

State of Florida



Public Service Commission

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

DATE: October 16, 2019

TO: Bart Fletcher, Bureau Chief, Bureau of Surveillance & Rate Filings

FROM: Division of Accounting and Finance (Bennett, Norris)
Division of Economics (Bethea, Hudson)
Division of Engineering (Graves, Knoblauch, M. Watts)
Office of the General Counsel (Murphy)

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

-- STAFF REPORT--

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting scheduled on November 5, 2019.

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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 1 general service customer in Manatee County. Effective December 21, 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 has been determined to be July 10, 2019. The 12-month period ended May 31, 2019, was selected as the test year for the instant docket. The Owner of the Utility manages and owns 14 utilities. Common costs for each utility are allocated on the basis of customer count. Heather Hills' allocation is 5.5 percent for water and 5.5 percent for wastewater, for a total of 11 percent, unless otherwise noted.

The Florida Department of Environmental Protection (DEP) conducted a sanitary survey inspection of Heather Hill's water distribution system on July 24, 2018. Four deficiencies were noted during the inspection regarding the Utility's written records and log books; however, information addressing the deficiencies was provided by Heather Hills following the inspection.

This staff report is a **preliminary** analysis of the Utility prepared by Commission staff to give customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission is currently scheduled to be filed December 20, 2019, for consideration at the January 7, 2020 Commission Conference. The recommendation will be revised as necessary using any updated information and results of customer quality of service concerns or other relevant information received during the customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.081, 367.0812, 367.0814, and 367.091, F.S..

¹ PSC-2018-0561-PAA-WS, issued December 21, 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?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the November 5, 2019 Customer Meeting. (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). The rule states that the most recent chemical analyses, outstanding citations, violations, and consent orders on file with 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 Utility's Product

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, and 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.

As discussed in the section below, Heather Hills has no outstanding citations, violations, and consent orders on file with the DEP. Additionally, based on staff's review at this time, 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

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 regarding a disconnection fee, and leak repair work with a billing issue. For the first complaint, staff found that the fees being charged were correct according to Heather Hills' tariff, and a billing problem was found and corrected for the second complaint. Additionally, of the 11 complaints, 7 complaints were made prior to the transfer of the system to the new owner.

In response to a staff data request, Heather Hills provided two complaints that were received by the Utility. On July 19, 2018, a customer indicated that sewage 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, but would have to be 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 DEP requesting complaints regarding Heather

Hills for the prior five years, and there are no outstanding citations, violations, and consent orders on file with the DEP.

Conclusion

Quality of service will be determined at a later date, pending review of comments made at the November 5, 2019 Customer Meeting.

Issue 2: What are the used and useful (U&U) percentages for the Utility's water distribution and wastewater collection system?

Preliminary 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 necessary. This is a preliminary determination and further investigation is needed. (M. Watts, Knoblauch)

Staff Analysis: As discussed in Issue 1, 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 (PVC) pipe. The collection system is composed of 15,300 feet of six-inch PVC pipe with 38 manholes.

Water Distribution and Wastewater Collection System Used & 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, F.A.C., describes 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 EUW 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 necessary. This is a preliminary determination and further investigation is needed.

Issue 3: What are the appropriate average test year water and wastewater rate bases for Heather Hills, LLC?

Preliminary Recommendation: The appropriate average test year rate base for Heather Hills is \$47,233 for water and \$17,658 for wastewater. (Bennett, Knoblauch, Watts)

Staff Analysis: Rate base was last established for the Heather Hills water and wastewater systems April 7, 2017.² 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 test year 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 and a trailer. The Utility provided two bids for the van as well as estimated costs for the trailer. The allocation for the van is \$1,504 ($\$27,336 \times 0.11 / 2$) for each system. The allocation for the trailer will be \$1,210 ($\$4,200 \times 0.58 / 2$) for each system. Staff's analysis of Heather Hills' requested pro forma plant projects is not yet finalized. Staff will continue to evaluate the pro forma plant projects prior to making its final recommendation. As such, staff has made a net increase of \$2,714 ($\$1,504 + \$1,210$) for water and \$2,350 ($-\$364 + \$1,504 + \$1,210$) for wastewater.

Therefore, staff recommends that the appropriate UPIS balance is \$92,578 for water and \$75,590 for wastewater.

Land & Land Rights

The Utility recorded a test year land balance of \$389 for water and \$389 for wastewater. Based on staff's preliminary 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 Hills' water distribution system and the wastewater collection system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

Accumulated Depreciation

Heather Hills recorded a test year 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 \$452 for water and \$452 for wastewater to reflect pro forma requests from the

² Order No. PSC-2018-0561-PAA-WS, issued December 21, 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.*

Utility. Staff's adjustments to accumulated depreciation result in a net decrease of \$601 (\$1,038 - \$2,091 + \$452) for water and a net increase of \$416 (-\$6 - \$30 + \$452) for wastewater. Therefore, staff recommends an accumulated depreciation balance of \$54,441 for water and \$73,019 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 preliminary 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 preliminary 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 \$69,658 (\$70,033 - \$374) for water and \$117,591 (\$117,966 - \$374) for wastewater. Applying this formula approach to the adjusted O&M expense balance, staff recommends a working capital allowance of \$8,707 ($\$69,658 / 8$) for water and \$14,699 ($\$117,591 / 8$) for wastewater.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate test year average rate base is \$47,233 for water and \$17,658 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 4: What is the appropriate return on equity and overall rate of return for Heather Hills?

Preliminary 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 7, staff is recommending the operating ratio methodology be used in this case. Although the traditional rate of return 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.³ The appropriate ROE for the Utility is 10.55 percent based on the Commission approved leverage formula currently in effect.⁴ 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.

³Order Nos. PSC-08-0548-PAA-WS, issued August 19, 2008, in Docket No. 070416-WS, *In re: Application for staff-assisted rate case in Polk County by Plantation Landings, Ltd.*, PSC-95-0480-FOF-WS, issued April 13, 1995, in Docket No. 940895-WS, *In re: Application for a staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.*, and PSC-97-0263-FOF-SU, issued March 11, 1997, in Docket No. 960984-SU, *In re: Investigation of possible overearnings in Volusia County by North Peninsula Utilities Corporation.*

⁴Order 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 5: What are the appropriate test year revenues for the water and wastewater systems?

Preliminary Recommendation: The appropriate test year revenues for Heather Hills' water is \$65,264 and wastewater is \$117,637. (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 \$64,758 for water and \$117,131 for wastewater. This results in an increase of \$2,096 ($\$64,758 - \$62,662$) for water and \$12,489 ($\$117,131 - \$104,642$) for wastewater test year service revenues. Staff also made adjustments to miscellaneous revenues for water and wastewater to equally allocate the revenues collected as result of miscellaneous services. This results in miscellaneous revenues of \$506 ($\$1,012 - \506) for water and \$506 for wastewater. Based on the above, the appropriate test year revenues for Heather Hills' water is \$65,264 ($\$64,758 + \506) and \$117,637 ($\$117,131 + \506) for wastewater.

Issue 6: What is the appropriate amount of operating expenses for Heather Hills?

Preliminary Recommendation: The appropriate amount of operating expenses for Heather Hills is \$77,148 for water and \$123,948 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 requested the allocation of two new maintenance technicians to Heather Hills with a salary of \$37,900 each. Based on its allocation, the total increase is \$8,338 ($\$37,900 \times 0.11 \times 2$) for Heather Hills. Allocated between water and wastewater results in an increase of \$4,169 ($\$8,338 / 2$) for each system. As such, staff recommends salaries and wages – employees expense of \$17,402 for water and \$17,402 for wastewater. For the final recommendation, staff is further evaluating the prudence of the additional employees.

Salaries and Wages – Officers Expense (602/702)

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 \$80,000.⁵ As such, staff annualized the approved salary which results in a salaries and wages – officers expense of \$4,400 ($\$80,000 \times 0.11 / 2$) for each system. Therefore, staff recommends an increase of \$385 ($\$4,400 - \$4,015$) for each system.

Employees Pensions and Benefits Expense (604/704)

The Utility recorded employee pensions and benefits expenses of \$333 for each system in the test year. The corresponding employee pensions and benefits expense associated with the two new technicians allocated across all systems results in an increase of \$657 for each system. As such, staff recommends employees pensions and benefits expense of \$990 ($\$333 + \657) for each system.

Purchased Water and Wastewater Expense (610/710)

The Utility recorded purchased water expense of \$33,638 for water. The Utility recorded purchased wastewater treatment expense of \$84,012 for wastewater in the test year. Staff increased purchased water expense by \$40 and decreased purchased wastewater treatment by \$40 to reflect actual amount of invoice for Heather Hills. As such, staff recommends purchased water expense of \$33,678 and purchased wastewater treatment expense of \$83,972.

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 \$112 for water and \$505 for

⁵ Order No. PSC-2018-0439-PAA-WU, issued in Docket No. 20170230-WU, *In re: Application for staff-assisted rate case in Pasco County by Orange Land Utilities, LLC.*

wastewater to reflect actual amount of invoices and allocation for Heather Hills. As such, staff recommends a materials and supplies expense of \$436 for water and \$436 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 decreased contractual services - professional expense by \$284 for water and \$322 for wastewater to reflect actual amount of invoices and allocations for Heather Hills.

In addition, the Utility is requesting pro forma expense for professional accounting services to assist the current accountant with the increase in workload due to the additional utilities acquired by the Owner. Based on the requested annual amount of invoices of \$5,040 and the 11-percent allocation for Heather Hills, staff increased contractual services – professional expense by \$277 ($\$5,040 \times 0.11 / 2$) per system.

Therefore, staff recommends contractual services – professional expense in the amount of \$382 ($\$389 - \$284 + \277) for water and \$344 ($\$389 - \$322 + \277) for wastewater. For the final recommendation, staff is further evaluating the prudence of the accounting services.

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 by \$108 for wastewater to reflect actual amount of invoices. Therefore, staff recommends contractual services – testing expense of \$1,998 for water and \$0 for wastewater.

Contractual Services – Other Expense (636/736)

The Utility recorded contractual services – other expense of \$573 for water and \$65 for wastewater in the test year. Staff increased this account by \$129 for water and decreased it by \$7 for wastewater to reflect actual amount of invoices and allocations. As such, staff recommends contractual services – other expense of \$702 for water and \$58 for wastewater.

Rent Expense (640/740)

The Utility recorded rent expense of \$1,894 for water and \$1,895 for wastewater in the test year. Staff removed \$520 for water and \$520 for wastewater to adjust for proper allocation. Therefore, staff recommends rent expense of \$1,374 for water and \$1,375 for wastewater.

Transportation Expense (650/750)

Heather Hills recorded transportation expense of \$3,044 for water and \$3,044 for wastewater in the test year. Staff decreased this account by \$963 for water and \$859 for wastewater to reflect the correct allocation. Therefore, staff recommends transportation expense \$2,081 for water and \$2,185 for wastewater.

Insurance Expense (655/755)

Heather Hills recorded insurance expense of \$2,442 for water and \$2,442 for wastewater in the test year. Staff decreased this account by \$94 for water and \$94 for wastewater to adjust for proper allocation. Additionally, the Utility is requesting pro forma expense to recover the increased cost of workers compensation insurance. The Utility provided documentation of the

policy increasing to \$8,149 and requested 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' 11 percent allocation, the updated policy would total \$896 annually, or \$448 ($\$896 / 2$) for each system. The test year expense for workers compensation insurance was \$327 for each system. Therefore, staff recommends an increase of \$121 ($\$448 - \327) for each system. Therefore, staff recommends insurance expense of \$2,469 ($\$2,442 - \$94 + \121) for water and \$2,469 ($\$2,442 - \$94 + \121) for wastewater.

Regulatory Commission Expense (665/765)

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 allocations. 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 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$) per system. Therefore staff recommends regulatory commission expense of \$915 ($\$1,054 - \$514 + \374) for each system, respectively.

Miscellaneous Expense (675/775)

The Utility recorded miscellaneous expense of \$5,957 for water and \$5,763 for wastewater. Staff decreased this account by \$2,877 for water and \$2,469 for wastewater to properly reflect the amount from provided invoices and correct allocations. As such, staff recommends miscellaneous expense of \$3,080 for water and \$3,294 for wastewater.

Operation & Maintenance Expense Summary

Based on the above adjustments, staff recommends that O&M expense be increased by \$1,001 for water and \$546 for wastewater, resulting in total O&M expense of \$70,033 for water and \$117,966 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 has calculated the net depreciation expense for the pro forma plant additions discussed in Issue 3 and has increased depreciation expense by \$452 for water

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and wastewater, and retirements respectively. Therefore, staff recommends net depreciation expense of \$3,157 ($\$3,137 - \$432 + \452) for water and \$497 ($\$73 - \$28 + \452) for wastewater.

Taxes Other Than Income (TOTI)

Heather Hills recorded a TOTI balance of \$2,878 for water and \$4,669 for wastewater during the test year. Staff increased TOTI by \$29 for water and \$29 for wastewater to reflect the appropriate payroll taxes for the test year. Additionally staff increased TOTI by \$319 for water and \$319 for wastewater to reflect the requested pro forma increase of salaries and wages – employees expense as discussed above. This results in an increase of \$348 ($\$29 + \319) for water and \$348 ($\$29 + \319) for wastewater.

In addition, as discussed in Issue 8, revenues have been increased by \$16,246 for water and \$10,390 for wastewater to reflect the change in revenue required to cover expenses and allow the Commission-approved operating margin. As a result, TOTI should be increased by \$731 for water and \$468 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Therefore, staff recommends TOTI of \$3,957 ($\$2,878 + \$348 + \731) for water and \$5,485 ($\$4,669 + \$348 + \468) for wastewater.

Operating Expense Summary

The application of staff's recommended adjustments to Heather Hills' test year operating expenses results in operating expenses of \$77,148 for water and \$123,948 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 7: Should the Commission utilize the operating ratio methodology as an alternative method of calculating the water and wastewater requirements for Heather Hills, and, if so, what is the appropriate margin?

Preliminary Recommendation: Yes. The Commission should utilize 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., requires that the Commission use the operating ratio methodology if the Utility's rate base is below 125 percent of O&M expenses. The rule states the Commission will apply a margin of 12 percent when determining the revenue requirement, up to \$15,000. The operating ratio methodology will be applied when the Utility's rate base is no greater than 125 percent of O&M expenses. The use of the operating ratio methodology does not change the Utility's qualification for a staff assisted rate case under Rule 25-30.455(1), F.A.C.

The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on Heather Hills' O&M expenses plus a margin of 12 percent. This methodology has been applied in cases in which the traditional calculation of the revenue requirement would not provide sufficient revenue to protect against potential variances in revenues and expenses. As discussed in Issues 3 and 6, staff has recommended a rate base of \$47,233 for water and \$17,658 for wastewater and O&M expenses of \$70,033 for water and \$117,996 for wastewater. Based on recommended amounts, Heather Hills' water and wastewater rate base is only 67 percent and 15 percent of its O&M expenses, respectively. 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 8: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is \$81,510 for water and \$128,027 for wastewater resulting in an annual increase of \$16,246 for water and \$10,390 for wastewater. (Bennett)

Staff Analysis: Heather Hills should be allowed an annual increase of \$16,246 for water (24.89 percent) and \$10,390 for wastewater (8.83 percent). The calculations are shown below in Table 8-1 for water and Table 8-2 for wastewater.

**Table 8-1
 Water Revenue Requirement**

Adjusted O&M (Less Purchased Water)	\$36,355
Operating Margin (%)	x 12.00%
Operating Margin (\$15,000 Cap)	\$4,363
Adjusted O&M Expense	70,033
Depreciation Expense (Net)	3,157
Taxes Other Than Income	3,957
Revenue Requirement	\$81,510
Less Adjusted Test Year Revenues	65,264
Annual Increase	<u>\$16,246</u>
Percent Increase	<u>24.89%</u>

**Table 8-2
 Wastewater Revenue Requirement**

Adjusted O&M (Less Purchased Wastewater)	\$33,994
Operating Margin (%)	x 12.00%
Operating Margin (\$15,000 Cap)	\$4,079
Adjusted O&M Expense	117,966
Depreciation Expense (Net)	497
Taxes Other Than Income	5,485
Revenue Requirement	\$128,027
Less Adjusted Test Year Revenues	\$117,637
Annual Increase	<u>\$10,390</u>
Percent Increase	<u>8.83%</u>

Issue 9: What are the appropriate rate structure and rates for Heather Hills' water and wastewater systems?

Preliminary 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 1 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 allocates all 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. 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 68.6 percent of the revenue requirement, consistent with the prior rate case, should 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.

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 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 1.2 times higher than the residential gallonage charge.

Issue 10: 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.?

Preliminary 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)

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

Recommendation: The appropriate initial customer deposits should be \$114 for the single family residential 5/8 inch x 3/4 inch meter size for water and \$180 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.⁶ 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.⁷ The Utility's average monthly residential usage is 1,666 gallons per customer. Heather Hills bills on a quarterly basis; therefore, the average residential bill for two billing periods is approximately \$114 for water and \$180 for wastewater.

Based on the above, the appropriate initial customer deposits for the residential 5/8 inch x 3/4 inch meter size are approximately \$114 for water and \$180 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

⁶ 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.*

⁷ 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.*

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

Issue 12: 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?

Preliminary 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)

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 \$18,000. 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;
- 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 13: Should the Utility be required to notify the Commission in writing that it has adjusted its books in accordance with the Commission's decision?

Preliminary 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 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)

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.

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	\$2,714	\$92,578
LAND & LAND RIGHTS	389	0	389
ACCUMULATED DEPRECIATION	(55,042)	601	(54,441)
CIAC	(26,625)	0	(26,625)
AMORTIZATION OF CIAC	26,625	0	26,625
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>8,707</u>	<u>8,707</u>
RATE BASE	<u>\$35,211</u>	<u>\$12,022</u>	<u>\$47,233</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	\$2,350	\$75,590
LAND & LAND RIGHTS	389	0	389
ACCUMULATED DEPRECIATION	(72,603)	(416)	(73,019)
CIAC	0	0	0
AMORTIZATION OF CIAC	0	0	0
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>14,699</u>	<u>14,699</u>
RATE BASE	<u>\$1,026</u>	<u>\$16,632</u>	<u>\$17,658</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 van to Acct. No. 391.	1,503	1,503
3. 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>\$2,714</u>	<u>\$2,350</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>(452)</u>	<u>(452)</u>
Total	<u>\$601</u>	<u>(\$416)</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
To reflect 1/8 of test year O & M expenses.	<u>\$8,707</u>	<u>\$14,699</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	(\$77,624)	\$64,891	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>(\$77,624)</u>	<u>\$64,891</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	STAFF	STAFF	ADJUST.	REVENUE
	PER UTILITY	ADJUSTMENTS	ADJUSTED	FOR	REQUIREMENT
			TEST YEAR	INCREASE	
1. OPERATING REVENUES	<u>\$63,674</u>	<u>\$1,590</u>	<u>\$65,264</u>	<u>\$16,246</u> 24.89%	<u>\$81,510</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$69,032	\$1,001	\$70,033	\$0	\$70,033
3. DEPRECIATION (NET)	3,137	20	3,157	0	3,157
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	2,878	348	3,226	731	3,957
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>\$1,369</u>	<u>\$76,416</u>	<u>\$731</u>	<u>\$77,148</u>
8. OPERATING INCOME/(LOSS)	<u>(\$11,373)</u>		<u>(\$11,152)</u>		<u>\$4,363</u>
9. WATER RATE BASE	<u>\$35,211</u>		<u>\$47,233</u>		<u>\$47,233</u>
10. OPERATING RATIO					<u>12.00%</u>

Heather Hills Utilities, LLC			SCHEDULE NO. 3-B		
TEST YEAR ENDED 5/31/19			DOCKET NO. 20190113-WS		
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>\$12,921</u>	<u>\$117,637</u>	<u>\$10,390</u> 8.83%	<u>\$128,027</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$117,420	\$546	\$117,966	\$0	\$117,966
3. DEPRECIATION (NET)	73	424	497	0	497
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	4,669	348	5,017	468	5,485
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>\$1,318</u>	<u>\$123,480</u>	<u>\$468</u>	<u>\$123,948</u>
8. OPERATING INCOME/(LOSS)	<u>(\$17,446)</u>		<u>(\$5,843)</u>		<u>\$4,079</u>
9. WASTEWATER RATE BASE	<u>\$1,026</u>		<u>\$17,658</u>		<u>\$17,658</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>\$1,590</u>	<u>\$12,921</u>	
OPERATION AND MAINTENANCE EXPENSES			
1. Salaries and Wages - Employee (601/701)			
a. To reflect pro forma technician positions.	<u>\$4,169</u>	<u>\$4,169</u>	
2. Salaries and Wages - Officer (603/703)			
a. To reflect appropriate amount of salaries expense.	<u>\$385</u>	<u>\$385</u>	
3. Pensions and Benefits (604/704)			
a. To reflect pro forma technician positions.	<u>\$657</u>	<u>\$657</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. Materials and Supplies (620/720)			
a. To reflect the appropriate allocation for Heather Hills.	<u>(\$112)</u>	<u>(\$505)</u>	
6. Contractual Services - Professional (631/731)			
a. To reflect appropriate amounts and allocations.	<u>(\$284)</u>	<u>(\$322)</u>	
b. To reflect pro forma accounting services.	<u>277</u>	<u>277</u>	
Subtotal	<u>(\$7)</u>	<u>(\$45)</u>	
7. Contractual Services - Testing (635/735)			
a. To reflect actual invoices provided.	<u>\$212</u>	<u>(\$108)</u>	
8. Contractual Services - Other (636/736)			
a. To reflect actual invoices and allocations.	<u>\$129</u>	<u>(\$7)</u>	
9. Rent (640/740)			
a. To reflect appropriate allocation.	<u>(\$520)</u>	<u>(\$520)</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>	
10. Transportation (650/750)			
a. To reflect appropriate allocation.	<u>(\$963)</u>	<u>(\$859)</u>	
11. Insurance (655/755)			
a. To reflect appropriate test year allocation.	<u>(\$94)</u>	<u>(\$94)</u>	
b. To reflect pro forma policy increase.	<u>121</u>	<u>121</u>	
Subtotal	<u>\$27</u>	<u>\$27</u>	
12. Regulatory Commission Expense (665/765)			
a. To reflect actual invoices and appropriate allocation.	<u>(\$514)</u>	<u>(\$514)</u>	
b. To reflect appropriate amortized rate case expense.	<u>374</u>	<u>374</u>	
Subtotal	<u>(\$139)</u>	<u>(\$139)</u>	
13. Miscellaneous Expense (675/775)			
a. To adjust for allocations.	<u>(\$2,877)</u>	<u>(\$2,469)</u>	
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$1,001</u>	<u>\$546</u>	
DEPRECIATION EXPENSE			
1. To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.	<u>(\$432)</u>	<u>(\$28)</u>	
2. To reflect pro forma.	<u>452</u>	<u>452</u>	
	<u>\$20</u>	<u>\$424</u>	
TAXES OTHER THAN INCOME			
1. To reflect appropriate test year utility payroll taxes.	<u>\$29</u>	<u>\$29</u>	
2. To reflect payroll tax for pro forma technicians.	<u>319</u>	<u>319</u>	
Total	<u>\$348</u>	<u>\$348</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	\$4,169	\$17,402
(603) SALARIES AND WAGES - OFFICERS	4,015	385	4,400
(604) EMPLOYEE PENSIONS AND BENEFITS	333	657	990
(610) PURCHASED WATER	33,638	40	33,678
(615) PURCHASED POWER	0	0	0
(620) MATERIALS AND SUPPLIES	548	(112)	436
(631) CONTRACTUAL SERVICES - PROFESSIONAL	389	(7)	382
(635) CONTRACTUAL SERVICES - TESTING	1,786	212	1,998
(636) CONTRACTUAL SERVICES - OTHER	573	129	702
(640) RENTS	1,894	(520)	1,374
(650) TRANSPORTATION EXPENSE	3,044	(963)	2,081
(655) INSURANCE EXPENSE	2,442	27	2,469
(665) REGULATORY COMMISSION EXPENSE	1,054	(139)	915
(670) BAD DEBT EXPENSE	126	0	126
(675) MISCELLANEOUS EXPENSE	<u>5,957</u>	<u>(2,877)</u>	<u>3,080</u>
TOTAL	<u>\$69,032</u>	<u>\$1,001</u>	<u>\$70,033</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	\$4,169	\$17,402
(703) SALARIES AND WAGES - OFFICERS	4,015	385	4,400
(704) EMPLOYEE PENSIONS AND BENEFITS	333	657	990
(710) PURCHASED WASTEWATER TREATMENT	84,012	(40)	83,972
(715) PURCHASED POWER	0	0	0
(720) MATERIALS AND SUPPLIES	941	(505)	436
(731) CONTRACTUAL SERVICES - PROFESSIONAL	389	(45)	344
(735) CONTRACTUAL SERVICES - TESTING	108	(108)	0
(736) CONTRACTUAL SERVICES - OTHER	65	(7)	58
(740) RENTS	1,895	(520)	1,375
(750) TRANSPORTATION EXPENSE	3,044	(859)	2,185
(755) INSURANCE EXPENSE	2,442	27	2,469
(765) REGULATORY COMMISSION EXPENSES	1,054	(139)	915
(770) BAD DEBT EXPENSE	126	0	126
(775) MISCELLANEOUS EXPENSE	<u>5,763</u>	<u>(2,469)</u>	<u>3,294</u>
TOTAL	<u>\$117,420</u>	<u>\$546</u>	<u>\$117,966</u>

Heather Hills Utilities, LLC		SCHEDULE NO. 4-A	
TEST YEAR ENDED 5/31/19		DOCKET NO. 20190113-WS	
QUARTERLY WATER RATES			
	CURRENT UTILITY 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	\$39.16	\$0.19
3/4"	\$42.54	\$58.74	\$0.28
1"	\$70.90	\$97.90	\$0.47
1" – 1/2"	\$141.80	\$195.80	\$0.94
2"	\$223.88	\$313.28	\$1.50
3"	\$453.76	\$626.56	\$3.01
4"	\$709.00	\$979.00	\$4.70
6"	\$1,418.00	\$1958.00	\$9.40
Charge per 1,000 gallons	\$3.44	\$3.58	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
5,000 Gallons	\$45.56	\$57.06	
10,000 Gallons	\$62.76	\$74.96	
15,000 Gallons	\$79.96	\$92.86	

Heather Hills Utilities, LLC		SCHEDULE NO. 4-B	
TEST YEAR ENDED 5/31/19		DOCKET NO. 20190113-WS	
QUARTERLY WASTEWATER RATES			
	CURRENT UTILITY RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge – All Meter Sizes	\$37.17	\$44.94	\$0.14
Charge per 1,000 gallons	\$7.73	\$8.97	\$0.03
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$37.17	\$44.94	\$0.14
3/4"	\$55.40	\$67.41	\$0.21
1"	\$92.33	\$112.35	\$0.35
1" – 1/2"	\$184.65	\$224.70	\$0.70
2"	\$295.44	\$359.52	\$1.11
3"	\$590.88	\$719.04	\$2.23
4"	\$923.25	\$1,123.50	\$3.48
6"	\$1,846.50	\$2,247.00	\$6.97
Charge per 1,000 gallons	\$9.04	\$10.77	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
5,000 Gallons	\$75.82	\$89.79	
10,000 Gallons	\$114.47	\$134.64	
15,000 Gallons	\$153.12	\$179.49	