

FLORIDA PUBLIC SERVICE COMMISSION

Item 7

VOTE SHEET

May 5, 2020

FILED 5/5/2020
DOCUMENT NO. 02412-2020
FPSC - COMMISSION CLERK

Docket No. 20190166-WS – Application for increase in water rates in Highlands County by HC Waterworks, Inc.

Issue 1: Is the quality of service provided by HC Waterworks satisfactory?

Recommendation: No. While the Utility is in compliance with the 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, and complaints shall be considered in the determination of the quality of service provided by the Utility. Therefore, the overall quality of service should be considered unsatisfactory due to the high number of customer complaints and the Utility’s Return on Equity (ROE) should be reduced by 50 basis points.

APPROVED *as* **MODIFIED**

The Utility shall work with customers and the Office of Public Counsel to resolve Quality of Service Issues.

COMMISSIONERS ASSIGNED: All Commissioners

COMMISSIONERS’ SIGNATURES

MAJORITY

Julie Brown

DISSENTING

[Signature]
[Signature]
[Signature]
Donald J. Polmann

REMARKS/DISSENTING COMMENTS:

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Issue 2: Are the infrastructure and operating conditions of HC Waterworks, Inc.'s water systems in compliance with DEP regulations?

Recommendation: Yes. HC's water system infrastructure and operating conditions are currently in compliance with the DEP.

APPROVED

Issue 3: Should the audit adjustments to rate base to which the Utility agrees be made?

Recommendation: Yes. Plant should be decreased by \$7,383 and accumulated depreciation should be decreased by \$1,021. A corresponding adjustment should be made to decrease depreciation expense by \$261.

APPROVED

Issue 4: Should further adjustments be made to test year rate base?

Recommendation: Yes, plant should be increased by \$31,138 and accumulated depreciation should be decreased by \$7,707. A corresponding adjustment should be made to decrease depreciation expense by \$1,463.

APPROVED

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Issue 5: What are the used and useful (U&U) percentages of HC Waterworks, Inc.'s water treatment plant (WTP), storage, and water distribution system?

Recommendation: HC's WTP should be considered 89.9 percent U&U, and its storage should be considered 100 percent U&U. The Utility's water distribution system should be considered 100 percent U&U. Additionally, staff recommends an adjustment of 2.23 percent be made to purchased power and chemical expenses for excessive unaccounted for water (EUW). To reflect the appropriate U&U percentages, staff recommends an increase to plant of \$35,793 and an increase to accumulated depreciation of \$7,419. Additionally, CIAC and accumulated amortization of CIAC should 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). Corresponding adjustments should be made to increase net depreciation expense by \$929. Further, a corresponding adjustment should be made to increase property tax by \$504.

APPROVED

Issue 6: Should any adjustments be made to the Utility's pro forma plant?

Recommendation: Yes. Pro forma plant should be increased by \$56,499. Corresponding adjustments should also be made to increase accumulated depreciation by \$14,030 and depreciation expense by \$14,030. Additionally, property taxes should be increased by \$3,219.

APPROVED

Issue 7: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is \$49,885. As such, the working capital allowance should be increased by \$1,586.

APPROVED

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Issue 8: What is the appropriate rate base for the test year ended June 30, 2019?

Recommendation: Consistent with staff's other recommended adjustments, the appropriate rate base for the test year ended June 30, 2019, is \$3,116,734.

APPROVED

Issue 9: What is the appropriate return on equity?

Recommendation: Based on the Commission's leverage formula currently in effect and staff's recommended adjustment for unsatisfactory quality of service discussed in Issue 1, the appropriate return on equity (ROE) is 9.17 percent with an allowed range of plus or minus 100 basis points.

APPROVED

Issue 10: What is the appropriate weighted average cost of capital based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended June 30, 2019?

Recommendation: The appropriate weighted average cost of capital for the test year ended June 30, 2019, is 7.14 percent.

APPROVED

Issue 11: What are the appropriate test year revenues for HC Waterworks' water system?

Recommendation: The appropriate test year revenues for HC's water system are \$561,027, which is a decrease of \$14,708 to the Utility's recorded test year revenues.

APPROVED

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Issue 12: Should further adjustments be made to the Utility’s O&M expense?

Recommendation: Yes. O&M expense should be increased by \$9,503.

APPROVED

Issue 13: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense is \$7,915. This expense should be recovered over four years for an annual expense of \$1,979. Therefore, annual rate case expense should be increased by \$493.

APPROVED

Issue 14: What is the appropriate revenue requirement for the test year ended June 30, 2019?

Recommendation: Staff recommends the following revenue requirement be approved.

Test Year Revenue	\$ Increase	Revenue Requirement	% Increase
\$561,027	\$182,937	\$743,964	32.61%

APPROVED

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Issue 15: What are the appropriate rate structures and rates for HC Waterworks' water system?

Recommendation: The recommended rate structures and monthly water rates are shown on Schedule No. 4 of staff's memorandum dated April 23, 2020. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of this notice.

APPROVED

Issue 16: What are the appropriate water initial customer deposits for HC Waterworks?

Recommendation: The appropriate initial customer deposits should be \$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 should be two times the average estimated bill for water. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

APPROVED

Issue 17: What is the appropriate amount by which rates should be reduced to reflect the removal of the amortized rate case expense?

Recommendation: The water rates should be reduced, as shown on Schedule No. 4 of staff's memorandum dated April 23, 2020, to remove the annual amortization of rate case expense grossed-up for RAFs. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. HC should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Procedural Agency Action)

APPROVED

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Issue 18: In determining whether any portion of the interim water revenue increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The appropriate refund amount should be calculated using the same data used to establish final rates, excluding rate case expense and other items not in effects during the interim period. The revised revenue requirements for the interim collection period should be compared to the amount of interim revenues granted. Based on this methodology, no refund is necessary.(Procedural Agency Action)

APPROVED

Issue 19: Should the Utility be required to notify, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) associated with the Commission approved adjustments?

Recommendation: Yes. The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. HC should 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 the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Procedural Agency Action)

APPROVED

Issue 20: Should this docket be closed?

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

APPROVED