

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water rates in
Highlands County by HC Waterworks, Inc.

DOCKET NO. 20190166-WS
ORDER NO. PSC-2020-0168-PAA-WS
ISSUED: May 22, 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 INCREASE IN WATER RATES FOR HC WATERWORKS, INC.
AND
ORDER REQUIRING FOUR-YEAR RATE REDUCTION AND PROOF OF ADJUSTMENTS
OF BOOKS AND RECORDS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except with regard to requiring a four-year rate reduction and proof of adjustment of books and records, is 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.).

Background

HC Waterworks, Inc. (HC or Utility) is a Class B utility providing water service to approximately 949 residential customers, 9 general service customers, and 1 private fire protection customer in the Leisure Lakes, Lake Josephine, and Sebring Lakes subdivisions in Highlands County. HC also provides wastewater service to 323 residential wastewater customers in the Leisure Lakes subdivision.¹ In the instant docket, HC is only requesting a rate increase for its water service, not the wastewater service. The Utility's service area is in the Southwest Florida Water Management District (SWFWMD) and is in a water use caution area.

¹Document No. 01811-2020, filed April 7, 2020.

By Order No. PSC-14-0314-PAA-WS, we approved the transfer of Certificate Nos. 422-W and 359-S from Aqua Utilities Florida, Inc. (AUF) to HC.² Water rates were last established for the Utility in 2015.³ On October 15, 2019, HC filed its application for an increase in water rates. Accompanying the Utility's application were minimum filing requirement (MFRs) schedules required by Section 367.081, Florida Statutes (F.S.), and Rule 25-30.437, F.A.C. The Utility requested that its application be processed using our Proposed Agency Action (PAA) procedure and a test year ending June 30, 2019. The Utility was notified of deficiencies in the MFRs on November 12, 2019, and December 6, 2019. The deficiencies were cured and December 13, 2019, was established as the official filing date. In its 2019 Annual Report, HC reported total operating revenues of \$582,926 and a net operating income of \$106,946.

The Utility is requesting a rate increase to recover reasonable and prudent costs for providing service and a reasonable rate of return on its investments. These investments include: (1) a water main relocation project due to a road widening/realignment project required by Highlands County and Florida Department of Transportation (FDOT); (2) modifications to the Lake Josephine water treatment plant (WTP); and (3) modifications to the Leisure Lakes WTP. The upgrades to both WTPs were mandated by the Florida Department of Environmental Protection (DEP).

By Order No. PSC-2019-0547-PCO-WS, we suspended final rates proposed by the Utility and approved interim rates to allow Commission staff sufficient time to process this case.⁴ Commission staff conducted a noticed customer meeting on February 20, 2020, in Sebring, Florida. Eighteen residential customers spoke at the meeting and approximately 35 residential customers were in attendance.

We have jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 367.091, and 367.121, F.S.

Decision

I. Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., we must, in every rate case, 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 analysis, 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 must be considered during

²Order No. PSC-14-0314-PAA-WS, issued June 13, 2014, in Docket No. 20130171-WS, In re: Application for approval of transfer of certain water and wastewater facilities and Certificate Nos. 422-W and 359-S of Aqua Utilities Florida, Inc. to HC Waterworks, Inc. in Highlands County.

³Order No. PSC-15-0282-PAA-WS, issued July 8, 2015, in Docket No. 20140158-WS, In re: Application for increase in water/wastewater rates in Highlands County by HC Waterworks, Inc.

⁴Order No. PSC-2019-0547-PCO-WS, issued December 23, 2019, in Docket No. 20190166-WS, In re: Application for increase in water rates in Highlands County by HC Waterworks, Inc.

this determination. In addition, any customer testimony, comments, and complaints must also be considered.

A. Quality of Utility's Product

HC's water system consists of two independent water systems: the Leisure Lakes system and the Lake Josephine system. Previously, HC comprised three water systems, but in October 2002, the Sebring Lakes system was interconnected with the Lake Josephine system. This connection was originally intended to only provide water to the Lake Josephine customers as necessary. However, due to system pressurization problems in the Lake Josephine water system, in 2010, the valve between the two systems was permanently opened. Since the permanent opening of that valve, we and DEP have treated Lake Josephine and Sebring Lakes systems as one system; therefore, throughout this Order the Lake Josephine and Sebring Lakes systems are referred to as the Lake Josephine system.

In evaluating HC's product quality, we reviewed the Utility's compliance with DEP's primary and secondary drinking water standards. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water.

1. Lake Josephine

As discussed in Order No. PSC-15-0282-PAA-WS, the previous owner attempted to address water quality issues that were primarily related to hydrogen sulfides. In 2012, DEP approved the installation of AdEdge filtration systems at both the Lake Josephine and Leisure Lakes WTPs. However, the filters did not resolve the issues associated with disinfection byproducts reflected in the color, odor, and taste of the finished water. HC also instituted a flushing program, but it did not abate the problem either. On December 23, 2016, DEP issued the Utility a permit to install packed tower aeration systems to remove hydrogen sulfides, in another effort to address HC's water quality issues.

On April 20, 2017, DEP conducted a sanitary survey at the Lake Josephine WTP. On May 19, 2017, DEP sent a warning letter to HC indicating the Utility was not in compliance with Rule 62-555.350(2), F.A.C., which states that the Utility shall maintain its necessary public water system components in good operating condition. HC was not in compliance with this rule since the manganese dioxide from its AdEdge filters was turning the potable water brown. The warning letter directed HC to arrange a meeting with DEP within 15 days, to discuss the Sanitary Survey and the Utility's plans to resolve the manganese dioxide issue. It appears DEP and the Utility came to an agreement, DEP did not take enforcement action, and DEP closed its inquiry on July 3, 2019. DEP conducted a Sanitary Survey on January 29, 2020, at the Lake Josephine WTP. On March 30, 2020, DEP issued its results and found two minor deficiencies: cracks in the pad at Well #1, and a protective screen was absent from the vent at Well #2. On April 6, 2020, the Utility indicated to Commission staff that it had corrected those deficiencies.⁵

⁵Document No. 01811-2020.

DEP performed a chemical analysis at the Lake Josephine WTP on November 27, 2018, testing for compliance with all primary and secondary water standards. DEP deemed the WTP in compliance on December 17, 2018. On August 3, 2019, and November 19, 2019, partial chemical analyses were conducted and the WTP was again deemed in compliance both times. DEP performs full testing of primary and secondary water standards every three years; therefore, DEP's next scheduled analysis for Lake Josephine should be completed in 2021.

2. Leisure Lakes

DEP conducted a Sanitary Survey on November 21, 2017, at the Leisure Lakes WTP. On January 18, 2018, DEP issued the results and indicated the Utility was deficient with respect to Rule 62-555.350(2), F.A.C., and the Utility was cited for not keeping the WTP in good working condition. On October 1, 2018, DEP executed a Consent Order against HC because of exceedances in the level of haloacetic acids, a primary water standard. Haloacetic acids are a type of chlorination disinfection by-product that are formed when the chlorine used to disinfect drinking water reacts with the naturally occurring organic matter in water. The Utility was required to make quarterly updates on its efforts to resolve the issue. On April 15, 2020, DEP determined that all conditions of the Consent Order have been completed.

DEP performed a chemical analysis at the Leisure Lakes WTP on October 3, 2018, testing for compliance with all primary and secondary water standards. The WTP was deemed in compliance on October 31, 2018. On August 18, 2019, DEP conducted a partial chemical analysis was conducted at the Leisure Lakes WTP and deemed it in compliance. DEP performs full testing of primary and secondary water standards every three years; therefore, DEP's next scheduled analysis for Leisure Lakes should be completed in 2021.

B. The Utility's Attempt to Address Customer Satisfaction

We have reviewed the complaints filed in our Consumer Activity Tracking System (CATS), with DEP, and with the Utility from January 2015 through December 2019. We categorize complaints as either billing or service issues. We consider customer complaints regarding billing disputes or meter readings to be billing issues, whereas we consider customer complaints regarding water outages, pressure, leaks, and quality to be service issues. Table 1 provides the number of complaints by type, source, and year.

Table 0
Number of Complaints by Type, Source, and Year

Year	CATS Records		DEP Records		Utility Records		Total
	Billing	Service	Billing	Service	Billing	Service	
2015	3	2	0	23	56	280	364
2016	5	1	0	22	87	393	508
2017	4	1	0	11	83	206	305
2018	5	3	0	41	94	192	335
2019	1	5	0	2	52	109	169
Total*	18	12	0	99	372	1,180	1,681

*A single customer complaint may be counted multiple times if it fits into multiple categories, was reported to multiple agencies, or was reported multiple times.

The complaints from our CATS records associated with billing issues are mainly attributable to disputes involving improper billing and the service issues are mainly attributable to water quality and pressure. The service issue complaints received by DEP address the color, odor, and pressure of the water and those complaints peaked in 2018. The Utility received the most service-related complaints compared to those received from CATS and DEP. Of the 1,180 service-related complaints received by the Utility, shown in Table 1, the majority were regarding water outages (448 complaints) and water quality (470 complaints). However, water outage complaints received by the Utility decreased annually from 167 complaints in 2015 to 41 complaints in 2019. The water quality complaints received by the Utility peaked in 2016 with 228 complaints and decreased to 35 complaints in 2019. In addition, customer comments provided at the customer meeting expressed frustration with the water quality and these complaints are discussed in greater detail below.

The noticed customer meeting was held on February 20, 2020, at the Highlands County Administration Building, in Sebring, Florida. Approximately 35 customers attended, and 18 customers spoke. The majority of the 18 customers who spoke noted dark colored water around the time the Utility had to temporarily by-pass Lake Josephine’s aeration treatment system to fix a hole in the ground storage tank on January 29, 2020. When the Utility by-passed the aeration system, the hydrogen sulfides were no longer being removed from that portion of the system. However, the Utility resolved this problem once the aeration system came back online and extensive flushing was performed. Four customers also shared their experience with water pressure issues. Additionally, several customers stated they recently experienced customer service issues when contacting the Utility for assistance. Specifically, one customer stated they were hung-up on while making a service request and two others stated their requests were not acted upon by the Utility. Five customers mentioned they had not received boil water notices (BWNs) in the past, but instead, only received notice rescinding the BWNs.⁶

⁶The Utility’s BWN is a door hanger that is hand-delivered to affected customers. Pursuant to Order No. PSC-15-0282-PAA-WS, while not foolproof, this is a method accepted by DEP and it is generally an effective method for notifying customers.

Similar to the comments made at the customer meeting for the Utility's previous rate case in 2015, many customers at the 2020 customer meeting expressed their discontent with the water quality—specifically, odor and color. In addition, three customers noted skin irritation when bathing which they attribute to the chemicals in the water. The customers also described their water having particulates such as sand and clay. A few customers described the overall water quality as poor. Additionally, customers expressed that the cost of the water far exceeds its quality and they have no choice but to purchase bottled water. Customers also stated that the Utility should not receive a rate increase, but instead should be fined.

A representative from Highlands County attended the meeting and on April 7, 2020, a letter was filed with in this docket on behalf of the Highlands County Board of County Commissioners. The letter summarized the customer comments from the customer meeting and asked us to investigate HC's water quality. Additionally, prior to filing this letter on February 18, 2019, a representative from Highlands County also filed a complaint with DEP on behalf of several customers; the complaint included water contamination concerns related to finding bugs in the water and several customers developing stomach issues. Last, as of April 16, 2020, we have received comments from 12 customers which have been placed into the docket file. These customer comments also discuss poor water quality and objections to the overall rate increase.

After the customer meeting, the Utility reached out to the customers who spoke, sending the Utility manager to each of those customers' homes on March 9 and 10, 2020.⁷ The Utility reported the majority of the customers were Lake Josephine customers that were upset with the water quality issues that arose during the time of the tank repair when the aeration system had to be temporarily by-passed, around January 29, 2020. The Utility further stated the majority of the customers were appreciative of the in-person visit and expressed that water quality has improved. The Utility filed a response to the Highlands County letter on April 9, 2020.⁸ In the letter, the Utility summarized its actions to address the water quality issues, including installation of the aeration treatment systems, and its follow up with customers after the customer meeting, as discussed above.

As discussed above, in the Utility's last rate case, HC attempted to correct its water quality issues. To address the foul odor of its water, HC converted its WTPs to chloramines for disinfection, and tests conducted subsequent to each conversion show that the conversions were effective in bringing the contaminant levels to well below DEP standards. While the chloramine conversion provided the appropriate disinfection, the secondary considerations of taste and odor worsened for customers. The chloramines used to keep the disinfection byproduct levels low were less effective than free chlorine at disinfection. Since many Leisure Lakes customers are seasonal, the water in some areas of the service territory could become stagnant. This allowed the hydrogen sulfides to reform in the distribution system. Therefore, DEP issued a permit to add the packed aeration filters to both systems in 2016.

In HC's previous rate case, we deemed the quality of service provided by the Utility as satisfactory. In that case, there were 111 complaints and majority of the complaints were

⁷Document No. 01540-2020, filed March 2, 2020.

⁸Document No. 01870-2020, filed April 10, 2020.

regarding the overall rate increase. While the Utility's customer complaints have had a downward trend since 2016, the total overall volume of complaints have increased for the period since the Utility's last rate case when compared against the period we considered at that last rate case. The majority of these complaints regarded the water quality. The appropriate agency, DEP, has issued Consent Orders and has been working with the Utility to improve HC's water quality over the past several years, as discussed previously. HC is currently in compliance with DEP and all of the Utility's system improvements have been in place since 2018. Additionally, we reviewed HC's complaint records from CATS, DEP, and the Utility from January 2020 through April 2020, and found additional complaints addressing the pressure, color, and smell of the water.

We have discretion when determining the most appropriate action for a Utility that has a quality of service that we determine to be unsatisfactory. In past cases, we have reduced return on equity (ROE) between 25 and 100 basis points.⁹ In addition, we have reduced the utility president's or officer's salary.¹⁰ We recognize that the Utility is in compliance with DEP and the overall customer complaints have been declining since 2016; however, due to the volume of customer complaints reviewed in the instant docket, we find the Utility's quality of service be unsatisfactory and have reduced its ROE by 50 basis points.

C. Conclusion

While the Utility is in compliance with DEP and customer complaints have declined overall since 2016, there are still many customer complaints on the pressure, color, and smell of the water provided by HC. Pursuant to Rule 25-30.433(1)(d), F.A.C., customer testimony, comments, or complaints shall be considered in the determination of the quality of service provided by the Utility. Therefore, we find the overall quality of service to be unsatisfactory due to customer complaints and have reduced Utility's ROE by 50 basis points.

In an effort to reduce the number of overall complaints for this Utility, we also require that HC engage with its customers and the Office of Public Counsel (OPC) to address the Utility's customer service issues. This shall be an ongoing effort by HC to work with its customers and OPC to resolve the Utility's service quality issues and communication problems.

⁹Order Nos. PSC-2011-0256-PAA-WS, issued June 13, 2011, in Docket. 20100330-WS, In re: Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc. and PSC-2017-0361-FOF-WS, issued September 25, 2017, in Docket No. 20160101-WS, In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities Inc. of Florida.

¹⁰Order Nos. PSC-2020-0087-PAA-WS, issued March 25, 2020, in Docket No. 20190125-WS, In re: Application for staff-assisted rate case in Sumter County by the Woods Utility Company; PSC-17-0209-PAA-WU, issued May 30, 2017, in Docket No. 20160065-WU, In re: Application for increase in water rates in Charlotte County by Bocilla Utilities, Inc. and PSC-15-0535-PAA-WU, issued November 19, 2015, in Docket No. 20140217-WU, In re: Application for staff-assisted rate case in Sumter County by Cedar Acres, Inc.

II. Water System Compliance with DEP Regulations

Rule 25-30.225(2), F.A.C., requires each water utility to maintain and operate its plant and facilities by employing qualified operators in accordance with the rules of 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 testimony of DEP and county health department officials, sanitary surveys, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

A. Water System Operating Conditions

As discussed in Section I Quality of Service, HC's water system consists of two independent water systems: the Leisure Lakes system and the Lake Josephine system. Previously, HC comprised three water systems, but in October 2002, the Sebring Lakes system was interconnected with the Lake Josephine system. We and DEP now treat the Lake Josephine and Sebring Lakes systems as one system.

1. Lake Josephine

Lake Josephine's water system has a permitted design capacity of 600,000 gallons per day (gpd). The Lake Josephine water system has four wells with respective pumping capacities of 250, 400, 400, and 400 gallons per minute (gpm). This water system also has two ground storage tanks with capacities of 71,000 gallons and 15,000 gallons, along with a hydropneumatic storage tank with a 10,000-gallon capacity.

We have reviewed the Lake Josephine sanitary surveys conducted by DEP to determine the Utility's overall water facility compliance. A review of the inspection conducted on January 29, 2020, indicated that the water treatment facility had two minor compliance violations with DEP's rules and regulations. The violations were a slight crack in the well pad and a protective screen was off a well. On April 6, 2020, the Utility indicated that these violations have been corrected.

2. Leisure Lakes

Leisure Lakes' water system has a permitted plant design capacity of 72,000 gpd. Leisure Lakes' water system has two wells with respective pumping capacities of 200 and 50 gpm, and a ground storage tank with a 50,000 gallons capacity.

HC and DEP entered into a Consent Order, on October 1, 2018. This Consent Order required HC to install a packed tower aeration system/forced draft degasification tower and install a 4,000-gallon hydropneumatic (pressure) tank, among other modifications. The construction of the forced draft aeration system is the remedy for the non-compliance issues from 2017 that resulted in the October 1, 2018 Consent Order.

We have reviewed Leisure Lakes' sanitary surveys conducted by DEP to determine this system's overall water facility compliance. Also, Commission staff received an email from DEP, dated February 6, 2020, in which DEP stated, "in regard to the Leisure Lakes Consent Order, all the corrective action items listed in the consent order have been completed." After completing items in the Consent Order, the Leisure Lakes WTP is currently in compliance with DEP.

B. Conclusion

We find that HC's water system infrastructure and operating conditions are currently in compliance with DEP.

III. Audit Adjustments to Rate base

Commission staff's audit report was filed on February 3, 2020. HC did not file a formal response to the audit because it did not oppose any of the findings. The audit adjustments are set forth in Table 2.

Table 2
Audit Adjustments

Audit Adjustment	Description	Plant	Accumulated Depreciation	Depreciation Expense
Finding 1	Commission-Ordered Adjustments	(\$7,383)	\$1,021	(\$261)

Source: Commission staff Audit Report

IV. Further Adjustments to Rate Base

We have reviewed the test year rate base components along with HC's support documentation. We find that further adjustments are necessary to HC's rate base, as discussed below.

A. Test Year Plant Additions

Highlands County and the FDOT initiated a road widening project, and notified HC that its water mains, in the right-of-way of Lake Josephine Drive, would need to be relocated. In its MFRs, HC requested \$516,589 for a water main relocation project within its Lake Josephine system. The Utility received two bids and the lowest bidder was selected. The selected bidder was also the contractor utilized by Highlands County; therefore, the contractor was already on-site. The water main relocation project was completed in January 2018, and the Utility provided invoices for an actual project cost of \$514,039, including engineering and permitting costs.

In its MFRs, HC recorded \$493,015 for a water quality improvement project at its Lake Josephine WTP required by DEP. In May 2017, HC met with DEP to discuss ongoing water quality issues with its Lake Josephine system. HC stated that DEP was prepared to issue a Consent Order if the Utility did not promptly address the hydrogen sulfide in the water. In

September 2017, DEP issued a construction permit to HC for the addition of a new treatment system at the Lake Josephine WTP. The new treatment system implemented was a packed tower aeration treatment system for removal of hydrogen sulfide. The Utility received three bids for the aeration project and the Utility chose the lowest bidder, U.S. Water Services Corporation (USWSC). The Utility, having received partial clearance from DEP, had the tower completed and placed it into service in June 2018. DEP indicated that all portions of the project would need to be completed before granting full clearance. Some of the remaining portions of the project included the installation of a new hydropneumatic tank, chemical pumping skids, telemetry system, upgraded electrical controls, and bypass piping. These remaining portions were all completed in 2019. Based on the invoices provided by the Utility, the total cost for the project was \$547,980. The Utility stated that some expenditures had inadvertently not been included in its filing, but the correct project cost was \$547,980, which included engineering and permitting costs.¹¹

As both the Lake Josephine water main relocation project and the Lake Josephine water quality improvement project were required by governmental agencies, we find that these projects were necessary. The Utility obtained multiple bids for each project and we reviewed the invoices supporting the costs for those projects. Therefore, we approve the Lake Josephine water main relocation project and the Lake Josephine water quality project at a cost of \$514,039 and \$547,980, respectively.

Based on the additional amount and reclassification of plant additions in the test year, we have increased plant by \$31,138 and decreased accumulated depreciation by \$67. We also find that a corresponding adjustment shall be made to decrease depreciation expense by \$74. We note that the adjustments are based on using a half-year convention for test year additions and the use of a simple average rate base for the test year.¹²

B. Accumulated Depreciation

In the Utility's prior rate case, accumulated depreciation was removed for specific plant accounts without balances. One of these accounts, transportation, still maintained an accumulated depreciation balance in the current test year, along with depreciation expense. Consistent with our prior decision, we reduced HC's accumulated depreciation by \$7,640 to reflect the removal of this balance. We also made a corresponding adjustment to decrease depreciation expense by \$1,389.

C. Conclusion

Based on the adjustments above, we increased plant by \$31,138, decreased accumulated depreciation by \$7,707 (\$67+\$7,640), and decreased depreciation expense by \$1,463 (\$74+\$1,389).

¹¹Document No. 01540-2020, filed on March 20, 2020.

¹²A half-year convention method allows only half of the full-year depreciation in the first year the depreciable asset is placed into service, while the remaining balance is deducted in the final year of the depreciable asset's useful life.

V. Used and Useful (U&U) Percentages

HC's three WTPs, and their associated storage and distribution systems, were initially owned and operated independently of one another. In their respective rates cases over the years, we have assigned each system different U&U percentages. However, in its last rate case, we combined the systems, using a weighted average, to obtain a single U&U percentage for the total system and we have utilized this same methodology in the instant docket.¹³

A. Used and Useful Percentages

Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. HC's U&U percentages were last determined in Docket No. 20140158-WS. In that docket, we determined the Utility's WTP to be 89.9 percent U&U and water storage to be 100 percent U&U. Additionally, we found the Utility's water distribution system to be 100 percent U&U, due to the lack of vacant lots. HC's water service area has had insignificant growth (less than one percent) for the past five years, and the Utility has not expanded its territory. Therefore, consistent with our previous decision, we find the Utility's WTP to be 89.9 percent U&U, water storage 100 percent to be U&U, and the Utility's water distribution system to be 100 percent U&U.

B. Excessive Unaccounted for Water (EUW)

Rule 25-30.4325, F.A.C., additionally provides factors to be considered in determining whether adjustments to operating expenses are necessary for EUW. Rule 25-30.425(1)(e), F.A.C., defines EUW as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water produced that is not sold, metered, or accounted for in the records of the Utility. EUW is calculated by subtracting both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped for the test year.

According to HC's records, the Utility pumped a combined total of 53,224,000 gallons during the test year. In its MFRs, the Utility indicated that had not purchased water and estimated 12,944,919 gallons for other uses, including flushing for maintenance, filter backwash, main/service line breaks or customer leak adjustments. In the Utility's response to Commission staff's third data request, HC reported that there was an additional 585,000 gallons that were utilized for those other uses.¹⁴ According to our billing determinants, the Utility sold 33,186,000 gallons of water during the test year. Thus, we calculate the total amount of unaccounted for water to be 6,508,081 gallons, or 12.23 percent (6,508,081/53,224,000), yielding an EUW of 2.23 percent. As such, we find a 2.23 percent negative adjustment to purchased power and chemical expenses to be appropriate in this case for EUW.

¹³Order No. PSC-15-0282-PAA-WS, issued July 8, 2015, in Docket No. 20140158-WS, In re: Application for increase in water/wastewater rates in Highlands County by HC Waterworks, Inc.

¹⁴Document No. 00818-2020, filed February 7, 2020.

C. Conclusion

We find HC's WTP to be 89.9 percent U&U, and its storage to be 100 percent U&U. We also find the Utility's water distribution system to be 100 percent U&U. Additionally, we have made a negative adjustment of 2.23 percent to purchased power and chemical expenses for EUW.

In its filing, HC made non-U&U adjustments to decrease rate base by \$107,752, depreciation expense by \$6,614, and property tax expense by \$354. However, HC did not include an adjustment to contributions in aid of construction (CIAC) in its proposed adjustment. To reflect the appropriate non-U&U percentages applied to all components of rate base, we find that an increase of plant of \$35,793 and an increase to accumulated depreciation of \$7,419 is appropriate. Additionally, we find that CIAC and accumulated amortization of CIAC shall be decreased by \$1,944 and \$219, respectively. Collectively, these adjustments decrease the Utility's non-U&U component by \$30,098 ($\$35,793 - \$7,419 + \$1,944 + \219). We have also made corresponding adjustments to increase net depreciation expense by \$929. Further, we made a corresponding adjustment to increase property tax by \$504.

VI. Adjustments Pro Forma Plant

In its MFRs, HC requested \$525,970 for a water quality project at its Leisure Lakes WTP. HC and DEP entered into a Consent Order, for the Leisure Lakes system, on October 1, 2018, for disinfection byproduct exceedances. The Utility also stated that, like Lake Josephine, there were elevated levels of hydrogen sulfide in the water for the Leisure Lakes' system. As such, the Utility decided to implement the same packed tower aeration treatment system for Leisure Lakes that was being utilized at the Lake Josephine WTP. As with Lake Josephine, the Utility received three bids for the Leisure Lakes aeration project, and the Utility chose the lowest bidder, USWSC. The aeration system received clearance from DEP and was placed into service in September 2019. Based on the invoices provided by the Utility, the total cost for the project will be \$582,468.

Considering that the Leisure Lakes water quality project was required by DEP, we find that this project is needed. The Utility obtained multiple bids for the project, and we have reviewed the invoices supporting the costs the project. We approve Leisure Lakes' water quality project at a cost of \$582,468. The Utility stated that the bid amount requested for the project did not include engineering costs, and the updated project cost is \$582,468.¹⁵

In total, we find that pro forma plant shall be increased by \$56,499. We have also made corresponding adjustments to increase accumulated depreciation by \$14,030 and depreciation expense by \$14,030. Additionally, we increased property taxes by \$3,219.

¹⁵Document Nos. 00183-2020, filed on January 10, 2020, and 00818-2020, filed on February 7, 2020.

VII. Working Capital Allowance

Rule 25-30.433(3), F.A.C., requires Class B utilities to use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the formula method. We have adjusted HC's O&M expenses and, as a result, we find a working capital allowance of \$49,885 to be appropriate in this case. This reflects an increase of \$1,586 to the Utility's requested working capital allowance of \$48,299.

VIII. Test Year Rate Base

In its MFRs, the Utility requested a rate base of \$3,010,098. Based on our previously stated adjustments, the appropriate rate base for HC is \$3,116,734. The schedule for rate base is attached as Schedule No. 1-A, and the adjustments are shown on Schedule No. 1-B.

IX. Return on Equity

The ROE included in the Utility's MFRs is 9.67 percent. Based on the current leverage formula in effect and the equity ratio of 49.79 percent, the appropriate ROE is 9.67 percent.¹⁶ However, as discussed in Section I Quality of Service, we reduced HC's ROE by 50 basis points for unsatisfactory quality of service. Therefore, the appropriate ROE for HC is 9.17 percent. We approve an allowed range of plus or minus 100 basis points for ratemaking purposes.

X. Cost of Capital

In its filing, HC requested an overall cost of capital of 7.39 percent. The Utility's capital structure consists of long-term debt, common equity, and customer deposits. Based upon the proper components, amounts, and cost rates associated with the capital structure, we approve a weighted average cost of capital of 7.14 percent. Schedule No. 2 details our approved overall cost of capital for HC.

XI. Test Year Revenues

According to the Utility's MFRs, the Utility showed total test year revenues of \$575,735 for water. The water revenues included \$559,693 of service revenues, \$10,237 of miscellaneous revenues, and \$5,805 of guaranteed revenues.

The Utility adjusted its billing data to account for duplicate bills that occurred as a result of move in/move outs and prorated bills for a rate change. For move ins/move outs, there is a final bill for the old customer and bill for the new customer at the same address. The billing analysis reflected both bills when there should only be one bill per address. The Utility's rates were increased for a price index rate adjustment in the first month of the test year. The change in the base facility charge was prorated and reflected as two separate charges on a customer's bill.

¹⁶Order No. PSC-2019-0267-PAA-WS, issued July 7, 2019, in Docket No. 20190006-WS, 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.

However, the two separate charges were recognized as two separate bills in the Utility's billing analysis. We agree with the Utility's adjustments because the two scenarios overstate the Utility's billing determinants. Subsequent to the test year, the Utility's rates decreased reflecting the expiration of amortized rate case expense. Since there was a rate change subsequent to the test year, we have annualized the test year service revenues using the adjusted billing determinants and the rates that became effective August 6, 2019. We determined water test year service revenues to be \$550,790, which is a decrease of \$8,903 (\$559,693 - \$550,790).

In addition, the Utility included guaranteed revenues as part of its test year revenues. The revenues were actually a result of the Utility assessing its allowance for funds prudently invested (AFPI) charges. AFPI is considered below the line for ratemaking purposes. As a result, we have decreased test year revenues by \$5,805. We did not have any adjustments to miscellaneous revenues.

Based on the above, the appropriate test year revenues for HC's water system are \$561,027 (\$550,790 + \$10,237), which is a decrease of \$14,708 (\$8,903 + \$5,805) to the Utility's recorded test year revenues.

XII. Adjustments to the Test Year O&M Expense

Based on our review of test year O&M expense, we find several adjustments to the Utility's O&M expense to be necessary, which are summarized below.

A. Purchased Power

In its filing, HC reflected purchased power expense of \$47,237, which included a pro forma increase of \$7,262. The Utility stated that the new water treatment system at the Leisure Lakes WTP would increase purchased power. This is because the water would have "to be pumped twice, once through the aeration then back out of the storage tank into the distribution system."¹⁷ However, the Utility did not provide any invoices or documentation to support the requested adjustment of \$7,262. Therefore, we find no adjustment to purchased power expense is necessary for the Leisure Lakes new water treatment system. However, as discussed in Section V Used and Useful Percentages, we do find that a negative adjustment of 2.23 percent shall be made to purchased power expense for EUW. As such, we have reduced purchased power by \$1,053 (2.23 percent x \$47,237).

B. Chemicals

In its filing, HC reflected chemicals expense of \$38,625, which included a pro forma increase of \$3,473. The Utility explained that new chemicals were required for the water treatment system at the Leisure Lakes WTP, which was not captured in the test year expense. Invoices for the new chemicals were provided by the Utility from August 2019 through February 2020; these new chemicals totaled \$3,528.¹⁸ Utilizing these invoices, we calculated the average

¹⁷Document No. 01540-2020, filed on March 20, 2020.

¹⁸Document No. 01540-2020, filed on March 20, 2020.

monthly cost for the new chemicals, and subsequently calculated an annual cost of \$6,048. Therefore, we have increased chemicals expense by \$6,048. Additionally, as discussed in Section V Used and Useful Percentages, we found that a negative adjustment of 2.23 percent shall be made to chemicals expense for EUW. This results in a decrease of \$996 (2.23 percent x \$44,673). As such, we have increased chemicals by \$5,052 (\$6,048 - \$996).

C. Contractual Services-Other

During the test year, the Utility recorded contractual services - other expense of \$263,131. HC receives all of its operational and administrative services under a contract with an affiliated company, USWSC. Pursuant to the contract, HC employed the services of USWSC to perform various functions: administrative management, operations, maintenance, and billing/collection for the Utility. These include management and financial oversight, water system operations, maintenance, and customer service.

On January 7, 2020, HC submitted documentation containing additional information related to its outside contractual services agreement with USWSC. According to the Utility, USWSC currently operates in 60 of Florida's 67 counties, providing service to over 1,000 utility systems, and over 1,000,000 customers daily. USWSC's president and majority shareholder has been in the water utility management and operations industry for over 30 years. HC contracts with USWSC for the following services:

1. Water and Wastewater Operations
2. Meter Reading
3. System Maintenance and Repairs
4. Billing and Collections
5. Customer Service
6. Regulatory Affairs
7. Testing
8. Accounting
9. Office Space and Equipment

According to the Utility, each of the service contracts that USWSC enters into with a utility "are different and are priced differently depending on numerous factors." These factors include the number of employees needed and the number of hours required per system for successful operation. Additional considerations include whether USWSC provides chemicals, power, offices, vehicles, etc., or if these items are provided by the utility.

Additional support offered by the Utility included the "2016 American Water Works Association Benchmarking Performance Indicators for Water and Wastewater" (AWWA Benchmark) and an independent third-party contract and benchmarking review commissioned by the Florida Governmental Utility Authority (FGUA), which was issued in 2013. According to the AWWA Benchmark, the median O&M expense per account of the 44 water companies surveyed is \$430.71, including customer service costs, with a range from \$331.25 to \$639.82.

The contract and benchmarking review commissioned by FGUA was undertaken to review charges by USWSC in comparison to similar water utilities throughout the United States. The FGUA study concluded that the USWSC costs on a per account basis fell within the top quartile (lower cost) of other utilities. These were charges to FGUA by USWSC. While the Utility represented that there was a flaw in the data presented in the 2013 study, our greater concern is the age of some of the underlying data, which can be tied to AWWA's 2011 Benchmarking Performance Indicators. As such, we find that the 2016 Benchmarking Performance Indicators are a more appropriate reference point.

We also compared HC to five "sister" water utilities that share common ownership, and had a rate case approved in the last five years, by calculating a three-year average O&M per equivalent residential connection (ERC) expense using information contained in each utility's 2016, 2017, and 2018 Annual Reports.¹⁹ We then compared HC to five non-USWSC affiliated water utilities using the same criteria. Table 3 reflects the comparative average O&M expense per ERC for HC, its USWSC sister utilities, and non-USWSC utilities. For comparison purposes, the average O&M expense per ERC incorporated our approved water revenue requirements for HC are also represented in Table 3.

Table 3
Water O&M Expense Per ERC

	Utility O&M Exp./ERC
USWSC Sister Utilities (3-Yr. Avg.)	\$306.60
Non-USWSC Utilities (3-Yr. Avg.)	\$486.71
HC Waterworks (Commission-Approved)	\$386.19

Source: 2016-2018 Annual Reports and Commission staff calculations.

At the March 3, 2020 Commission Conference, we approved the USWSC contractual services agreements for three additional "sister" utilities, based, in part, on comparisons to other utilities with similar agreements.²⁰ The contractual services agreements in those dockets also

¹⁹Order Nos. PSC-2018-0553-PAA-WU, issued November 19, 2018, in Docket No. 20180021-WU, In re: Application for staff-assisted rate case in Highlands County by Country Walk Utilities, Inc.; PSC-16-0305-PAA-WU, issued July 28, 2016, in Docket No. 20150236-WU, In re: Application for staff-assisted rate case in Lake County, by Lake Idlewild Utility Company; 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.; PSC-2017-0334-PAA-WS, issued August 23, 2017, in Docket No. 20160222-WS, In re: Application for staff-assisted rate case in Highlands County by LP Waterworks, Inc.; PSC-16-0256-PAA-WU, issued June 30, 2016, in Docket No. 20150199-WU, In re: Application for staff-assisted rate case in Lake County by Raintree Waterworks, Inc.

²⁰Order Nos. PSC-2020-0086-PAA-WU, issued March 24, 2020, in Docket No. 20190114-WU, In re: Application for staff-assisted rate case in Alachua County, and request for interim rate increase by Gator Waterworks, Inc.; PSC-2020-0088-PAA-SU, issued March 25, 2020, in Docket No. 20190116-SU, In re: Application for staff-assisted rate case in Brevard County, and request for interim rate increase by Merritt Island Utility Company.; PSC-2020-0087-PAA-WS, issued March 25, 2020, in Docket No. 20190125-WS, In re: Application for staff-assisted rate case in Sumter County by The Woods Utility Company.

appeared reasonable when compared to the O&M expenses per ERC of industry peers as reflected in the AWWA Benchmark.

We note that we have previously approved similar USWSC agreements and related costs in prior cases involving twelve of HC's sister utilities during fourteen rate case proceedings. Two sister utilities, LP Waterworks, Inc. and Lakeside Waterworks, Inc., each had two staff-assisted rate cases in which we reviewed and approved expenses related to USWSC management services contracts. Regarding the appropriateness of utility contracts with affiliated companies, the Utility cited GTE v. Deason, 642 So. 2d 545 (Fla. 1994), in which the Florida Supreme Court stated:

The mere fact that a utility is doing business with an affiliate does not mean that unfair or excess profits are being generated, without more. Charles F. Phillips, Jr., *The Regulation of Public Utilities* 254-255 (1988). We believe the standard must be whether the transactions exceed the going market rate or otherwise inherently unfair . . . if the answer is "no," then the PSC may not reject the utility's position.

GTE, 642 So. 2d at 547-548.

On February 7, 2020, HC provided Commission staff with an internal audit conducted in 2018 to capture the actual costs of USWSC that demonstrate the reasonableness of the contract. After a review of this audit, we find that despite the higher per ERC cost, HC's contractual services agreement with USWSC is reasonable, especially given that the system requires additional resources to address water quality issues. We recognize that USWSC and its employees bring considerable management and operational experience at a comparably reasonable cost. As a result, we find that the Utility's customers are experiencing operational benefits that might not be realized if HC purchased and provided these services itself.

Through its contract with USWSC, the Utility asserted that it made significant plant improvements. In the instant case, we find that the contract reflects the market conditions of the Utility's service area. HC asserted that if it were required to hire its own personnel for maintenance, customer service, accounting, regulatory compliance, etc., the cost would exceed that of the current USWSC contract. Absent the USWSC contract, the costs to provide service would most likely be higher. For the reasons discussed above, we find that the Utility's contract with USWSC is reasonable and the cost may be included for recovery in the Utility's proposed rates.

The USWSC contract amount increased over the test year to reflect an increase based on the 2018 audit in September 2018 and an index increase in April 2019 that mirrored the same amount we approved.²¹ This results in a total contract amount of \$273,067. As approved for its three sister utilities by us at the March 3, 2020 Commission Conference,²² we find that an

²¹Order No. PSC-2018-0612-PAA-WS, issued December 27, 2018, in Docket No. 20180005-WS, In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.

²²Order Nos. PSC-2020-0086-PAA-WU, issued March 24, 2020, in Docket No. 20190114-WU, In re: Application for staff-assisted rate case in Alachua County, and request for interim rate increase by Gator Waterworks, Inc.; PSC-2020-0088-PAA-SU, issued March 25, 2020, in Docket No. 20190116-SU, In re: Application for staff-assisted rate

adjustment shall be made to annualize the increase in the test year. This adjustment results in an increase of \$9,936.

D. Bad Debt Expense

In its filing, HC reflected bad debt expense of \$8,151 in the test year and included an adjustment to increase the expense by \$3,432, which represented 2 percent of its requested revenue increase. We reviewed the test year amount and compared it to the 3-year average for the Utility. The difference is immaterial, and we find the test year amount is reasonable.

We find that the Utility's request to include a factor for bad debt expense in respect to the revenue increase is also reasonable, as such a factor is consistent with similar factors used in the gas and electric industries. It is parallel to the inclusion of regulatory assessment fees (RAFs) factored into revenue requirement based on the revenue increase. However, we find it appropriate that the percentage applied to the revenue increase reflects the Utility's three-year average, which is 1.37 percent. We removed the Utility's pro forma increase of \$3,432 in order to apply the 1.37 percent the final revenue increase we approved for HC in Section XIV Revenue Requirement. In total, we approve a bad debt expense of \$10,657 for HC.

E. Miscellaneous

In its filing, HC reflected miscellaneous expense of \$9,273. However, in its response to Commission staff's first data request HC stated that \$1,000 for DEP annual permits included in miscellaneous expense should have been booked to wastewater. Thus, we find that a decrease to miscellaneous expense of \$1,000 is appropriate in this case.

F. Summary

Based on the adjustments discussed above, we have increased HC's O&M expense by \$9,503 ($-\$1,053 + \$5,052 + \$9,936 - \$3,432 - \$1,000$).

XIII. Rate Case Expense

In its MFRs, HC requested \$5,945 for current rate case expense. Commission staff requested an update on the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On February 3, 2020, the Utility submitted its last revised estimate of rate case expense, through completion of the PAA process, which totaled \$7,137.

Table 4
HC's Initial and Revised Rate Case Expense Request

	MFR B-10 Estimated	Actual	Additional Estimated	Revised Total
Noticing	\$1,995	\$1,004	\$2,008	\$3,012
Travel	450	400	225	625
Filing Fee	<u>3,500</u>	<u>3,500</u>	<u>0</u>	<u>3,500</u>
Total	<u>\$5,945</u>	<u>\$4,904</u>	<u>\$2,233</u>	<u>\$7,137</u>

Source: MFR Schedule B-10 and Utility responses to Commission staff data requests

Pursuant to Section 367.081(7), F.S., we must determine the reasonableness of rate case expense and disallow all rate case expense we determine to be unreasonable. Upon review of the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case, we find the following adjustments to HC's rate case expense estimate are appropriate in this case.

A. Noticing

The Utility's initial filing reflected costs associated with sending two notices—the customer meeting and final notice. In HC's revised estimate, the Utility included an additional amount to reflect the interim notice. Upon review, we note that the Utility failed to include noticing costs for the four-year rate reduction. Using the noticing costs provided by the Utility, we find it appropriate to increase HC's rate case expense by \$1,004 to reflect the additional notice.

B. Travel

HC's initial filing reflected estimated travel expenses of \$450. In its update of actual travel expenses, the Utility reflected \$400 associated with Utility representatives attending the customer meeting and an additional estimate of \$225 to attend our Commission Conference. At the time the estimate was provided to Commission staff, our Commission Conference was scheduled to be held in traditional in-person format. After HC filed its estimate, our Commission Conference was changed to a teleconference format in response to the COVID-19 pandemic. As such, estimated costs associated with travel to attend our Commission Conference are no longer necessary. Therefore, we find it appropriate to remove any estimated travel expenses associated with attending our Commission Conference. Accordingly, we have reduced HC's rate case expense by \$225.

C. Conclusion

Based upon the adjustment discussed above, we have increased HC's revised rate case expense of \$7,137 by \$779 (\$1,004 - \$225), for a total rate case expense of \$7,915. A breakdown of the rate case expense we approve for HC is provided in Table 5 below.

Table 5
Commission-Approved Rate Case Expense

Description	MFR Estimated	Utility Revised Actual & Estimated	Commission Adjustment	Commission-Approved Total
Noticing	\$1,995	\$3,012	\$1,004	\$4,016
Travel	450	625	(225)	\$400
Filing Fee	<u>3,500</u>	<u>3,500</u>	0	<u>\$3,500</u>
Total	<u>\$5,945</u>	<u>\$7,137</u>	<u>\$779</u>	<u>\$7,915</u>

Source: MFR Schedule B-10 and responses to Commission staff data requests

In its MFRs, HC requested total rate case expense of \$5,945. When amortized over four years, this represents an annual expense of \$1,486. The total rate case expense of \$7,915 that we have approved for HC shall be amortized over four years, pursuant to Section 367.081(8), F.S., as the Utility did not request or justify a longer amortization period. This represents an annual expense of \$1,979. Based on the above, we have increased HC's annual rate case expense by \$493 (\$1,979 - \$1,486), compared to the original request in the MFRs.

XIV. Revenue Requirement

In its filing, the Utility requested a revenue requirement to generate annual revenue of \$743,964. This requested revenue requirement represents a revenue increase of \$168,229, or approximately 29.57 percent, over the test year revenues of \$575,735 in HC's initial filing. Consistent with our findings concerning HC's rate base, cost of capital, and operating income issues, the resulting revenue requirement is \$775,366. However, it is our practice to limit the revenue requirement to the total amount sought in a utility's petition.²³ Therefore, we find that a revenue requirement \$743,964 for HC is appropriate in this case. The schedule for operating income is attached as Schedule No. 3-A, and the adjustments are shown on Schedule No. 3-B.

XV. Rate Structures and Rates

The Utility is located in Highlands County within the SWFWMD. HC provides water service to approximately 949 residential and 9 general service customers. One of the general service customers is a 189-unit RV Park. In addition, the Utility has one private fire protection customer. We have determined that approximately 23 percent of the residential customer bills during the test year had zero gallons, indicating a seasonal customer base. The average

²³Order Nos. PSC-16-0249-PCO-WS, issued June 29, 2016, in Docket No. 20160030-WS, In re: Application for increase in water rates in Lee County and wastewater rates in Pasco County by Ni Florida, LLC.; PSC-13-0673-FOF-WS, issued December 19, 2013, in Docket No. 20130212-WS, In re: Application for increase in water/wastewater rates in Polk County by Cypress Lakes Utilities, Inc.; PSC-07-0568-PAA-WU, issued July 9, 2007, in Docket No. 20070041-SU, In re: Application for limited proceeding rate increase in Monroe County by Key Haven Utility Corporation; PSC-05-0287-PAA-SU, issued March 17, 2005, in Docket No. 20040972-SU, In re: Application for rate increase in Pinellas County by Ranch Mobile WWTP, Inc.; and PSC-95-0191-FOF-WS, issued February 9, 1995, in Docket No. 19940917-WS, In re: Application for rate increase for increased water and wastewater rates in Seminole, Orange, and Pasco Counties by Utilities, Inc. of Florida.

residential water demand is 2,483 gallons per month. The average water demand, excluding zero-gallon bills, is 3,223 gallons per month. The Utility's current water system rate structure for residential customers consists of a traditional base facility charge (BFC) with separate rate blocks for non-discretionary and discretionary usage. The rate blocks are: 1) 0-3,000 gallons and 2) all usage in excess of 3,000 gallons. General service customers are billed based on a BFC and uniform gallonage charge. In addition, the Utility's private fire protection services rates are based on one-twelfth of the Utility's BFC for the respective meter size pursuant to Rule 25-30.465, F.A.C.

We have analyzed the Utility's billing data in order to evaluate the appropriate rate structure for the residential water customers. The goal of this analysis is 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 practices.

The Utility's current rates allow for 47 percent of its revenues to be recovered through the BFC. Due to HC's customers' low average monthly consumption and seasonal customer base, and in an effort to maintain revenue stability, we find it appropriate to continue to have 47 percent of the revenue requirement be recovered through the BFC. The average people per household served by the water system is approximately 2.5; therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold is 4,000 gallons per month.²⁴ This rate structure sends the appropriate pricing signals to customers using in excess of 4,000 gallons of water per month, which represents approximately 22 percent of the usage. We approve a traditional BFC with separate rate blocks for non-discretionary and discretionary usage for residential water customers. The rate blocks are: 1) 0-4,000 gallons and 2) all usage in excess of 4,000 gallons. General service customers shall be billed based on a BFC and uniform gallonage charge. In addition, the Utility's private fire protection services rates shall be based on one-twelfth of the Utility's BFC for the respective meter size, pursuant to Rule 25-30.465, F.A.C.

Furthermore, in the last rate case, we determined that the BFC for the RV park was to be based on the demand the RV park places on the water system.²⁵ The water demand was 2,270,000 in the last rate case. During the test year, the RV park's water demand was 3,778,000 gallons, which is an approximately 66 percent increase since the last rate case. Consistent with the methodology in the last rate case, the water demand of the RV park compared to the average residential water demand of 2,483 gallons per month represents approximately 127 ERCs (3,778,000/2,483/12). This change in ERCs allows the RV park to pay its pro rata share of cost based on the water demand that it places on the system. Therefore, we approve a BFC based on 127 ERCs for the RV park and a uniform gallonage charge.

²⁴Average person per household was obtained from www.census.gov/quickfacts/highlandscountyflorida.

²⁵Order No. PSC-15-0282-PAA-WS, issued July 8, 2015, in Docket No. 20140158-WS, In re: Application for increase in water/wastewater rates in Highlands County by HC Waterworks, Inc.

In addition, based on an approved revenue increase of approximately 33.2 percent, excluding miscellaneous revenues, the residential consumption can be expected to decline by 830,000 gallons resulting in anticipated repressed average residential demand of 2,409 gallons per month. We find it appropriate to apply a 3 percent reduction in total residential consumption and corresponding reductions of \$1,155 for purchased power, \$1,093 for chemicals, and \$106 for RAFs to reflect the anticipated repression, which results in a post-repression revenue requirement of \$731,373.

The rate structures and monthly water rates we have approved for HC are shown on Schedule No. 4. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the rates we have approved herein. 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, HC may only implement the approved rates after Commission staff approves the proposed customer notice and the HC's customers receive said notice. Within 10 days of the date of said notice, the Utility shall provide proof of the date notice was given.

XVI. Initial 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, we have set initial customer deposits equal to two times the average estimated bill.²⁶ Currently, the Utility has an initial customer deposit of \$99 for the residential 5/8 inch x 3/4 inch meter size for water. However, this amount does not cover two months' average bills based on the rates we have approved in this case. The Utility's average monthly residential water usage after repression is 2,409 gallons per customer. Therefore, the average residential monthly bill for an HC customer, based on the rates we have approved in this case, is approximately \$54.

We find that the appropriate initial HC customer deposit is \$108 for the residential 5/8 inch x 3/4 inch meter size for water. 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. The approved initial customer deposits shall 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 shall collect the approved deposits until we authorize the Utility to change them in a subsequent proceeding.

XVII. Reduction of Rates to Reflect the Removal of Amortized Rate Case Expense

We have reduced HC's water rates, as shown on Schedule No. 4, to remove the annual amortization of rate case expense grossed-up for RAFs. The decrease in rates shall become

²⁶Order 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.

effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. HC 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 HC files this reduction in conjunction with a price index or pass-through rate adjustment, the Utility shall file separate data for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

XVIII. Refund of Interim Rates

We authorized HC to collect interim water rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement of \$636,075 represented an increase of \$66,364 or 11.65 percent.

According to Section 367.082, F.S., any refunds must be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period that interim rates are in effect must be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended June 30, 2019. HC's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest expense, and the lower limit of the last authorized range for equity earnings.

To establish the proper refund amount, we calculated adjusted interim period revenue requirements utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. Using the principles discussed above, we calculated an adjusted interim revenue requirement of \$743,964. The adjusted interim revenue requirement of \$743,964 is higher than the interim revenue requirement of \$636,075, thus a refund is not necessary in this case.

XIX. Adjustments to Books and Records

HC shall notify us, in writing, that it has adjusted its books in accordance with our decision. HC 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 Commissioners Uniform System of Accounts (NARUC USOA) accounts have been made to the Utility's books and records. In the event HC needs additional time to complete the adjustments, the Utility shall provide notice to this Commission of such need within seven days prior to this deadline. Upon the Utility providing good cause, Commission staff shall have administrative authority to grant an extension of up to 60 days.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that HC Waterworks, Inc.'s application for an increase in water rates is hereby approved as set forth in the body of this Order. It is further

ORDERED that we find that HC's overall quality of service is unsatisfactory and we reduce the Utility's return on equity by 50 basis points. We also require that HC engage with its customers and the Office of Public Counsel in an ongoing effort to address Utility's service quality and communication issues. It is further

ORDERED that all matters contained in schedules appended hereto are incorporated herein by reference. It is further

ORDERED that HC is hereby authorized to charge the new rates as approved in the body of the Order. It is further

ORDERED that the Utility shall file revised tariff sheets and a proposed customer notice to reflect the rates we have approved herein. 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, HC may only implement the approved rates after Commission staff approves the proposed customer notice and the HC's customers receive said notice. Within 10 days of the date of said notice, the Utility shall provide proof of the date notice was given. It is further

ORDERED that the appropriate initial customer deposits for HC are \$108 for the residential 5/8 inch x 3/4 inch meter size for water. 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. The approved initial customer deposits shall 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. HC shall collect the approved deposits until we authorize the Utility to change them in a subsequent proceeding. It is further

ORDERED that HC's water rates shall be reduced, as shown on Schedule No. 4, to remove the annual amortization of rate case expense grossed-up for regulatory assessment fees. The decrease in rates shall become effective immediately following the expiration of the rate case expense recovery period. HC 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 HC files this reduction in conjunction with a price index or pass-through rate adjustment, the Utility must file separate data for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that a refund, of the interim rate revenue previously authorized in this docket, is not necessary. It is further

ORDERED that HC shall notify us, in writing, that it has adjusted its books in accordance with our decision. HC shall submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event HC needs additional time to complete the adjustments, the Utility shall provide notice to this Commission of such need within seven days prior to this deadline. Upon the Utility providing good cause, Commission staff shall have administrative authority to grant an extension of up to 60 days. 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. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of this Proposed Agency Action Order, a Consummating Order shall be issued. The docket shall remain open for Commission staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by Commission staff, and the Utility has provided Commission staff with proof that the adjustments for all applicable NARUC USOA accounts have been made. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 22nd day of May, 2020.



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.

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 herein, except for requiring a four-year rate adjustment and proof of adjustments of books and records, are preliminary in nature. 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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 12, 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 final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, 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 and/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.

HC Waterworks Schedule of Water Rate Base Test Year Ended 06/30/19				Schedule No. 1-A Docket No. 20190166-WS		
	Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission- Adjusted Test Year
1	Plant in Service	\$4,654,511	\$525,970	\$5,180,481	\$80,254	\$5,260,735
2	Land and Land Rights	25,450	0	25,450	0	25,450
3	Less: Non-used and Useful Components	0	(107,752)	(107,752)	30,098	(77,654)
4	Less: Accumulated Depreciation	(1,358,277)	(11,449)	(1,369,726)	(5,303)	(1,375,029)
5	Less: CIAC	(915,715)	0	(915,715)	0	(915,715)
6	Accumulated Amortization of CIAC	623,602	0	623,602	0	623,602
7	Acquisition Adjustments	(809,041)	0	(809,041)	0	(809,041)
8	Less: Accum. Amort. Of Acq. Adjustments	334,500	0	334,500	0	334,500
9	Working Capital Allowance	<u>0</u>	<u>48,299</u>	<u>48,299</u>	<u>1,586</u>	<u>49,885</u>
10	Rate Base	<u>\$2,555,030</u>	<u>\$455,068</u>	<u>\$3,010,098</u>	<u>\$106,636</u>	<u>\$3,116,734</u>

HC Waterworks		Schedule No. 1-B
Adjustments to Rate Base		Docket No. 20190166-WS
Test Year Ended 06/30/19		
Explanation	Water	
<u>Plant In Service</u>		
1 Per Audit.		(\$7,383)
2 To reflect test year adjustments to plant additions.		31,138
3 To reflect pro forma plant additions.		<u>56,499</u>
Total		<u>\$80,254</u>
<u>Non-used and Useful</u>		
To reflect net non-used and useful adjustment.		<u>\$30,098</u>
<u>Accumulated Depreciation</u>		
1 Per Audit		\$1,021
2 To reflect test year adjustments to plant additions.		67
3 To remove account with no plant balance.		7,640
4 To reflect pro forma plant additions.		<u>(14,030)</u>
Total		<u>(\$5,303)</u>
<u>Working Capital</u>		
To reflect the appropriate amount of working capital.		<u>\$1,586</u>

HC Waterworks		Schedule No. 2								
Capital Structure-Simple Average		Docket No. 20190166-WS								
Test Year Ended 06/30/19										
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Pro Rata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost		
Per Utility										
1	Long-term Debt	\$1,592,168	\$0	\$1,592,168	(\$96,766)	\$1,495,402	49.68%	5.25%	2.61%	
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	1,578,675	0	1,578,675	(95,946)	1,482,729	49.26%	9.67%	4.76%	
5	Customer Deposits	34,034	0	34,034	(2,068)	31,966	1.06%	2.00%	0.02%	
6	Total Capital	<u>\$3,204,877</u>	<u>\$0</u>	<u>\$3,204,877</u>	<u>(\$194,780)</u>	<u>\$3,010,097</u>	<u>100.00%</u>		<u>7.39%</u>	
Per Commission										
7	Long-term Debt	\$1,592,168	\$0	\$1,592,168	(\$44,259)	\$1,547,909	49.66%	5.25%	2.61%	
8	Short-term Debt	0	0	0	\$0	0	0.00%	0.00%	0.00%	
9	Preferred Stock	0	0	0	\$0	0	0.00%	0.00%	0.00%	
10	Common Equity	1,578,675	0	1,578,675	(\$43,884)	1,534,791	49.24%	9.17%	4.52%	
11	Customer Deposits	<u>34,034</u>	<u>0</u>	<u>34,034</u>	<u>0</u>	<u>34,034</u>	<u>1.10%</u>	2.00%	<u>0.02%</u>	
12	Total Capital	<u>\$3,204,877</u>	<u>\$0</u>	<u>\$3,204,877</u>	<u>(\$88,143)</u>	<u>\$3,116,734</u>	<u>100.00%</u>		<u>7.14%</u>	
							LOW	HIGH		
RETURN ON EQUITY							<u>8.17%</u>	<u>10.17%</u>		
OVERALL RATE OF RETURN							<u>6.65%</u>	<u>7.64%</u>		

HC Waterworks Statement of Water Operations Test Year Ended 06/30/19							Schedule No. 3-A Docket No. 20190166-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission- Adjusted Test Year	Revenue Increase	Revenue Requirement	
1 Operating Revenues:	<u>\$574,165</u>	<u>\$169,799</u>	<u>\$743,964</u>	<u>(\$182,937)</u>	<u>\$561,027</u>	<u>\$182,937</u> 32.61%	<u>\$743,964</u> -	
Operating Expenses								
2 Operation & Maintenance	\$376,618	\$13,066	\$389,684	\$9,995	\$399,679	\$2,506	\$402,185	
3 Depreciation	129,717	4,835	134,552	13,235	147,787		147,787	
4 Amortization	(74,935)	0	(74,935)	0	(74,935)		(74,935)	
5 Taxes Other Than Income	55,559	16,651	72,210	(4,509)	67,701	8,232	75,933	
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u> -	
7 Total Operating Expense	<u>486,959</u>	<u>34,552</u>	<u>521,511</u>	<u>18,722</u>	<u>540,233</u>	<u>10,738</u>	<u>550,971</u> -	
8 Operating Income	<u>\$87,206</u>	<u>\$135,247</u>	<u>\$222,453</u>	<u>(\$201,659)</u>	<u>\$20,794</u>	<u>\$172,199</u>	<u>\$192,993</u> -	
9 Rate Base	<u>\$2,555,030</u>		<u>\$3,010,098</u>		<u>\$3,116,734</u>		<u>\$3,116,734</u> -	
10 Rate of Return	<u>3.41%</u>		<u>7.39%</u>		<u>0.67%</u>		<u>6.19%</u> (1)	

Reflects the revenue requirement being limited, per Commission practice.

HC Waterworks		Schedule No. 3-B
Adjustment to Operating Income		Docket No. 20190166-WS
Test Year Ended 06/30/19		
Explanation	Water	
<u>Operating Revenues</u>		
1 To remove the requested increase.	(\$168,229)	
2 To reflect test year revenues.	<u>(14,708)</u>	
Total	<u>(\$182,937)</u>	
<u>Operation and Maintenance Expense</u>		
1 To reflect EUW adjustment. (Purch. Power & Chem.)	(\$2,050)	
2 To reflect appropriate pro forma chemicals expense.	6,048	
3 To annualize increase in contractual services contract.	9,936	
4 To adjust pro forma bad debt expense.	(3,432)	
5 To remove wastewater permit expense.	(\$1,000)	
6 To reflect the appropriate amount of rate case expense.	<u>493</u>	
Total	<u>\$9,995</u>	
<u>Depreciation Expense - Net</u>		
1 Per Audit.	(\$261)	
2 To reflect test year adjustments to plant additions.	(74)	
3 To remove account with no plant balance.	(1,389)	
4 To remove net depreciation on non-U&U adjustment.	929	
5 To reflect pro forma plant additions.	<u>14,030</u>	
Total	<u>\$13,235</u>	
<u>Taxes Other Than Income</u>		
1 To reflect removal of revenue increase.	(\$7,570)	
2 To reflect test year RAF's.	(662)	
3 To reflect property tax on non-used and useful plant.	504	
4 To reflect additional property taxes for pro forma plant.	<u>3,219</u>	
Total	<u>(\$4,509)</u>	

HC WATERWORKS INC. TEST YEAR ENDED JUNE 30, 2019 MONTHLY WATER RATES				SCHEDULE NO. 4 DOCKET NO. 20190166-WU	
	RATES AT TIME OF FILING	COMMISSION APPROVED INTERIM RATES	UTILITY REQUESTED FINAL	COMMISSION APPROVED RATES	FOUR YEAR RATE REDUCTION
Residential and General Service					
Base Facility Charge by Meter Size					
5/8" X3/4"	\$20.99	\$23.48	\$31.63	\$26.21	\$0.07
3/4"	\$31.49	\$35.22	\$47.45	\$39.32	\$0.11
1"	\$52.48	\$58.70	\$79.08	\$65.53	\$0.18
1-1/2"	\$104.97	\$117.40	\$158.16	\$131.05	\$0.37
2"	\$167.95	\$187.84	\$253.06	\$209.68	\$0.59
3"	\$335.89	\$375.68	\$506.11	\$419.36	\$1.17
4"	\$524.83	\$587.00	\$790.80	\$655.25	\$1.83
6"	\$1,049.66	\$1,174.00	\$1,581.61	\$1,310.50	\$3.67
8"	\$1,679.46	\$1,878.40	\$2,530.57	\$2,096.80	\$5.87
10"	\$2,414.22	\$2,700.20	\$3,637.70	\$3,014.15	\$8.44
Charge per 1,000 gallons - Residential					
0 - 3,000 gallons	\$8.07	\$9.03	\$10.82	N/A	N/A
Over 3,000 gallons	\$10.10	\$11.30	\$16.23	N/A	N/A
Charge per 1,000 gallons - Residential					
0 - 4,000 gallons	N/A	N/A	N/A	\$11.42	\$0.03
Over 4,000 gallons	N/A	N/A	N/A	\$14.27	\$0.04
Charge per 1,000 gallons - General Service (GS1)					
	\$8.66	\$9.69	\$12.47	\$11.98	\$0.03
General Service 2 - RV Park					
3" Meter Size - (75 ERCs)	\$1,574.49	\$1,761.00	\$2,372.25	N/A	N/A
3" Meter Size - (127 ERC's)	N/A	N/A	N/A	\$3,328.67	\$9.32
Charge per 1,000 gallons - General Service (GS2)					
	\$8.66	\$9.69	\$12.47	\$11.98	\$0.03
Private Protection					
Base Facility Charge by Meter Size					
2"	\$14.00	\$15.65	\$21.09	\$17.47	
3"	\$27.99	\$31.31	\$42.18	\$34.95	
4"	\$43.74	\$48.92	\$65.90	\$54.60	
6"	\$87.47	\$97.83	\$131.80	\$109.21	
8"	\$139.95	\$156.53	\$210.88	\$174.73	
10"	\$201.19	\$225.02	\$303.14	\$251.18	
Typical Residential 5/8" x 3/4" Meter Bill Comparison					
2,000 Gallons	\$37.13	\$41.54	\$53.27	\$49.05	
4,000 Gallons	\$55.30	\$61.87	\$80.32	\$71.89	
6,000 Gallons	\$75.50	\$84.47	\$112.78	\$100.43	