uniform BFC for all meter sizes and a gallonage charge with no gallonage cap. General service customers should continue to be billed a quarterly BFC by meter size and gallonage charge that is the same as residential. Rates were designed based upon the recommended revenue requirement excluding miscellaneous service charges.

Issue 11: What is the appropriate amount by which the rates should be reduced after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.081(8), F.S.?

Recommendation: The rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. Heather Hills should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Bethea, Bennett) (Procedural Agency Action)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the recovery period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. The total reduction is \$392 for each system.

Staff recommends that the rates should be reduced as shown on Schedule No. 4 to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. Heather Hills should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 12: Should the requested initial customer deposits for Heather Hills Utilities, LLC. be approved?

Recommendation: The appropriate initial customer deposits should be \$106 for the single family residential 5/8 inch x 3/4 inch meter size for water and \$172 for the single family residential 5/8 inch x 3/4 inch meter size for wastewater. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Bethea)

Staff Analysis: Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.¹² Currently, the Utility's initial deposit for single family residential water customers is \$78 for the 5/8 inch x 3/4 inch meter size and two times the average estimated bill for the general service customers. For wastewater, the Utility's initial deposit for single family residential service is \$124 for the 5/8 inch x 3/4 inch meter size and two times the average estimated bill for the general service customers.

Rule 25-30.311(7), F.A.C., authorizes utilities to collect new or additional deposits from existing customers not to exceed an amount equal to the average actual charge for water and/or wastewater service for two billing periods for the 12-month period immediately prior to the date of notice. The two billing periods reflect the lag time between the customer's usage and the Utility's collection of the revenues associated with that usage. Commission practice has been to set initial customer deposits equal to two billing periods based on the average consumption for a 12-month period for each class of customers.¹³ The Utility's average monthly residential usage is 1,666 gallons per customer. Heather Hills bills on a quarterly basis; therefore, an average residential bill for one quarterly billing period based on staff's recommended rates is approximately \$53 for water and \$86 for wastewater.

Based on the above, the appropriate initial customer deposits for the residential 5/8 inch x 3/4 inch meter size are \$106 for water and \$172 for wastewater. The initial customer deposit for all other residential meter sizes and all general service meter sizes should be two times the average estimated quarterly bill for water and wastewater. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved initial

¹² Order No. PSC-2018-0446-FOF-SU, issued September 4, 2018, in Docket No. 20170141-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

¹³ Order Nos. PSC-2017-0428-PAA-WS, issued November 7, 2017, in Docket No. 20160195-WS, *In re: Application for staff-assisted rate case in Lake County by Lakeside Waterworks, Inc.*; and PSC-17-0113-PAA-WS, issued March 28, 2017, in Docket No. 20130105-WS, *In re: Application for certificates to provide water and wastewater service in Hendry and Collier Counties, by Consolidated Services of Hendry & Collier, LLC.*

customer deposits until authorized to change them by the Commission in a subsequent proceeding.

Issue 13: Should the recommended rates be approved for Heather Hills on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility. Heather Hills should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Bennett) (Procedural Agency Action)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. Heather Hills should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

Heather Hills should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$10,898. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or,
- 2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If the Utility chooses a letter of credit as a security, it should contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect, and,
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

- 1) The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement;
- 2) No monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission Clerk, or his or her designee.
- 3) The escrow account shall be an interest bearing account;
- 4) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 5) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;
- 6) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 7) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 8) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to *Cosentino v. Elson*, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 9) The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

Should the recommended rates be approved by the Commission on a temporary basis, Heather Hills should maintain a record of the amount of the security, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 14: Should the Utility be required to notify the Commission in writing that it has adjusted its books in accordance with the Commission's decision?

Recommendation: Yes. Heather Hills should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Heather Hills should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable National Association of Regulatory and Utility Commissioners Uniform System of Accounts (NARUC USOA) primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Bennett) (Procedural Agency Action)

Staff Analysis: Heather Hills should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Heather Hills should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 15: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the Proposed Agency Action Order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively. (Murphy)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the Proposed Agency Action Order, a Consummating Order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively.

Heather Hills Utilities, LLC		SCHEDULE NO. 1-A	
TEST YEAR ENDED 5/31/2019		DOCKET NO. 20190113-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$89,864	\$2,603	\$92,467
LAND & LAND RIGHTS	389	0	389
ACCUMULATED DEPRECIATION	(55,042)	622	(54,420)
CIAC	(26,625)	0	(26,625)
AMORTIZATION OF CIAC	26,625	0	26,625
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>8,186</u>	<u>8,186</u>
RATE BASE	<u>\$35,211</u>	<u>\$11,411</u>	<u>\$46,622</u>

Heather Hills Utilities, LLC		SCHEDULE NO. 1-B	
TEST YEAR ENDED 5/31/2019		DOCKET NO. 20190113-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$73,240	\$2,239	\$75,479
LAND & LAND RIGHTS	389	0	389
ACCUMULATED DEPRECIATION	(72,603)	(395)	(72,998)
CIAC	0	0	0
AMORTIZATION OF CIAC	0	0	0
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>14,127</u>	<u>14,127</u>
WASTEWATER RATE BASE	<u>\$1,026</u>	<u>\$15,972</u>	<u>\$16,998</u>

Heather Hills Utilities, LLC		SCHEDULE NO. 1-C	
TEST YEAR ENDED 5/31/19		DOCKET NO. 20190113-WS	
ADJUSTMENTS TO RATE BASE			
		<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>			
1.	To reflect an averaging adjustment.	\$0	(\$364)
2.	To reflect pro forma plant addition for allocation of new computer to Acct. No. 390.	26	26
3.	To reflect pro forma plant addition for allocation of new van to Acct. No. 391.	1,367	1,367
4.	To reflect pro forma plant addition for allocation of new trailer to Acct. No. 391.	<u>1,210</u>	<u>1,210</u>
	Total	<u>\$2,603</u>	<u>\$2,239</u>
<u>ACCUMULATED DEPRECIATION</u>			
1.	To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	(\$1,038)	\$6
2.	To reflect an averaging adjustment.	2,091	30
3.	To reflect pro forma accumulated depreciation for pro forma plant additions.	<u>(431)</u>	<u>(431)</u>
	Total	<u>\$622</u>	<u>(\$395)</u>
<u>WORKING CAPITAL ALLOWANCE</u>			
	To reflect 1/8 of test year O & M expenses.	<u>\$8,186</u>	<u>\$14,127</u>

Heather Hills Utilities, LLC							SCHEDULE NO. 2		
TEST YEAR ENDED 05/31/2019							DOCKET NO. 20190113-WS		
SCHEDULE OF CAPITAL STRUCTURE									
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST RATE	WEIGHTED COST	
1. LONG-TERM DEBT	\$142,515	\$0	\$142,515	(\$78,895)	\$63,620	100.00%	4.50%	4.50%	
2. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%	
3. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%	
4. COMMON EQUITY	(34,890)	34,890	0	0	0	0.00%	10.55%	0.00%	
5. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	2.00%	0.00%	
6. DEFERRED INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
7. TOTAL CAPITAL	<u>\$107,625</u>	<u>\$34,890</u>	<u>\$142,515</u>	<u>(\$78,895)</u>	<u>\$63,620</u>	<u>100.00%</u>	<u>4.50%</u>	<u>4.50%</u>	
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>9.55%</u>	<u>11.55%</u>		
OVERALL RATE OF RETURN						<u>4.50%</u>	<u>4.50%</u>		

Heather Hills Utilities, LLC		SCHEDULE NO. 3-A			
TEST YEAR ENDED 5/31/19		DOCKET NO. 20190113-WS			
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$63,674</u>	<u>\$1,532</u>	<u>\$65,206</u>	<u>\$11,179</u> 17.14%	<u>\$76,385</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$69,032	(\$3,167)	\$65,865	\$0	\$65,865
3. DEPRECIATION (NET)	3,137	(1)	3,136	0	3,136
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	2,878	140	3,018	503	3,521
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$75,047</u>	<u>(\$3,028)</u>	<u>\$72,019</u>	<u>\$503</u>	<u>\$72,522</u>
8. OPERATING INCOME/(LOSS)	<u>(\$11,373)</u>		<u>(\$6,813)</u>		<u>\$3,862</u>
9. WATER RATE BASE	<u>\$35,211</u>		<u>\$46,622</u>		<u>\$46,622</u>
10. OPERATING RATIO					<u>12.00%</u>

Heather Hills Utilities, LLC			SCHEDULE NO. 3-B		
TEST YEAR ENDED 5/31/19			DOCKET NO. 2019011WS		
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$104,716</u>	<u>\$12,768</u>	<u>\$117,484</u>	<u>\$4,948</u> 4.21%	<u>\$122,432</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$117,420	(\$4,027)	\$113,393	\$0	\$113,393
3. DEPRECIATION (NET)	73	403	476	0	476
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	4,669	140	4,809	223	5,032
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$122,162</u>	<u>(\$3,483)</u>	<u>\$118,679</u>	<u>\$223</u>	<u>\$118,902</u>
8. OPERATING INCOME/(LOSS)	<u>(\$17,446)</u>		<u>(\$1,195)</u>		<u>\$3,531</u>
9. WASTEWATER RATE BASE	<u>\$1,026</u>		<u>\$16,998</u>		<u>\$16,998</u>
10. OPERATING RATIO					<u>12.00%</u>

Heather Hills Utilities, LLC		Schedule No. 3-C	
TEST YEAR ENDED 5/31/19		DOCKET NO. 20190113-WS	
ADJUSTMENTS TO OPERATING INCOME		Page 1 of 2	
		<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES			
1.	To reflect the appropriate test year revenues.	<u>\$1,532</u>	<u>\$12,768</u>
OPERATION AND MAINTENANCE EXPENSES			
1.	Salaries and Wages - Employee (601/701)		
	a. To reflect pro forma technician positions.	<u>\$1,835</u>	<u>\$1,835</u>
2.	Salaries and Wages - Officer (603/703)		
	a. To reflect appropriate amount of salaries expense.	<u>(\$15)</u>	<u>(\$15)</u>
3.	Pensions and Benefits (604/704)		
	a. To reflect pro forma technician positions.	<u>\$567</u>	<u>\$567</u>
4.	Purchased Water and Wastewater Treatment (610/710)		
	a. To reflect appropriate test year amount based on invoices.	<u>\$40</u>	<u>(\$40)</u>
5.	Purchased Power (615/715)		
	a. To reflect appropriate allocation for Heather Hills.	<u>\$134</u>	<u>\$134</u>
6.	Materials and Supplies (620/720)		
	a. To reflect the appropriate allocation for Heather Hills.	<u>(\$155)</u>	<u>(\$548)</u>
7.	Contractual Services - Professional (631/731)		
	a. To reflect appropriate amounts and allocations.	\$235	\$197
	b. To reclassify expenses from Acct. 665/765.	<u>526</u>	<u>526</u>
	Subtotal	<u>\$761</u>	<u>\$723</u>
8.	Contractual Services - Testing (635/735)		
	a. To reflect actual invoices provided.	<u>\$212</u>	<u>(\$108)</u>
9.	Contractual Services - Other (636/736)		
	a. To reflect actual invoices and allocations.	<u>\$110</u>	<u>(\$12)</u>
10.	Rent (640/740)		
	a. To reflect pro forma.	<u>(\$10)</u>	<u>(\$11)</u>

Heather Hills Utilities, LLC		Schedule No. 3-C	
TEST YEAR ENDED 5/31/19		DOCKET NO. 20190113-WS	
ADJUSTMENTS TO OPERATING INCOME		Page 2 of 2	
	<u>WATER</u>	<u>WASTEWATER</u>	
11. Transportation (650/750)			
a. To reflect appropriate allocation.	<u>(\$2,107)</u>	<u>(\$2,107)</u>	
12. Insurance (655/755)			
a. To reflect appropriate test year allocation.	(\$631)	(\$631)	
b. To reflect pro forma policy increase.	<u>80</u>	<u>80</u>	
Subtotal	<u>(\$551)</u>	<u>(\$551)</u>	
13. Regulatory Commission Expense (665/765)			
a. To reflect amortized transfer costs.	(\$514)	(\$514)	
b. To reclassify contractual services expense.	(526)	(526)	
c. To reflect appropriate amortized rate case expense.	<u>374</u>	<u>374</u>	
Subtotal	<u>(\$666)</u>	<u>(\$666)</u>	
14. Miscellaneous Expense (675/775)			
a. To adjust for allocations.	<u>(\$3,323)</u>	<u>(\$3,229)</u>	
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$3,167)</u>	<u>(\$4,027)</u>	
DEPRECIATION EXPENSE			
1. To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.	(\$432)	(\$28)	
2. To reflect pro forma.	<u>431</u>	<u>431</u>	
Subtotal	<u>(\$1)</u>	<u>\$403</u>	
TAXES OTHER THAN INCOME			
1. To reflect payroll tax for pro forma technicians.	<u>\$140</u>	<u>\$140</u>	

Heather Hills Utilities, LLC		SCHEDULE NO. 3-D	
TEST YEAR ENDED 5/31/19		DOCKET NO. 20190113-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$13,233	\$1,835	\$15,068
(603) SALARIES AND WAGES - OFFICERS	4,015	(15)	4,000
(604) EMPLOYEE PENSIONS AND BENEFITS	333	567	900
(610) PURCHASED WATER	33,638	40	33,678
(615) PURCHASED POWER	0	134	134
(620) MATERIALS AND SUPPLIES	548	(155)	393
(631) CONTRACTUAL SERVICES - PROFESSIONAL	389	761	1,150
(635) CONTRACTUAL SERVICES - TESTING	1,786	212	1,998
(636) CONTRACTUAL SERVICES - OTHER	573	110	683
(640) RENTS	1,894	(10)	1,884
(650) TRANSPORTATION EXPENSE	3,044	(2,107)	937
(655) INSURANCE EXPENSE	2,442	(551)	1,891
(665) REGULATORY COMMISSION EXPENSE	1,054	(666)	389
(670) BAD DEBT EXPENSE	126	0	126
(675) MISCELLANEOUS EXPENSE	<u>5,957</u>	<u>(3,323)</u>	<u>2,634</u>
TOTAL	<u>\$69,032</u>	<u>(\$3,167)</u>	<u>\$65,865</u>

Heather Hills Utilities, LLC		SCHEDULE NO. 3-E	
TEST YEAR ENDED 5/31/19		DOCKET NO. 20190113-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$13,233	\$1,835	\$15,068
(703) SALARIES AND WAGES - OFFICERS	4,015	(15)	4,000
(704) EMPLOYEE PENSIONS AND BENEFITS	333	567	900
(710) PURCHASED WASTEWATER TREATMENT	84,012	(40)	83,972
(715) PURCHASED POWER	0	134	134
(720) MATERIALS AND SUPPLIES	941	(548)	393
(731) CONTRACTUAL SERVICES - PROFESSIONAL	389	723	1,112
(735) CONTRACTUAL SERVICES - TESTING	108	(108)	0
(736) CONTRACTUAL SERVICES - OTHER	65	(12)	53
(740) RENTS	1,895	(11)	1,884
(750) TRANSPORTATION EXPENSE	3,044	(2,107)	937
(755) INSURANCE EXPENSE	2,442	(551)	1,891
(765) REGULATORY COMMISSION EXPENSES	1,054	(666)	389
(770) BAD DEBT EXPENSE	126	0	126
(775) MISCELLANEOUS EXPENSE	<u>5,763</u>	<u>(3,229)</u>	<u>2,534</u>
TOTAL	<u>\$117,420</u>	<u>(\$4,027)</u>	<u>\$113,393</u>

HEATHER HILLS UTILITIES, LLC		SCHEDULE NO. 4-A	
TEST YEAR ENDED MAY 31, 2019		DOCKET NO. 20190113-WS	
QUARTERLY WATER RATES			
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" X 3/4"	\$28.36	\$32.08	\$0.17
3/4"	\$42.54	\$48.12	\$0.25
1"	\$70.90	\$80.20	\$0.42
1-1/2"	\$141.80	\$160.40	\$0.83
2"	\$226.88	\$256.64	\$1.33
3"	\$453.76	\$513.28	\$2.67
4"	\$709.00	\$802.00	\$4.17
6"	\$1,418.00	\$1,604.00	\$8.34
Charge per 1,000 gallons	\$3.44	\$4.27	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
5,000 Gallons	\$45.56	\$53.43	
10,000 Gallons	\$62.76	\$74.78	
15,000 Gallons	\$79.96	\$96.13	

HEATHER HILLS UTILITIES, LLC		SCHEDULE NO. 4-B	
TEST YEAR ENDED MAY 31, 2019		DOCKET NO. 20190113-WS	
QUARTERLY WASTEWATER RATES			
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes	\$37.17	\$42.96	\$0.14
Charge per 1,000 gallons	\$7.73	\$8.59	\$0.03
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" X 3/4"	\$37.17	\$42.96	\$0.14
3/4"	\$55.76	\$64.44	\$0.21
1"	\$92.93	\$107.40	\$0.34
1-1/2"	\$185.85	\$214.80	\$0.69
2"	\$297.36	\$343.68	\$1.10
3"	\$594.72	\$687.36	\$2.20
4"	\$929.25	\$1,074.00	\$3.44
6"	\$1,858.50	\$2,148.00	\$6.87
Charge per 1,000 gallons	\$9.04	\$8.59	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
5,000 Gallons	\$75.82	\$85.91	
10,000 Gallons	\$114.47	\$128.86	
15,000 Gallons	\$153.12	\$171.81	