

Rachel Arnold

From: Cheryl Bulecza-Banks
Sent: Friday, August 22, 2014 2:59 PM
To: Carlotta Stauffer
Cc: Andrew Maurey; Betty Leland
Subject: Test year Letter Request for HC Waterworks, Inc.

Good afternoon Carlotta,

The Chairman's Office received a test year letter request from HC Waterworks, Inc. The letter, dated August 18, 2014, was received by the Chairman's office on August 22, 2014. I understand that a copy of the letter was provided to your office. Would you please open a docket for this rate case and place the letter in the docket file? AFD is responsible for reviewing the test year letter request. The prog mod code is A.1.f.

Thank you very much,

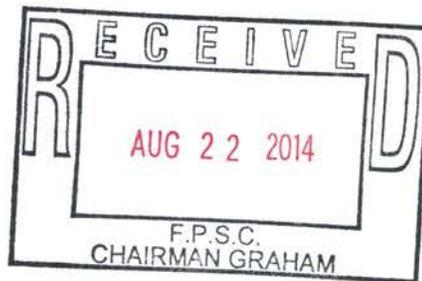
Cheryl

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HC Waterworks, Inc.

COMMISSION
CLERK
August 18, 2014



Honorable Art Graham
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: HC Waterworks, Inc. - Request for Test Year Approval Pursuant to Rule 25-30.430, Florida Administrative Code for Water and Wastewater systems in Highlands County.

Dear Chairman Graham:

HC Waterworks, Inc. ("HC Waterworks" or "Company") intends to submit an application for general rate relief to the Florida Public Service Commission ("Commission") for its water and wastewater systems in Highlands County. HC Waterworks plans to file its application, including the minimum filing requirements ("MFRs"), on or before October 31, 2014.

The need for rate relief is driven by both capital investments in plant and equipment to improve the quality of water and wastewater service in the service areas, as well as increased operating expenses since the systems was granted rate relief in 2012. In addition, these systems were previously grouped together in "Rate Bands" under the Commission approved rate structure for its previously owner, Aqua Utilities Florida, Inc. (AUF). Under the grouping of Rate Bands, the less efficient systems were grouped together with more efficient systems in order to provide subsidies through the rate structure. Since AUF sold the majority of its systems, primarily the more efficient systems, to the Florida Governmental Utility Authority (FGUA), the subsidies previously being received to HC Waterworks systems no longer exists. HC Waterworks has worked diligently to lower the operating costs, as well as the capital needs in order to delay the need for rate relief.

Background

HC Waterworks acquired the three HC water systems and the wastewater system in 2013. Prior to HC Waterworks' acquisition, those systems had a general rate case in Docket No. 100330-WS under the prior ownership of Aqua Utilities Florida, Inc. As previously addressed, AUF sold the majority of its systems, primarily the more efficient systems, to the FGUA.

Improvements to the HC Water Systems

In Order No. PSC-12-0102-FOF-WS, issued March 5, 2012, the Commission approved pro forma plant improvements to address the the water quality issues concerning the water systems primarily related to hydrogen sulfides. These specific improvements were for AdEdge filtration systems. Since that time these systems have experienced issues with disinfection byproducts (TTHMs).

HC Waterworks continues to make improvements to the water system related to water quality issues. To address the TTHM issues, HC Waterworks has converted the disinfection from chlorine to chloramines. Prior to the conversion extensive flushing of the water systems was necessary to address the TTHMs, as well as, water quality issues such as black water complaints. The filtration systems installed by the previous owners did not allow sufficient chlorine levels throughout the distribution systems to adequately eliminate the residual hydrogen sulfides that remained after the filtration process.

HC Waterworks has also installed two new wells at Leisure Lakes and two new wells at Lake Josephine. Also at Leisure Lakes, the utility has also installed two high service pumps to allow adequate backwashing of the filtration system. At both Leisure Lakes and Lake Josephine, the utility has installed automatic transfer switches (ATS) for both generators to allow automatic switch over in case of emergencies such as loss of power for safety and service reliability.

HC Waterworks has been working closely with the Florida Department of Environmental Protection (FDEP), the water management district (WMD), and its customers to address water quality issues and the need for additional flushing to address these concerns.

The Need for Rate Relief

As explained above, the last general rate increase for the HC Waterworks' water and wastewater systems was in 2011. Without a rate increase, the Company's ROE for the requested test year ending June 30, 2014 is anticipated to be negative 1.85 percent for its water systems and 3.87 percent for its wastewater. At this earnings level the Company cannot realistically maintain a stable financial position and, without rate relief, will not be in a position to meet the needs of its customers for safe and reliable water and wastewater services.

The decision to seek rate relief is not one that the Company has taken lightly. However, HC Waterwork's current revenues are simply insufficient to continue to meet its utility responsibilities in the manner that the Commission and our customers expect. The Company's rate of return will continue to remain below the returns that the Commission has awarded to other water and wastewater utilities without the requested rate relief. Thus, the Company has no choice but to seek timely rate relief for its water and wastewater systems.

To minimize rate case expense, HC Waterworks requests that this case be processed using the proposed agency action ("PAA") procedures set forth in Section 367.081(8), Florida Statutes. These PAA procedures have historically provided a cost-effective mechanism through which the Commission and its staff can thoroughly address all of the customers' and the

Company's issues related to the rate case. Through this process, HC Waterwork's customers will have ample opportunity to voice any concerns they may have at customer meetings held in HC Waterworks service territory. Utilizing the PAA process should minimize rate case expense and result in lower rates for the customer.

The Test Year

Finally, as part of its request for rate relief, and pursuant to Rule 25-30.430, Florida Administrative Code, HC Waterworks requests approval of a historic test year ending June 30, 2014. The requested test year is representative of a normal full year of operation, and will best fulfill the purpose of a test year, which is to set rates based on costs and revenues that are representative of the period when new rates will be in effect. HC Waterworks has not experienced any significant changes in its operations since June 30, 2014, and does not anticipate any such changes prospectively. The Company will also request interim rates based on the same historic test year and, as indicated above, and intends to submit the MFRs on or before October 31, 2014.

Pro Forma Plant

HC Waterworks will be requesting pro forma plant for its water systems consisting of two recently completed projects. The first is the replacement of a 5hp pump at its Leisure Lake water treatment plant well #2, and the repair of a float switch at its Covered Bridge well. Both were completed in June and HC Waterworks was invoiced in August for these. The replacement of the pump was in the amount of \$8,703 and the repair of the float switch was in the amount of \$755. In addition, recent lightening storms have caused damage to the automatic transfer switch, the starter, and the PLC at the Lake Josephine water plant. HC Waterworks anticipates the repairs and replacements due to the recent electrical storms will be between approximately \$15,000 to \$20,000. The MRFs will have more information on these anticipated repairs and replacements. HC Waterworks anticipates these repairs/replacements to be completed prior to the MFRs being filed.

HC Waterworks is committed to continuing to provide excellent service to its customers. Should you or members of the Staff have any questions regarding this request, please do not hesitate to contact me.

Sincerely,



Gary Deremer
President

cc: J.R. Kelley, Public Counsel
Ms. Ann Cole, Commission Clerk and Administrative Services
Andrew Maurey, Florida Public Service Commission
Mr. Troy Rendell, U.S. Water Service Corporation