

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-**

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**DATE:** April 21, 2022

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

**FROM:** Division of Accounting and Finance (Richards, Casper) *ALM*  
Division of Economics (Bethea, Hudson) *JGH*  
Division of Engineering (P. Buys, Ramos) *TB*  
Office of the General Counsel (Sandy, J. Crawford) *JSC*

**RE:** Docket No. 20210184-WS – Application for limited proceeding in Highlands County by HC Waterworks, Inc.

**AGENDA:** 05/03/22 – Regular Agenda – Proposed Agency Action Except for Issues 5 and 6 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Passidomo

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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## Case Background

HC Waterworks, Inc. (HCWW or Utility) is a Class B utility providing water service to approximately 967 residential customers, 12 general service customers, and 1 private fire protection customer in the Leisure Lakes, Lake Josephine, and Sebring Lakes subdivisions in Highlands County. The Utility also provides wastewater service to 317 residential wastewater customers in the Leisure Lakes subdivision. The service area is in the Southwest Florida Water Management District and is in a water use caution area. According to the Utility's 2021 Annual Report, operating revenues were \$770,063 for water and \$88,191 for wastewater. Operating expenses were \$559,035 for water and \$108,950 for wastewater.

By Order No. PSC-2014-0314-PAA-WS, the Commission approved the transfer of Certificate Nos. 422-W and 359-S from Aqua Utilities Florida, Inc. to HCWW.<sup>1</sup> As part of the transfer, the Commission approved a negative acquisition adjustment, recognizing that HCWW's purchase of the system was less than 80 percent of the system's net book value. Per the transfer order, 50 percent of the negative acquisition adjustment (\$424,720 for the water system and \$10,539 for the wastewater system) was to be amortized over a seven-year period, and the remaining 50 percent amortized over the remaining life of the assets. At the time of the transfer, HCWW estimated the remaining life of the applicable water assets as 24 years, and 12 years for the wastewater assets. Water rates were last established for the Utility in 2020.<sup>2</sup> Subsequently, water rates were increased by a price index rate adjustment in 2021. Wastewater rates were last established in 2015 and had subsequent price index rate adjustments in 2018 and 2021.<sup>3</sup> On November 18, 2021, HCWW filed its application for a limited proceeding to increase its water and wastewater rates.<sup>4</sup> Accompanying the Utility's application were minimum filing requirement (MFR) schedules required by Section 367.081, Florida Statutes (F.S.), and Rule 25-30.445, Florida Administrative Code (F.A.C.). The Utility was notified of deficiencies in the MFRs on December 14, 2021.<sup>5</sup> The deficiencies were cured on December 22, 2021, which was established as the official filing date.<sup>6</sup>

The Utility is requesting an increase due to the significant financial impact of HCWW's earning levels beginning in April 2021, when the amortization period for 50 percent of the acquisition adjustment approved in the transfer order ended.<sup>7</sup> Based on the Utility's filing, the negative offset of amortization will cause increases to net depreciation expense that will not be recovered through current rates, causing existing rates to no longer be compensatory.

A solicitation of customer comments was mailed to HCWW's customers on February 14, 2022.<sup>8</sup> Twenty comments were received.

The Commission has jurisdiction pursuant to Sections 367.081 and 367.0822, F.S.

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<sup>1</sup>Order No. PSC-2014-0314-PAA-WS, issued June 13, 2014, in Docket No. 20130175-WS, *In re: Application for approval of transfer of certain water and wastewater facilities and Certificate Nos. 422-W and 359-S of Aqua Utilities Florida, Inc. to HC Waterworks, Inc. in Highlands County.*

<sup>2</sup>Order No. PSC-2020-0168-PAA-WS, issued May 22, 2020, in Docket No. 20190166-WS, *In re: Application for increase in water rates in Highlands County by HC Waterworks, Inc.*

<sup>3</sup>Order No. PSC-2015-0282-PAA-WS, issued July 8, 2015, in Docket No. 20140158-WS, *In re: Application for increase in water/wastewater rates in Highlands County by HC Waterworks, Inc.*

<sup>4</sup>Document No. 12849-2021, filed on November 18, 2021.

<sup>5</sup>Document No. 13057-2021, filed on December 14, 2021.

<sup>6</sup>Document No. 13148-2021, filed on December 22, 2021.

<sup>7</sup>Order No. PSC-2014-0314-PAA-WS.

<sup>8</sup>Document No. 01139-2022, filed on February 9, 2022.

## Discussion of Issues

**Issue 1:** Should the Commission approve HC Waterworks, Inc.'s request for a limited proceeding?

**Recommendation:** The Commission should approve the Utility's request for a limited proceeding rate increase as modified by staff. HCWW should be allowed an annual increase of \$17,879 or 2.36 percent for water, and \$15,883 or 18.74 percent for wastewater. The adjusted revenues are reflected on Schedule Nos. 1-A and 1-B. (Richards, Casper, P. Buys)

**Staff Analysis:** Limited proceedings generally address specific or significant changes that would adversely affect the normal operating income of the Utility and are usually narrow in scope. Staff believes that HCWW's case as filed is sufficiently narrow in scope to qualify for a limited proceeding. Staff also believes that HCWW has met all the minimum filing requirements as set forth in Rule 25-30.445, F.A.C.

### Secondary Water Quality Standards

Pursuant to Rule 25-30.445(4)(o), F.A.C., HCWW provided a copy of all customer complaints received during the past five years regarding Florida Department of Environmental Protection (DEP) secondary water quality standards, as well as a copy of the Utility's most recent secondary water quality standards test results. The test results dated October 2018, indicate that the Utility is currently passing DEP secondary water quality standards.

In its last rate case, the Commission found the Utility's quality of service unsatisfactory due to the number of customer complaints and reduced the Utility's return on equity by 50 basis points.<sup>9</sup> The Commission also directed the Utility to engage with its customers and the Office of Public Counsel (OPC) to address the customer service issues. OPC protested the Commission's decision and later entered into a settlement agreement with the Utility. Pursuant to Order No. PSC-2021-0089-S-WS, the Commission approved the settlement agreement, which required the Utility to file quarterly reports regarding customer complaints and correspondence.<sup>10</sup> The quarterly reports indicate a declining trend in overall customer complaints as well as complaints regarding secondary water quality issues.<sup>11</sup>

As part of the instant Docket, the Commission received 20 customer comments opposing the rate increase. Of the 20 customer comments, 16 of the customers also commented on poor water quality; specifically, chlorine smell, cloudy water, discolored clothes from water, unacceptable water pressure, and bad taste.

As previously discussed, the Utility has provided the necessary information to comply with Rule 25-30.445(4)(o), F.A.C., and Order No. PSC-2021-0089-S-WS. Therefore, based on a review of

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<sup>9</sup>Order No. PSC-2020-0168-PAA-WS.

<sup>10</sup>Order No. PSC-2021-0089-S-WS, issued February 22, 2021, in Docket No. 20190166-WS, *In re: Application for increase in water rates in Highlands County by HC Waterworks, Inc.*

<sup>11</sup>With its application, HCWW included copies of three quarterly reports, detailing customer complaints and all other communications following its last rate case as required by the Commission for one year after the Final Order was issued. The Utility met the requirements set forth in Order No. PSC-2021-0089-S-WS; therefore, the docket was closed.

the information provided by the Utility, as well as supplemental information gathered throughout the course of this docket, staff does not believe any actions need to be taken at this time with respect to secondary water quality standards.

### **Rate Base**

In its application, the Utility recorded total rate base of \$3,392,108 for water and \$17,235 for wastewater. When calculating working capital allowance, the Utility included anticipated rate case expense for the current docket. Pursuant to Section 367.081(9), F.S., staff removed the unamortized balance of rate case expense when calculating working capital. The removal of rate case expense resulted in a decrease of \$47 for water and \$94 for wastewater. Therefore, staff recommends total rate base of \$3,392,061 (\$3,392,108 – \$47) for water and \$17,141 (\$17,235 – \$94) for wastewater.

### **Rate of Return**

Rule 25-30.445(4)(e), F.A.C., requires that the weighted average cost of capital be calculated based on the most recent 12-month period and include all of the appropriate capital structure components. In its filing, HCWW provided a weighted average cost of capital (rate of return) of 6.87 percent, based on a capital structure consisting of long-term debt, common equity and customer deposits.

The Utility's capital structure has been reconciled with staff's recommended rate base. In its application, the Utility reported a return on equity (ROE) of 9.72 percent. However, in its last rate case, the Commission set the ROE for HCWW at 9.17 percent, with a range of 8.17 percent to 10.17 percent.<sup>12</sup> With ROE set at the Commission-ordered 9.17 percent, staff recommends an overall rate of return of 6.61 percent.

### **Operating Expense**

In its application, HCWW requested an increase to operating expenses of \$35,056 for water and \$1,114 for wastewater. The components for the operating expense were operations and maintenance (O&M) expense, depreciation, net amortization expense and taxes other than income (TOTI). Staff's adjustments to operating expenses are detailed below.

#### ***Operations and Maintenance Expense***

In its application, the Utility recorded O&M expense of \$374,550 and \$92,729 for water and wastewater, respectively. These amounts included \$375 for amortization of rate case expense for both water and wastewater. Staff believes it is more appropriate to follow Commission practice and allocate noticing costs based on the number of customers for water (980), or 75.56 percent; and wastewater (317), or 24.44 percent. In its application, the Utility is requesting recovery of the required filing fee, required noticing costs, and travel expense to attend the May 3, 2022 Commission Conference. Staff has recalculated rate case expense as shown in Table 1-1.

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<sup>12</sup>Order No. PSC-2020-0168-PAA-WS.

**Table 1-1  
 Calculation of Rate Case Expense**

<u>Expense</u>	<u>Water Allocation</u>	<u>Wastewater Allocation</u>
Filing Fee	\$1,000	\$200
Noticing Costs	2,214	716
Travel Expense	<u>189</u>	<u>61</u>
Total Rate Case Expense	<u>\$3,403</u>	<u>\$977</u>
Amortized Amount	<u>\$851</u>	<u>\$244</u>

Source: Staff calculations.

Based on the above, staff has determined the appropriate amount of rate case expense amortized over four years is \$851  $((\$1,000 + \$2,214 + \$189) \div 4)$  for water, and \$244  $((\$200 + \$716 + \$61) \div 4)$  for wastewater. These amounts represent an increase of \$476  $(\$851 - \$375)$  for water and a decrease of \$131  $(\$244 - \$375)$  for wastewater. Therefore, staff recommends total O&M expense of \$375,026  $(\$374,550 + \$476)$  for water and \$92,598  $(\$92,729 - \$131)$  for wastewater.

***Net Amortization Expense***

In its application, the Utility recorded net amortization expense of \$39,346 for water and \$6,146 for wastewater. In HCWW’s 2014 Transfer Order, the Commission found:

Pursuant to Rule 25-30.0371, F.A.C., a negative acquisition adjustment of \$849,440 for the water system and \$21,078 for the wastewater system shall be recognized for rate-making purposes as of March 28, 2013. Beginning with the date of the issuance of this Order, 50 percent of the negative acquisition adjustment, which is \$424,720 for the water system and \$10,539 for the wastewater system, shall be amortized over a seven-year period and the remaining 50 percent shall be amortized over the remaining life of the assets as discussed above.<sup>13</sup>

In the Utility’s application, the remaining life of the assets were calculated at 12 years for both water and wastewater. At 12 years, the amortized amount of the remaining negative acquisition adjustment is \$35,393  $(\$424,720 \div 12 \text{ years})$  for water and \$878  $(\$10,539 \div 12 \text{ years})$  for wastewater. In response to staff’s data request, the Utility corrected these amounts to \$404,520 with a remaining life of 23.59 years for water and \$7,497 with a remaining life of 11.63 years for wastewater.<sup>14</sup>

Using the updated amounts, staff calculated the appropriate amortization of the negative acquisition adjustment to be \$17,148  $(\$404,520 \div 23.59 \text{ years})$  for water and \$645  $(\$7,497 \div$

<sup>13</sup>Order No. PSC-2014-0314-PAA-WS.

<sup>14</sup>Document No. 01553-2022, filed on March 2, 2022.

11.63 years) for wastewater. This represents a decrease of \$18,245 (\$35,393 – \$17,148) for water and a decrease of \$234 (\$878 – \$645) for wastewater.

***Taxes Other Than Income***

In its application, the Utility recorded TOTI of \$35,033 for water and \$4,010 for wastewater. These amounts included \$329 in property taxes and \$34,705 in regulatory assessment fees (RAFs) for water, and \$197 in property taxes and \$3,813 in RAFs for wastewater.

Staff calculated annualized revenues of \$758,659 for water and \$84,737 for wastewater. Based on these amounts, staff determined RAFs of \$34,140 (\$758,659 x 4.5 percent) for water and \$3,813 (\$84,737 x 4.5 percent) for wastewater. Based on these calculations, staff reduced RAFs by \$564 (\$34,705 – \$34,140) for water and made no adjustment to RAFs for wastewater. Staff made no adjustments to property taxes. Therefore, staff recommends TOTI of \$34,469 (\$35,033 – \$564) for water and \$4,010 for wastewater.

***Operating Expense Summary***

Based on the above, staff is recommending a decrease to operating expense of \$18,334 for water and a decrease of \$364 for wastewater. A summary of staff’s adjustments are shown in Tables 1-2 and 1-3 for water and wastewater, respectively.

**Table 1-2  
 Adjustments to Water Operating Expense**

<u>Expense</u>	<u>Per Utility</u>	<u>Staff Adjustment</u>	<u>Per Staff</u>
Operating and Maintenance	\$374,550	\$476	\$375,026
Depreciation	199,770	0	199,770
Net Amortization Expense	(39,346)	(18,245)	(57,591)
Taxes Other than Income	<u>35,033</u>	<u>(564)</u>	<u>34,469</u>
Total	<u>\$570,007</u>	<u>(\$18,334)</u>	<u>\$551,673</u>

Source: Utility’s application and staff calculations.

**Table 1-3  
 Adjustments to Wastewater Operating Expense**

<u>Expense</u>	<u>Per Utility</u>	<u>Staff Adjustment</u>	<u>Per Staff</u>
Operating and Maintenance	\$92,729	(\$131)	\$92,598
Depreciation	8,544	0	8,544
Net Amortization Expense	(6,146)	(234)	(6,380)
Taxes Other than Income	<u>4,010</u>	<u>0</u>	<u>4,010</u>
Total	<u>\$99,137</u>	<u>(\$364)</u>	<u>\$98,773</u>

Source: Utility's application and staff calculations.

**Conclusion**

As outlined in Table 1-4, staff recommends a revenue requirement increase of \$17,879 for water and an increase of \$15,883 for wastewater. These amounts represent a 2.36 percent increase for water and an 18.74 percent increase for wastewater. Staff's revenue requirement calculations are shown on Schedule Nos. 1-A and 1-B.

**Table 1-4  
 Staff' Recommended Increases**

	<u>Water</u>	<u>Wastewater</u>
Rate Base	\$3,392,061	\$17,141
Rate of Return	<u>6.61%</u>	<u>6.61%</u>
Return on Rate Base	<u>\$224,061</u>	<u>\$1,132</u>
Add Total Operating Expenses	<u>551,673</u>	<u>98,773</u>
Recommended Revenues	<u>\$775,734</u>	<u>\$99,905</u>
Less Annualized Revenues	<u>758,659</u>	<u>84,737</u>
Recommended Increase	<u>\$17,075</u>	<u>\$15,168</u>
4.5% RAFs on Increase	<u>805</u>	<u>715</u>
Total Recommended Increase	<u>\$17,879</u>	<u>\$15,883</u>
Percent Increase	2.36%	18.74%

Source: Staff calculations.

**Issue 2:** What are the appropriate water and wastewater rates for HC Waterworks, Inc.?

**Recommendation:** The recommended monthly water and wastewater rates are shown on Schedule Nos. 2-A and 2-B. The recommended rates should be designed to produce additional revenues of \$17,879 (2.36 percent increase) for water and \$15,883 (18.74 percent increase) for wastewater. The percent increases should be applied as an across-the-board increase to the existing service rates. 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 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 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 the notice. (Bethea)

**Staff Analysis:** As discussed in Issue 1, staff recommends that HCWW be allowed to generate additional annual service revenues of \$17,879 for water and \$15,883 for wastewater. This represents a 2.36 percent increase for the Utility's water service revenues and an 18.74 percent increase for the Utility's wastewater service revenues. The corresponding percentage increases should be applied as an across-the-board increase to the existing water and wastewater rates.

Based on the above, the recommended monthly water and wastewater rates are shown on Schedule Nos. 2-A and 2-B. The recommended rates should be designed to produce additional revenues of \$17,879 (2.36 percent increase) for water and \$15,883 (18.74 percent increase) for wastewater. The percent increases should be applied as an across-the-board increase to the existing service rates. 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 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 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 the notice.



**Issue 3:** Should the initial customer deposits for HC Waterworks, Inc. be approved?

**Recommendation:** The appropriate initial customer deposits should be \$122 for the single family residential 5/8 inch x 3/4 inch meter size for water and \$84 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.<sup>15</sup> Currently, the Utility's initial customer deposit for single family residential water customers is \$108 for the 5/8 inch x 3/4 inch meter size. For wastewater, the Utility's initial customer deposit for single family residential service is \$50 for the 5/8 inch x 3/4 inch meter size. However, these amounts do not cover two months' average bill based on staff's recommended rates. The average monthly bills based on staff's recommended rates are \$60.93 for water and \$42.17 for wastewater.<sup>16</sup>

Based on the above, the appropriate initial customer deposits for the residential 5/8 inch x 3/4 inch meter size are \$122 for water and \$84 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 monthly 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 customer deposits until authorized to change them by the Commission in a subsequent proceeding.

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<sup>15</sup>Order No. PSC-2022-0043-PAA-WU, issued January 26, 2022, in Docket No. 20210055-WU, *In re: Application for staff-assisted rate case in Lake County by Brendenwood Waterworks, Inc.*

<sup>16</sup>The average consumption from the 2020 Annual Report is 2,850 gallons.

**Issue 4:** Should HC Waterworks, Inc.’s miscellaneous service charges be revised to conform to amended Rule 25-30.460, F.A.C.?

**Recommendation:** Yes. Staff recommends the miscellaneous service charges be revised to conform to the recent amendment to Rule 25-30.460, F.A.C. The tariff should be revised to reflect the removal of initial connection and normal reconnection charges. The Utility should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective 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 charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bethea)

**Staff Analysis:** Effective June 24, 2021, Rule 25-30.460, F.A.C., was amended to remove initial connection and normal reconnection charges.<sup>17</sup> The definitions for initial connection charges and normal reconnection charges were subsumed in the definition of the premises visit charge. It was envisioned that utility tariffs would be reviewed by staff on a prospective basis to ensure conformance with the amended rule. The Utility’s miscellaneous service charges consist of initial connection and normal reconnection charges. These charges are the same as the premises visit charge. Therefore, staff believes it is appropriate at this time to remove the initial connection and normal reconnection charges and update the definition for the premises visit charge to comply with amended Rule 25-30.460, F.A.C. The existing and staff recommended miscellaneous service charges are reflected in Tables 4-1 and 4-2.

**Table 4-1  
 Existing Miscellaneous Service Charges**

<u>Miscellaneous Service Charge</u>	<u>Normal Hours</u>	<u>After Hours</u>
Initial Connection Charge	\$22.84	\$34.25
Normal Reconnection Charge	\$22.84	\$34.25
Violation Reconnection Charge (Water)	\$36.33	\$57.09
Violation Reconnection Charge (Wastewater)	Actual Cost	Actual Cost
Premises Visit Charge (in lieu of disconnection)	\$22.84	\$34.25
Late Payment Charge	\$5.19	\$5.19
NSF Charges	Pursuant to Section 68.065, F.S.	
Convenience Charge	\$2.70	\$2.70

Source: Utility tariffs.

<sup>17</sup>Order No. PSC-2021-0201-FOF-WS, issued June 4, 2020, in Docket No. 20200240-WS, *In re: Proposed amendment of Rule 25-30.460, F.A.C., Application for Miscellaneous Service Charges.*

**Table 4-2**  
**Staff Recommended Miscellaneous Service Charges**

<u>Miscellaneous Service Charge</u>	<u>Normal Hours</u>	<u>After Hours</u>
Premises Visit Charge	\$22.84	\$34.25
Violation Reconnection Charge (Water)	\$36.33	\$57.09
Violation Reconnection Charge (Wastewater)	Actual Cost	Actual Cost
Late Payment Charge	\$5.19	\$5.19
NSF Charges	Pursuant to Section 68.065, F.S.	
Convenience Charge	\$2.70	\$2.70

Source: Utility tariff and Rule 25-30.460, F.A.C.

### **Conclusion**

Staff recommends the miscellaneous service charges be revised to conform to the recent revision to Rule 25-30.460, F.A.C. The Utility should be required to file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective 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 charge should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

Date: April 21, 2022

**Issue 5:** What is the appropriate amount by which rates should be reduced in four years 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 water and wastewater rates should be reduced, as shown in Schedule Nos. 2-A and 2-B, 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 four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. HCWW 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. (Casper, Richards, Bethea)

**Staff Analysis:** Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the four-year 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. This results in a reduction of \$891 for water and \$256 for wastewater.

The water and wastewater rates should be reduced as shown in Schedule Nos. 2-A and 2-B, 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 four-year rate case expense recovery period, pursuant to Section 367.081(8), F.S. HCWW 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 6:** Should the recommended rates be approved for HC Waterworks, Inc. on a temporary basis, subject to refund, in the event of a protest filed by a substantially affected person or party?

**Recommendation:** Yes. The recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a substantially affected person or party other than the Utility. 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 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 Clerk's office no later than the 20th of every 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. (Casper, Richards)

**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. 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 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.

The Utility 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 \$22,560. 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.
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 prior written authorization 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. The 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.

The Utility should maintain a record of the amount of the bond, 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 Office of Commission Clerk no later than the 20th day of every 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 7:** Should this docket be closed?

**Recommendation:** If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the 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. (Sandy)

**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 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.

<b>HC WATERWORKS, INC. WATER REVENUE REQUIREMENT</b>	<b>SCHEDULE NO. 1-A DOCKET NO. 20210184-WS</b>		
	<b><u>Per Utility</u></b>	<b><u>Staff Adjustment</u></b>	<b><u>Staff Recommended</u></b>
UPIS	\$5,706,971	\$0	\$5,706,971
Land and Land Rights	25,450	0	25,450
Accumulated Depreciation	(1,811,851)	0	(1,811,851)
CIAC	(998,242)	0	(998,242)
Amortization of CIAC	715,511	0	715,511
Acquisition Adjustment	(809,041)	0	(809,041)
Accumulated Amortization – Acquisition Adj.	516,491	0	516,491
Working Capital Allowance	<u>46,819</u>	<u>(47)</u>	<u>46,772</u>
Total Rate Base	<u>\$3,392,108</u>	<u>(\$47)</u>	<u>\$3,392,061</u>
Weighted Cost of Capital	6.87%		6.61%
Return on Rate Base	\$233,038		\$224,061
Operation and Maintenance	\$374,550	\$476	\$375,026
Depreciation	199,770	0	199,770
Net Amortization Expense	(39,346)	(18,245)	(57,591)
TOTI	<u>35,033</u>	<u>(564)</u>	<u>34,469</u>
Total Operating Expense	<u>\$570,007</u>	<u>(\$18,334)</u>	<u>\$551,673</u>
Revenue Increase Requested / Recommended	\$42,242		\$17,075
4.5% RAFs on Increase	<u>\$1,506</u>		<u>\$805</u>
Total Increase	<u>\$43,748</u>		<u>\$17,879</u>
Annualized Revenue	\$760,803		\$758,659
Percent Increase	5.75%		2.36%



<b>HC WATERWORKS, INC. WASTEWATER REVENUE REQUIREMENT</b>	<b>SCHEDULE NO. 1-B DOCKET NO. 20210184-WS</b>		
	<b><u>Per Utility</u></b>	<b><u>Staff Adjustment</u></b>	<b><u>Staff Recommended</u></b>
UPIS	\$459,712	\$0	\$459,712
Land and Land Rights	2,200	0	2,200
Accumulated Depreciation	(350,029)	0	(350,029)
CIAC	(400,810)	0	(400,810)
Amortization of CIAC	297,590	0	297,590
Acquisition Adjustment	(14,994)	0	(14,994)
Accumulated Amortization – Acquisition Adj.	11,928	0	11,928
Working Capital Allowance	<u>11,638</u>	<u>(94)</u>	<u>11,544</u>
Total Rate Base	<u>\$17,235</u>	<u>(\$94)</u>	<u>\$17,141</u>
Weighted Cost of Capital	6.87%		6.61%
Return on Rate Base	\$1,184		\$1,132
Operation and Maintenance	\$92,729	(\$131)	\$92,598
Depreciation	8,544	0	8,544
Net Amortization Expense	(6,146)	(234)	(6,380)
TOTI	<u>4,010</u>	<u>0</u>	<u>4,010</u>
Total Operating Expense	<u>\$99,137</u>	<u>(\$364)</u>	<u>\$98,773</u>
Revenue Increase Requested / Recommended	\$15,584		\$15,168
4.5% RAFs on Increase	<u>\$752</u>		<u>\$715</u>
Total Increase	<u>\$16,336</u>		<u>\$15,883</u>
Annualized Revenue	\$84,737		\$84,737
Percent Increase	19.28%		18.74%

<b>HC WATERWORKS, INC. MONTHLY WATER RATES</b>		<b>SCHEDULE NO. 2-A DOCKET NO. 20210184-WS</b>		
	<b>Utility Current Rates</b>	<b>Utility Requested Rates</b>	<b>Staff Recommended Rates</b>	<b>4-Year Rate Reduction</b>
<b><u>Residential and General Service</u></b>				
Base Facility Charge by Meter Size				
5/8"X 3/4"	\$26.56	\$27.71	\$27.19	\$0.03
3/4"	\$39.84	\$41.57	\$40.79	\$0.05
1"	\$66.40	\$69.28	\$67.98	\$0.08
1-1/2"	\$132.80	\$138.56	\$135.95	\$0.16
2"	\$212.48	\$221.70	\$217.52	\$0.24
3"	\$424.96	\$443.40	\$435.04	\$0.48
4"	\$664.00	\$692.82	\$679.75	\$0.75
6"	\$1,328.00	\$1,385.64	\$1,359.50	\$1.50
8"	\$2,124.80	\$2,217.02	\$2,175.20	\$2.40
10"	\$3,054.40	\$3,186.97	\$3,126.85	\$3.45
<b>General Service (GS2)</b> (127 ERCs)	\$3,373.12	\$3,519.52	\$3,453.13	\$3.81
<b>Charge per 1,000 gallons - Residential Service</b>				
0 - 4,000 gallons	\$11.57	\$12.07	\$11.84	\$0.01
Over 4,000 gallons	\$14.46	\$15.09	\$14.80	\$0.02
<b>Charge per 1,000 gallons - General Service</b>	\$12.14	\$12.67	\$12.43	\$0.01
<b>Private Fire Protection</b>				
2"	\$17.71	\$18.48	\$18.13	\$0.02
3"	\$35.41	\$36.95	\$36.25	\$0.04
4"	\$55.33	\$57.74	\$56.65	\$0.06
6"	\$110.67	\$115.47	\$113.29	\$0.13
8"	\$177.07	\$184.75	\$181.27	\$0.20
10"	\$254.53	\$265.58	\$260.57	\$0.29
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
3,000 Gallons	\$61.27	\$63.92	\$62.71	
5,000 Gallons	\$87.30	\$91.08	\$89.35	
10,000 Gallons	\$159.60	\$166.53	\$163.35	

<b>HC WATERWORKS, INC. MONTHLY WASTEWATER RATES</b>		<b>SCHEDULE NO. 2-B DOCKET NO. 20210184-WS</b>		
	<b>Utility Current Rates</b>	<b>Utility Requested Rates</b>	<b>Staff Recommended Rates</b>	<b>4-Year Rate Reduction</b>
<b><u>Residential Service</u></b>	\$12.23	\$14.64	\$14.52	\$0.04
Base Facility Charge – All Meter Sizes				
Charge per 1,000 gallons				
6,000 gallon cap	\$8.17	\$9.78	\$9.70	\$0.02
Flat Rate (Wastewater only customers)	\$25.01	\$29.94	\$29.70	\$0.07
<b><u>General Service</u></b>				
Base Facility Charge by Meter Size				
5/8"X3/4"	\$12.23	\$14.64	\$14.52	\$0.04
3/4"	\$18.35	\$21.97	\$21.78	\$0.06
1"	\$30.58	\$36.61	\$36.30	\$0.10
1-1/2"	\$61.15	\$73.21	\$72.60	\$0.20
2"	\$97.84	\$117.14	\$116.16	\$0.32
3"	\$195.68	\$234.27	\$232.32	\$0.64
4"	\$305.75	\$366.05	\$363.00	\$1.00
6"	\$611.50	\$732.10	\$726.00	\$2.00
8"	\$978.40	\$1,171.37	\$1,161.60	\$3.20
10"	\$1,406.45	\$1,683.84	\$1,669.80	\$4.60
<b>Charge per 1,000 gallons - General Service</b>	\$9.81	\$11.74	\$11.65	\$0.03
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>				
3,000 Gallons	\$36.74	\$43.98	\$43.62	
5,000 Gallons	\$53.08	\$63.54	\$63.02	
10,000 Gallons	\$61.25	\$73.32	\$72.72	