

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in  
Manatee County by Heather Hills Utilities,  
LLC.

DOCKET NO. 20190113-WS  
ORDER NO. PSC-2020-0119-PAA-WS  
ISSUED: April 20, 2020

The following Commissioners participated in the disposition of this matter:

GARY F. CLARK, Chairman  
ART GRAHAM  
JULIE I. BROWN  
DONALD J. POLMANN  
ANDREW GILES FAY

NOTICE OF PROPOSED AGENCY ACTION ORDER  
APPROVING RATE INCREASE FOR HEATHER HILLS UTILITIES, LLC  
AND ORDER ON RECOVERY OF RATE CASE EXPENSES, TEMPORARY RATES,  
AND ACCOUNTING ADJUSTMENTS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (Commission) that the actions discussed herein, except for (1) the reduction of rates after four years based upon the recovery of rate case expense, (2) the granting of temporary rates in the event of protest, and (3) the requirement for proof of adjustment of books and records, are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.). The reduction of rates after four years, the granting of temporary rates in the event of protest, and the requirement for proof of adjustment of books and records are procedural agency actions and subject to reconsideration and appeal as described below under the heading, "NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW."

**Background**

Heather Hills Utilities, LLC (Heather Hills or Utility) is a Class C water and wastewater utility providing service to approximately 354 residential customers and one general service customer in Manatee County. Effective October 30, 2018, Heather Hills was granted the approval of transfer for Certificate Nos. 577-W and 498-S from Heather Hills Estates Utilities, LLC.<sup>1</sup> 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

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

\$114,689 for wastewater, resulting in net operating losses of \$6,513 and \$10,377, for water and wastewater, respectively.

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

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

By this Order, we address Heather Hills' proposed rates. We have jurisdiction pursuant to Sections 367.081, 367.0814, and 367.091, F.S.

## **Review and Decision**

### ***1. Quality of Service***

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

#### Quality of the Utility's Product (Water)

Heather Hills does not have its own wells or water treatment facilities. It provides water to customers by purchasing bulk water from Manatee County; therefore, the Utility only maintains its distribution system. As a reseller of water, Heather Hills is not subject to the DEP's secondary water standards which regulate contaminants that may impact the taste, odor, and color of drinking water. The chemical analyses required within Heather Hills' distribution system include microbiological, disinfection byproducts, asbestos, lead and copper. We 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.

We held a customer meeting on November 5, 2019, to receive customer comments regarding the quality of service. At the meeting, 13 customers spoke and of those customers, none of the comments concerned the quality of the water. The concerns voiced at the customer

meeting were largely related to customer service and the rate increase, which are discussed in more detail below.

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

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

The table below is a summary of the complaints received at the customer meeting, as well as complaints received by our complaint tracking system, the DEP, and Heather Hills over the past five years.

**Number of Complaints by Type and Source**

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

\*Other complaints relate to a meter and improper disconnect.

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

*Customer Meeting*

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

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

The Utility noted that a full-time position has been previously approved by this Commission, and the position will help to address comments about Heather Hills' customer service. By Order No. PSC-2018-0439-PAA-WU, we increased a part-time billing position to full time; however, the position is vacant but the Utility is currently seeking applicants.

### *Complaints*

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

Heather Hills provided two complaints that were received by the Utility. On July 19, 2018, a customer indicated that wastewater was backing up into her yard. The customer was advised to contact a plumber, who found that the problem was not with the customer's line, and the issue was resolved by the Utility. On March 28, 2019, the Utility received a complaint that a customer's water meter was not recording usage, and the customer's meter was replaced. The DEP provided one complaint regarding Heather Hills for the prior five years. The complaint was received on January 3, 2018, and involved a leaking flow meter with no precautionary boil water notice issued. The complaint was resolved when it was determined that, due to its location, the customer was responsible for the repair of the leak.

### Conclusion

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

## ***2. Compliance with DEP Regulations***

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

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

Upon review, we find that Heather Hills’ water and wastewater systems are currently in compliance with DEP regulations.

## ***3. Used and Useful (U&U)***

As discussed under the heading *2. Compliance with DEP Regulations*, above, Heather Hills does not have its own wells or water and wastewater treatment plants. The Utility’s water distribution system consists of 15,300 feet of three-quarter inch polyvinyl chloride pipe (PVC). The wastewater collection system is composed of 15,300 feet of six-inch PVC pipe with 38 manholes.

### Water Distribution and Wastewater Collection Systems

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 and wastewater collection systems is 100 percent.

### Excessive Unaccounted for Water

Pursuant to Rule 25-30.4325(1)(e), F.A.C., excessive unaccounted for water (EUW) is unaccounted for water in excess of 10 percent of the amount produced. We recognize that some uses of 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. To determine whether adjustments to operating expenses are necessary, we consider all relevant factors

including the reason for EUW, solutions implemented to correct the problem, and whether a proposed solution is economically feasible. Unaccounted for water is calculated by subtracting both the gallons used for other purposes (such as flushing) and the gallons sold to customers from the total gallons purchased for the test year. During the test year, Heather Hills purchased 7,505,800 gallons of water from Manatee County. The Utility sold 7,119,102 gallons to customers, and did not report any gallons used for other purposes. Subtracting the gallons sold from the gallons purchased, there are 386,698 gallons unaccounted for, or 5.2 percent of the total purchased. Since this is less than 10 percent of the amount purchased, there is no excessive unaccounted for water and there shall be no adjustment.

#### 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, we are unable to calculate whether there is excessive infiltration and inflow and thus, there shall be no adjustment.

#### Conclusion

Upon review, the water distribution and wastewater collection systems shall be considered 100 percent U&U. There is no excessive unaccounted for water. We are unable to calculate inflow and infiltration due to the nature of the Utility's provision of wastewater service. Therefore, there shall be no adjustment to operating expenses.

#### ***4. Water and Wastewater Rate Bases***

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

#### Utility Plant in Service (UPIS)

The Utility recorded a UPIS balance of \$89,864 for water and \$73,240 for wastewater. Based on our review of the Utility's books and records, UPIS shall be decreased by \$364 for wastewater to reflect an averaging adjustment. The Utility is requesting pro forma for a new van, a new computer, and a trailer. The Utility provided two bids for the van, as well as estimated costs for the trailer. By Order No. PSC-2019-0503-PAA-SU, we approved two new maintenance technicians to be allocated to all of the Florida Utility Services 1 (FUS1) systems. The Utility indicated that the new van requested in this docket will be required for one of the new maintenance technicians and that the lowest bid was selected. Based on Heather Hills' allocation, this results in an increase of \$1,367 for each system. By that Order, we approved the allocation of a new computer for FUS1. As such, UPIS has been increased by \$26 for each system to reflect Heather Hills' allocation. With respect to the trailer, Heather Hills stated that because the Utility is a reseller and does not have a plant, a trailer is needed to store parts and equipment needed for

repairs. The trailer will be used at Heather Hills and Sunny Shores Utilities, Inc. Allocating the cost of the trailer between the two utilities by customer count results in an increase of \$1,210 for both Heather Hills' water and wastewater systems. The Utility explored other alternatives, such as renting storage space; however, it determined that purchasing a used storage trailer would be a more cost-effective option. As such, we approve an increase of \$2,603 ( $\$1,367 + \$26 + \$1,210$ ) for each system to reflect pro forma plant additions. Therefore, we approve a UPIS balance of \$92,467 ( $\$89,864 + \$2,603$ ) for water and \$75,479 ( $\$73,240 - \$364 + \$2,603$ ) for wastewater.

#### Land & Land Rights

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

#### Used and Useful

As discussed above under the heading 3. *Used and Useful*, Heather Hill's 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 an accumulated depreciation balance of \$55,042 for water and \$72,603 for wastewater. We 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, we decreased accumulated depreciation by \$2,091 for water and \$30 for wastewater to reflect an averaging adjustment. We also increased accumulated depreciation by \$431 for water and \$431 for wastewater to reflect approved pro forma plant adjustments. Our adjustments to accumulated depreciation result in a net decrease of \$622 ( $\$1,038 - \$2,091 + \$431$ ) for water and a net increase of \$395 ( $-\$6 - \$30 + \$431$ ) for wastewater. Therefore, we approve an accumulated depreciation balance of \$54,420 for water and \$72,998 for wastewater.

#### Contributions in Aid of Construction (CIAC)

The Utility recorded a CIAC balance of \$26,625 for water and \$0 for wastewater. Based upon our review, no adjustment is necessary. Therefore, we find 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 upon our review, no adjustment is necessary. Therefore, we find that the appropriate balance is \$26,625 for water and \$0 for wastewater.

### Working Capital Allowance

Working capital is the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(3), F.A.C., we 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, we removed the rate case expense balance of \$374 for this calculation, resulting in an adjusted O&M expense balance of \$65,491 (\$65,865 - \$374) for water and \$113,019 (\$113,393 - \$374) for wastewater. Applying this formula approach to the adjusted O&M expense balance, we approve a working capital allowance of \$8,186 ( $\$65,491 / 8$ ) for water and \$14,127 ( $\$113,019 / 8$ ) for wastewater.

### Rate Base Summary

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

## ***5. Return on Equity (ROE)***

Under the heading *1. Operating Ratio Methodology*, we approve the operating ratio methodology for use in this case. Although a traditional rate of return does not apply in this case because the rate base is less than 125 percent of O&M expenses, we nonetheless will establish an ROE for this Utility.

Based upon our audit, Heather Hills' test year capital structure reflects negative equity, a long-term debt balance of \$142,515, and no customer deposits. It is our practice to set a negative equity balance to zero for rate making purposes. The appropriate ROE for the Utility is 10.55 percent based on our approved leverage formula currently in effect. As such, we approve 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 of this Order.

## ***2. Test Year Revenues***

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. We 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, we find test year service revenues to be \$64,700 for water and \$116,978 for wastewater. This results in an increase of \$2,038 ( $\$64,700 - \$62,662$ ) for water and \$12,336 ( $\$116,978 - \$104,642$ ) for wastewater test year service revenues. We also made adjustments to miscellaneous revenues for water and wastewater to equally allocate the revenues collected as a

result of miscellaneous services. This results in miscellaneous revenues of \$506 ( $\$1,012 / 2$ ) for water and \$506 for wastewater. Based on the foregoing, the appropriate test year revenues for Heather Hills' water is \$65,206 ( $\$64,700 + \$506$ ) and \$117,484 ( $\$116,978 + \$506$ ) for wastewater.

### ***3. Operating Expenses***

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. We made adjustments to the Utility's operating expenses as set forth below.

#### Operating & Maintenance Expense

##### *Salaries and Wages – Employees Expense (601/701)*

Heather Hills recorded salaries and wages – employees expense of \$13,233 for water and \$13,233 for wastewater. The Utility filed a request for two new maintenance technicians on September 18, 2019. However, the same request had also been filed in Docket No. 20180202-SU for West Lakeland Wastewater, LLC. By Order No. PSC-2019-0503-PAA-SU, we approved the request for two maintenance technicians as follows: “two additional maintenance technicians are needed and shall be allocated to all of the FUS1's systems.” Thus, we have allocated the two maintenance technicians to Heather Hills based on the approval of these maintenance positions in Docket No. 20180202-SU, and therefore, approve an increase of \$1,835 each for water and wastewater in the instant docket. As such, we approve a salaries and wages – employees expense of \$15,068 ( $\$13,233 + \$1,835$ ) for water and \$15,068 ( $\$13,233 + \$1,835$ ) for wastewater.

##### *Salaries and Wages – Officers Expense (603/70)*

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

##### *Employees Pensions and Benefits Expense (604/704)*

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

*Purchased Water and Wastewater Expense (610/710)*

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

*Purchased Power (615/715)*

The Utility originally recorded purchased power in the miscellaneous expense account. We increased purchased power expense by \$134 for each system based on actual invoices and proper allocation for Heather Hills. We therefore approve purchased power expense of \$134 each for water and wastewater.

*Materials and Supplies Expense (620/720)*

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

*Contractual Services – Professional Expense (631/731)*

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

*Contractual Services – Testing Expense (635/735)*

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

*Contractual Services – Other Expense (636/736)*

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

*Rent Expense (640/740)*

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

*Transportation Expense (650/750)*

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

*Insurance Expense (655/755)*

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

*Regulatory Commission Expense (665/775)*

The Utility recorded regulatory commission expense of \$1,054 for water and \$1,054 for wastewater in the test year. We decreased this account by \$514 for each system to reflect actual

invoices and the amortization of the Utility's transfer costs. In addition, we decreased this account by \$526 for each system to reclassify contractual services professional.

Generally, the regulatory commission expense account includes expenses incurred by a utility in connection with formal cases before a regulatory commission such as noticing costs and filing fees. In the instant docket, the Utility is required by Rule 25-22.0407, F.A.C., to provide its customers with notices of the customer meeting and final rates. The Utility is also required to provide its customers with notice of the four-year rate reduction when the rates are reduced to remove the amortized rate case expense. For noticing, we 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 foregoing, we approve total rate case expense of \$2,994 ( $\$994 + \$2,000$ ), which shall be amortized pursuant to Section 367.081(8), F.S. Rate case expense shall be amortized over four years, because the Utility did not request that a different amortization period be used. This represents an annual increase of \$374 ( $\$2,994 / 4 / 2$ ) per system. As such, we approve a decrease to regulatory commission expense of \$666 ( $-\$514 - \$526 + \$374$ ) for each system. We approve a regulatory commission expense amount of \$389 ( $\$1,054 - \$666$ ) for each system.

#### *Miscellaneous Expense (675/775)*

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

#### Operation & Maintenance Expense Summary

Based on the foregoing adjustments, O&M expense shall be decreased by \$3,167 for water and \$4,027 for wastewater, resulting in total O&M expense of \$65,865 for water and \$113,393 for wastewater. Our approved adjustments to O&M expense are shown on Schedule No 3-C of this Order.

#### Net Depreciation Expense

Heather Hills recorded depreciation expense of \$3,137 for water and \$73 for wastewater during the test year. We recalculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and have decreased depreciation expense by \$432 for water and \$28 for wastewater. Additionally, we calculated the net depreciation expense for the pro forma plant additions and retirements (discussed above under the heading 4. *Water and Wastewater Rate Bases*) and increased depreciation expense by \$431 for water and wastewater. Therefore, we approve net depreciation expense of \$3,136 ( $\$3,137 - \$432 + \$431$ ) for water and \$476 ( $\$73 - \$28 + \$431$ ) for wastewater.

### Taxes Other Than Income (TOTI)

Heather Hills recorded a TOTI balance of \$2,878 for water and \$4,669 for wastewater. We increased TOTI by \$140 for water and \$140 for wastewater to reflect the salaries and wages – employees expense (discussed above in this section 7) which results in an increase of \$140 for water and \$140 for wastewater.

In addition, as discussed below under the heading *4. Revenue Requirement*, revenues have been increased by \$11,179 for water and \$4,948 for wastewater to reflect the change in revenue required to cover expenses and allow the approved operating margin. TOTI shall be increased by \$503 for water and \$223 for wastewater to reflect regulatory assessment fees (RAFs) of 4.5 percent on the change in revenues. Therefore, we approve TOTI of \$3,521 ( $\$2,878 + \$140 + \$503$ ) for water and \$5,032 ( $\$4,669 + \$140 + \$223$ ) for wastewater.

### Operating Expense Summary

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

## **5. Operating Ratio Methodology**

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

As discussed under the headings *4. Water and Wastewater Rate Bases* and *6. Operating Expenses*, at the subheading Operation & Maintenance Expense Summary, we approve a rate base of \$46,622 for water and \$16,998 for wastewater and O&M expenses of \$65,865 for water and \$113,393 for wastewater. Based on these approved amounts, Heather Hills' water and wastewater rate bases are only 71 percent and 15 percent of its O&M expenses, respectively. Based on a margin of 12 percent, the operating margin for Heather Hills is \$3,862 for water and \$3,531 for wastewater, which does not exceed \$15,000. Furthermore, the application of the operating ratio methodology does not change the Utility's qualification for a SARC. As such, Heather Hills meets the criteria for the operating ratio methodology established in Rule 25-30.4575(2), F.A.C. Therefore, we approve 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.

**7. Revenue Requirement**

Upon review, we find the appropriate revenue requirement to be \$76,385 for water and \$122,432 for wastewater resulting in an annual increase of \$11,179 for water and \$4,788 for wastewater. We therefore approve an annual increase of \$11,179 for water (17.14 percent) and \$4,948 for wastewater (4.21 percent). The calculations are shown in the tables below.

**Water Revenue Requirement**

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

**Wastewater Revenue Requirement**

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

**8. Rates**Water

The Utility is located in Manatee County within the Southwest Florida Water Management District. Heather Hills provides water service to approximately 354 residential

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

We reviewed the Utility's billing data 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 approved 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 our practice.

Due to the customers' low average monthly consumption and seasonal customer base, we find that 60 percent of the revenue requirement shall be recovered through the BFC in an effort to maintain revenue stability. Consistent with our 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, we approve a continuation of the Utility's existing rate structure, which is a quarterly base facility charge based on meter size and uniform gallonage charge for both residential and general service customers. Rates were designed based upon the approved revenue requirement excluding miscellaneous service charges.

#### Wastewater Rates

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

We reviewed the Utility's billing data 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 approved revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) implement a gallonage cap, where appropriate, that considers approximately the amount of water that may return to the wastewater system.

Consistent with our practice, we 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, we approve a continuation of no residential wastewater gallonage cap. In addition, as with the water system, we approve a continuation of quarterly billing. We approve 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 shall continue to be billed a quarterly BFC by meter size and gallonage charge that is the same as residential. Rates were designed based upon the approved revenue requirement excluding miscellaneous service charges.

### Summary

The approved rate structures and quarterly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B of this Order. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. Pursuant to Rule 25-30.475(1), F.A.C., the approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet. The approved rates shall not be implemented until Commission staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide proof of the date notice was given within 10 days of the date of this notice.

### ***9. Rate Case Expense*** (Procedural Agency Action)

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. The rates shall be reduced as shown on Schedule Nos. 4-A and 4-B of this Order to remove rate case expense grossed-up for RAFs and amortized over a four-year period. Pursuant to Section 367.081(8), F.S., the decrease in rates shall become effective immediately following the expiration of the rate case expense recovery period. Heather Hills shall 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 shall 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.

### ***10. Customer Deposits***

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, this Commission has set initial customer deposits equal to two times the average estimated bill. 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. The Utility's average monthly residential usage is 1,666 gallons per customer. Heather Hills bills on a quarterly basis; therefore, an average residential bill for one quarterly billing period based on our approved rates is approximately \$53 for water and \$86 for wastewater.

Based on the foregoing, the appropriate initial customer deposits for the residential 5/8 inch x 3/4 inch meter size are \$106 for water and \$172 for wastewater. The initial customer deposit for all other residential meter sizes and all general service meter sizes shall be two times the average estimated quarterly bill for water and wastewater. Pursuant to Rule 25-30.475, F.A.C., the approved initial customer deposits shall be effective for connections made on or after the stamped approval date on the tariff sheets. The Utility shall collect the approved initial customer deposits until authorized to change them by this Commission in a subsequent proceeding.

### ***13. Temporary Rates in the Event of Protest*** (Procedural Agency Action)

By this Order, we approve 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, the rates shall be approved as temporary rates. Heather Hills shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall 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 shall not be implemented until Commission staff has approved the proposed notice, and the notice has been received by the customers. The approved rates collected by the Utility shall be subject to the refund provisions discussed below.

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

If the Utility chooses a bond as security, the bond shall 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.

3)

If the Utility chooses a letter of credit as a security, it shall 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 shall be part of the agreement:

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

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall 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 shall be maintained by the Utility. If a refund is ultimately required, it shall 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 shall maintain a record of the amount of the security, and the amount of revenues that are subject to refund. Pursuant to Rule 25-30.360(6), F.A.C., after the increased rates are in effect, the Utility shall file reports with our 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 shall also indicate the status of the security being used to guarantee repayment of any potential refund.

***11. Uniform System of Accounts*** (Procedural Agency Action)

Heather Hills shall notify the Commission, in writing, that it has adjusted its books in accordance with our decision. Heather Hills shall submit a letter within 90 days of the final Order in this docket, confirming that the adjustments to all the 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 shall be provided at least seven days prior to the deadline. Upon a showing of good cause by the Utility, Commission staff may grant an extension of up to 60 days.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the overall quality of service provided by Heather Hills Utilities, LLC is considered satisfactory. It is further

ORDERED that Heather Hills Utilities, LLC's water and wastewater systems are currently in compliance with DEP regulations. It is further

ORDERED that Heather Hills Utilities, LLC's water distribution and wastewater collection systems are considered 100 percent U&U. It is further

ORDERED that the average test year rate base for Heather Hills Utilities, LLC is \$46,622 for water and \$16,998 for wastewater. It is further

ORDERED that the return on equity for Heather Hills Utilities, LLC 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 because the rate base is less than 125 percent of O&M expenses. It is further

ORDERED that the test year revenues for Heather Hills Utilities, LLC's water is \$65,206 and wastewater is \$117,484. It is further

ORDERED that the operating expenses for Heather Hills Utilities, LLC are \$72,522 for water and \$118,902 for wastewater. It is further

ORDERED that Heather Hills Utilities, LLC meets the requirement for application of the operating ratio methodology for calculating the revenue requirement. The margin shall be 12 percent of O&M expenses. It is further

ORDERED that the revenue requirement is \$76,385 for water and \$122,432 for wastewater resulting in an annual increase of \$11,179 for water and \$4,788 for wastewater. It is further

ORDERED that the approved rate structures and quarterly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B of this Order. Heather Hills Utilities, LLC shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. Pursuant to Rule 25-30.475(1), F.A.C., the approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet. In addition, the approved rates shall not be implemented until Commission staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide proof of the date notice was given within 10 days of the date of this notice. It is further

ORDERED that the rates shall be reduced as shown on Schedule Nos. 4-A and 4-B of this Order, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. Pursuant to Section 367.081(8), F.S., the decrease in rates shall become effective immediately following the expiration of the rate case expense recovery period. Heather Hills Utilities, LLC shall 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 Heather Hills Utilities, LLC files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall 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. (*Procedural Agency Action*) It is further

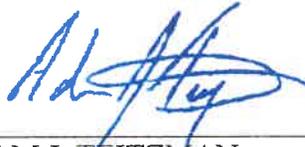
ORDERED that initial customer deposits shall be \$106 for the single family residential 5/8 inch x 3/4 inch meter size for water and \$172 for the single family residential 5/8 inch x 3/4 inch meter size for wastewater. The initial customer deposits for all other residential meter sizes and all general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

ORDERED that pursuant to Section 367.0814(7), F.S., rates shall be approved for Heather Hills Utilities, LLC 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 Utilities, LLC shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. Pursuant to Rule 25-30.475(1), F.A.C., the approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet. The temporary rates shall not be implemented until Commission staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, Heather Hills Utilities, LLC shall provide appropriate security as set forth in the body of this Order. If the rates are approved on a temporary basis, the rates collected by Heather Hills Utilities, LLC shall be subject to the refund provisions set forth in the body of this Order. Pursuant to Rule 25-30.360(6), F.A.C., after the increased rates are in effect, Heather Hills Utilities, LLC shall file reports with our 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 shall also indicate the status of the security being used to guarantee repayment of any potential refund. (*Procedural Agency Action*) It is further

ORDERED that Heather Hills Utilities, LLC is required to notify this Commission, in writing, that it has adjusted its books in accordance with our decision. Heather Hills Utilities, LLC shall 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 Heather Hills Utilities, LLC needs additional time to complete the adjustments, notice shall be provided at least seven days prior to the deadline. Commission staff has administrative authority to grant an extension of up to 60 day upon providing good cause. (*Procedural Agency Action*) It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. This docket shall remain open for Commission staff's verification that the revised tariff sheets and customer notice have been filed by Heather Hills Utilities, LLC and approved by Commission staff. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 20th day of April, 2020.



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ADAM J. TEITZMAN  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399  
(850) 413-6770  
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

CWM

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our actions are preliminary in nature, except for (1) the reduction of rates after four years based upon the recovery of rate case expense, (2) the granting of temporary rates in the event of protest, and (3) the requirement for proof of adjustment of books and records. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 11, 2020. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's procedural action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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

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

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

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

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

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

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

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

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

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

HEATHER HILLS UTILITIES, LLC		SCHEDULE NO. 4-A	
TEST YEAR ENDED MAY 31, 2019		DOCKET NO. 20190113-WS	
QUARTERLY WATER RATES			
	UTILITY CURRENT RATES	COMMISSION APPROVED RATES	4 YEAR RATE REDUCTION
<b><u>Residential and General Service</u></b>			
Base Facility Charge by Meter Size			
5/8" X3/4"	\$28.36	\$32.08	\$0.17
3/4"	\$42.54	\$48.12	\$0.25
1"	\$70.90	\$80.20	\$0.42
1-1/2"	\$141.80	\$160.40	\$0.83
2"	\$226.88	\$256.64	\$1.33
3"	\$453.76	\$513.28	\$2.67
4"	\$709.00	\$802.00	\$4.17
6"	\$1,418.00	\$1,604.00	\$8.34
Charge per 1,000 gallons	\$3.44	\$4.27	\$0.02
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
5,000 Gallons	\$45.56	\$53.43	
10,000 Gallons	\$62.76	\$74.78	
15,000 Gallons	\$79.96	\$96.13	

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