

HC WATERWORKS, INC.

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COMMISSION
CLERK

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 "Utility") 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, 2019.

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 2015. 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 HC water systems and the wastewater system in 2013. Prior to HC Waterworks' acquisition, these systems had a general rate case in Docket No. 20100330-WS under the prior ownership of Aqua Utilities Florida, Inc. (AUF). AUF sold the majority of its systems, primarily the more efficient systems, to the FGUA. HC Waterworks last rate request was granted by Order No. PSC-15-0282-PAA-WS, issued July 8, 2015.

Improvements to the HC Water Systems

There are primarily three major capital projects that are driving the need for a request in rates.

Lake Josephine Road Widening Project

The first project is a road widening project that was required by Highlands County. During 2017, Highlands County with the coordination of the Florida Department of Transportation

(FDOT), embarked on a road realignment/widening of Lake Josephine Drive. On March 28, 2017, Highlands County notified HC Waterworks that it would be required to remove and relocate the water mains located in the right-of-way of Lake Josephine Drive. HC Waterworks inquired as to who would be responsible for the costs to relocate its water main. The County and Utility met several times and exchanged several correspondences on this matter. HC Waterworks also contacted the FDOT concerning possible financial assistance in the costs of relocation. HC Waterworks subsequently attended the Highlands County Commission Meeting held on May 16, 2017. At that Commission meeting, the utility explained the costs and the impact it would have on its customers. It was explained that if the utility was required to fund the costs of this relocation, this would be passed onto its customer in the form of a rate increase. The Highlands County Commission adopted Resolution No. 16-17-80 at the May 2017 meeting. This resolution required HC Waterworks to relocate its water main at the utility's expense pursuant to Section 337.403(1), Florida Statutes. As a result, HC Waterworks utilized the same contractor completing the road project to relocate and install a new 8" water main on Lake Josephine Drive at a cost of \$511,139. This was awarded after receiving several proposals from outside contractor. The same contractor who was doing the road work for Highlands County was the lowest bid. This new water main also included the installation of additional fire hydrants in order to provide improved adequate fire protection to its customers.

The other two projects involve the addition of forced draft aeration to address the historical ongoing issues with hydrogen sulfides. Previously, in Order No. PSC-2012-0102-FOF-WS, issued March 5, 2012, the Commission approved pro forma plant improvements by the previous owner, AUF to address the water quality issues concerning the water systems primarily related to hydrogen sulfides. These specific improvements were for AdEdge filtration systems. However, the utility continued to experience issues with disinfection byproducts (TTHMs).

Originally, to address the TTHM issues, HC Waterworks 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 AUF was not the prescribed methodology to address the levels of hydrogen sulfides in the water source. HC Waterworks worked 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.

Lake Josephine WTP Water Quality Project

In May 2017, the FDEP requested a meeting with HC Waterworks to discuss the ongoing issues and customer complaints concerning the water quality. HC Waterworks met with the FDEP to discuss its plan to switch the water treatment process at its Lake Josephine water treatment plant to a forced draft aeration treatment system for sulfide removal. This treatment methodology is consistent with the recommended treatment in FDEP Rule 62-555.315(5)(a), F.A.C. The FDEP indicated that it was prepared to issue a Consent Order for the Lake Josephine system if HC Waterworks did not proceed expeditiously to install the required treatment.

In September 2017, HC Waterworks received a construction permit from the FDEP for modification to the existing 300,000 GPD water treatment plant by the addition of a packed tower aeration system for removal of hydrogen sulfide with associated acid and caustic feed systems for pH adjustment. HC Waterworks began construction of the new treatment modification during 2017-2018. The force draft aeration was completed and placed into service in June 2018 and received partial clearance from FDEP. There is still minor work being completed. The total cost of the project was \$527,713.

This new system is comprised of:

1. A De Loach packed tower aeration system/forced draft degasification tower sized for a flow of 85 gpm for the removal of hydrogen sulfide.
2. Installation of sulfuric acid chemical feed system for pH adjustment including a 500 gallon double wall containment storage tank and a day tank.
3. Installation of caustic (sodium hydroxide) chemical feed system for pH adjustment including a 200 gallon double wall storage tank and a day tank.
4. Installation of 10,000 gallon hydropneumatic (pressure) tank.
5. All associated piping and injection points.

This proven new treatment methodology is now efficiently removing the majority of the sulfides contained in the raw water source. Forced draft aeration with pH adjustments have proven to remove up to 90% of total sulfides. Unfortunately, the sulfide issue has existed for numerous years, prior to the acquisition of the utility. However, this new treatment has already significantly improved the water being provided to the customers.

Leisure Lakes Water Quality Project

The final capital project that is currently ongoing is similar to the Lake Josephine aeration project. This new aeration treatment system is currently being installed at the Leisure Lakes water treatment plant. On October 1, 2018, HC Waterworks and FDEP entered into a Consent Order. This Consent Order required HC Waterworks to modify and install its water treatment plant consistent with the FDEP Construction permit issued September 14, 2018. Pursuant to the construction permit, HC Waterworks is to install the following:

1. Installation of a DeLoach packed tower aeration system/forced draft degasification tower sized for a flow of 200 gpm for the removal of hydrogen sulfide.
2. Installation of sulfuric acid chemical feed system for pH adjustment including a 500-gallon double wall containment storage tank and a 35-gallon vertical translucent day tank.
3. Installation of caustic (sodium hydroxide) chemical feed system for pH adjustment including a 200- gallon double wall storage tank and a 22-gallon vertical translucent day tank.
4. Installation of 4,000-gallon hydropneumatics (pressure) tank.
5. All associated piping and injection points.

The Consent Order indicates that these water treatment plant modifications must be completed within 365 days of the effective date and submit a Certificate of Completion. HC is currently on schedule to complete these additions and modification. This project cost is \$525,970. This project is being requested as a Pro Forma Plant item since it will be completed after the requested test year.

The Need for Rate Relief

As explained above, the last general rate increase for the HC Waterworks' water and wastewater systems was in 2015. Without a rate increase, the Utility will not be able to earn its approved rate of return on equity. At its earnings level the Utility 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 Utility 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 Utility'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 Utility 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 Utility'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.

Test Year Request

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, 2019 with pro forma plant items. 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, 2019, and does not anticipate any such changes prospectively. The Utility 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, 2019.

Pro Forma Plant

HC Waterworks will be requesting pro forma plant for its water systems consisting of the above mentioned addition/modification of pack tower aeration at its Leisure Lakes water treatment

plant. HC Waterworks solicited quotes for this installation and selected U.S. Water Service Corporation as the low bidder. The MRFs will have more information on this ongoing water quality project. HC Waterworks anticipates this project to be completed prior to the MFRs being filed.

Additional Information

In a concerted effort to minimize the anticipated rate impact on its customers, HC Waterworks obtained a long-term loan (debt) with the Bank of Tampa to fund the above referenced three projects. By utilizing lower interest rate loans for the three projects, this has the impact to lower the overall rate of return allowed on the resulting rate base. If HC Waterworks utilized shareholder equity, this would have had the impact of a higher increase. With the shared ownership and management, HC Waterworks was able to obtain this long term debt at an interest rate of 5.25%. This provides for a beneficial effect of lowering the requested overall rate of return.

HC Waterworks also attempted to secure funding for the road project to no avail. The Utility contacted the FDOT and the local Florida Senator at that time. The Utility also cooperated with the Office of Public Counsel in an attempt to secure any available funds – again to no avail.

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