

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: November 22, 2022

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Economics (Bruce, Hudson) *JGH*
Division of Accounting and Finance (Higgins, Mouring, Richards) *ALM*
Division of Engineering (Ellis, Wooten) *TB*
Office of the General Counsel (Trierweiler, Harper, Sparks) *AH*

RE: Docket No. 20220034-WS – Application for staff-assisted rate case in Polk County by Hidden Cove, Ltd.

AGENDA: 12/06/22 – Regular Agenda – Proposed Agency Action Except Issue Nos. 11, 12, and 13 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Passidomo

CRITICAL DATES: 07/11/23 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

Hidden Cove, Ltd. (Hidden Cove or utility) is a Class C water and wastewater utility which is currently providing service to approximately 122 mobile home sites in the Hidden Cove Mobile Home Park and 3 general service customers. The park is built out. The utility is located in the Highlands Ridge Water Use Caution Area in the Southwest Florida Water Management District (SWFWMD). According to the utility's 2021 Annual Report, the utility's operating revenues were \$18,710 for water and \$27,001 for wastewater. The utility reported operating expenses of \$33,011 for water and \$30,412 for wastewater.

Hidden Cove was granted Certificate Nos. 607-W and 523-S by Order No. PSC-99-1237-PAA-WS in 1999.¹ On February 11, 2022, the utility filed an application for a staff-assisted rate case (SARC). Staff selected the test year ended December 31, 2021, for purposes of final rates. The official date of filing was established as June 9, 2022. A customer meeting was originally scheduled for September 28, 2022; however due to Hurricane Ian, the meeting was rescheduled for November 2, 2022.

The Commission has jurisdiction pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 366.091, and 367.121, Florida Statutes (F.S.).

¹Order No. PSC-99-1237-PAA-WS, issued June 22, 1999, in Docket No. 19981339-WS, *In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by Hidden Cove, Ltd.*

Discussion of Issues

Issue 1: Is the quality of service provided by Hidden Cove satisfactory?

Recommendation: Yes. Hidden Cove has been responsive to customer complaints and is currently in compliance with the Department of Environmental Protection (DEP) standards; therefore, the quality of service should be considered satisfactory. (Wooten)

Staff Analysis: Pursuant to Section 367.081(2)(a)1, F.S., and Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by the utility. This determination is made from an evaluation of the quality of the utility's product (water), and the utility's attempt to address customer satisfaction (water and wastewater). The Rule further states that the most recent chemical analyses for the water system, outstanding citations, violations, and consent orders on file with the DEP and the county health department, and any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints received by the Commission are also reviewed. The operating condition of the water and wastewater systems are addressed in Issue 2.

Quality of the Utility's Product

In evaluation of Hidden Cove's product quality, staff reviewed the utility's compliance with the 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. In the DEP's last Sanitary Survey Report dated September 16, 2021, no chemical or bacteriological exceedances were noted for the previous 12 months, and the utility was determined to be in compliance with DEP standards.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's Consumer Activity Tracking System records, and there were no complaints reported during the test year and four years prior for Hidden Cove. Staff requested all complaints received by the utility during the test year and four years prior, and the utility responded that it did not receive any complaints during this timeframe. Staff also requested all complaints received by the DEP during the test year and four years prior and was informed of only one complaint, filed on January 18, 2017, which related to water quality that was resolved by the utility.

A customer meeting was held on November 2, 2022, no customers spoke at the meeting; however, one customer filed comments in the docket file opposing the proposed rate increase. Staff performed a supplemental review, through November 18, 2022, of complaints filed in the Consumer Activity Tracking System following the customer meeting and found no additional complaints.

Conclusion

Hidden Cove has been responsive to customer complaints and is currently in compliance with the DEP; therefore, the quality of service should be considered satisfactory.

Issue 2: Are the infrastructure and operating conditions of Hidden Cove, Ltd's water and wastewater systems in compliance with DEP regulations?

Recommendation: Yes. Hidden Cove's water and wastewater systems are currently in compliance with the DEP. (Wooten)

Staff Analysis: Rule 25-30.225 F.A.C., requires that each water utility shall operate and maintain its plant and facilities by employing qualified operators in accordance with the rules of the DEP in order to provide safe and efficient service up to and including the point of delivery into the piping owned by the customer. During a rate making proceeding, 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, the Commission must consider testimony of the DEP and county health department officials, sanitary surveys for water systems and compliance evaluation inspections for wastewater systems, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

Water and Wastewater Systems Operating Conditions

Hidden Cove's water system has a permitted capacity of 144,000 gallons per day (gpd). The utility's water system has one well with a pumping capacity of 100 gallons per minute (gpm) and one hydropneumatic tank with a capacity of 2,500 gallons. Groundwater from the well is treated through liquid chlorination. Staff reviewed Hidden Cove's sanitary survey report conducted by the DEP to determine the utility's overall water facility compliance. A review of the inspection conducted on September 16, 2021, indicated that Hidden Cove's water treatment facility is in compliance with the DEP's rules and regulations.

Hidden Cove's wastewater system consists of a permitted 0.02 million gallons per day (MGD) per Three Month Average Daily Flow (3MADF) design capacity extended aeration domestic wastewater treatment plant (WWTP) that provides secondary treatment with basic disinfection. Staff reviewed the utility's compliance evaluation inspection conducted by the DEP to determine the utility's overall wastewater facility compliance. A review of the most recent inspection by DEP conducted on November 20, 2019, indicated that Hidden Cove's wastewater treatment facility was in compliance with the DEP's rules and regulations. DEP is tentatively planning a compliance evaluation inspection of the wastewater facility in the upcoming year.

Conclusion

Hidden Cove's water and wastewater systems are currently in compliance with the DEP.

Issue 3: What are the used and useful (U&U) percentages for Hidden Cove water treatment plant (WTP) and water distribution, WWTP, and wastewater collection systems?

Recommendation: Hidden Cove's WTP, water distribution, WWTP, and wastewater collection system should be considered 100 percent U&U. Staff recommends that for wastewater a 13.3 percent adjustment be made to purchased power and chemicals expenses for excessive infiltration and inflow (I&I). No adjustment is recommended for excessive unaccounted for water (EUW). (Wooten)

Staff Analysis: The water system has one well with a pumping capacity of 100 gpm and is treated with liquid chlorine which is injected prior to entry into one 2,500 gallon hydropneumatic tank. The treated water from the tank is then pumped into the water distribution system. The distribution system is a composite network consisting of approximately 1,600 linear feet of 4-inch polyvinyl chloride (PVC) pipe, 2,300 linear feet of 2-inch PVC pipe, and 400 linear feet of 1-inch PVC pipe. The distribution system has no fire hydrants.

The WWTP has a DEP permitted capacity of 0.02 MGD per 3MADF. This plant is operated to provide secondary treatment with basic disinfection. The collection system is made up of approximately 3,308 linear feet of 8-inch PVC pipe, 250 linear feet of 6-inch PVC pipe and 850 linear feet of 3-inch PVC pipe. There are 12 concrete manholes throughout the wastewater collection system and one lift station.

Used and Useful (U&U)

Rule 25-30.432, F.A.C., addresses the method by which the U&U of a wastewater system is determined, and Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. In the previous rate case, the WTP, WWTP, water distribution and wastewater collections systems were determined to be 100 percent U&U.²

Water Treatment Plant

Pursuant to Rule 25-30.4325(4), F.A.C., a WTP is considered 100 percent used and useful if the system is served by a single well. Since the utility's assets include only one well and there has been no changes to the system, staff recommends the WTP should be considered 100 percent U&U, which is consistent with the Commission's decision in the prior rate case.

Wastewater Treatment Plant

There has been no change in the service area in the past five years and there are no plans for expansion; therefore, consistent with the Commission's previous order and pursuant to Rule 25-30.4325, F.A.C, staff recommends a U&U of 100 percent for the WWTP.

Water Distribution

Because the service territory the system is designed to serve was deemed built out per the previous rate case, and there is no potential for expansion of the service territory, staff recommends the water distribution system continues to be considered 100 percent U&U.

² Order No. PSC-08-0262-PAA-WS, issued April 28, 2008, in Docket No. 20130210-WS, *In re: Application for staff-assisted rate case in Polk County by Hidden Cove, Ltd.*

Wastewater Collection

The service area has had no growth in the past five years, no change in capacity, and consistent with the prior Commission Order, the wastewater collection system should be considered 100 percent U&U.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., additionally provides factors to be considered in determining whether adjustments to operating expenses are necessary for EUW. EUW is defined 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. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not. The Commission allows 10 percent of unaccounted water for the uses of water that is not metered, which includes but is not limited to, line flushing, hydrant testing, street cleaning, and theft. The rule provides that to determine whether adjustments to operating expenses, such as purchased electrical power and chemicals cost are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible.

The unaccounted for water is calculated by subtracting both the gallons used for flushing during the test year and the gallons sold to customers during that period from the total gallons pumped for the test year. The Monthly Operating Reports that the utility files with DEP, indicates that the utility treated 3,566,999 gallons during the test year. In response to a staff data request the utility indicated that it purchased no water and used 474,000 gallons for other uses during the test year. According to the staff audit report, the utility sold 2,780,641 gallons of water for the test year. When both the gallons sold and water used for other uses is subtracted from the total gallons pumped there are 312,358 gallons or 9 percent that are unaccounted for. Thus, Hidden Cove has no excessive unaccounted for water for the test year.

Infiltration and Inflow

Infiltration typically results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. Rule 25-30.432, F.A.C., provides that in determining the WWTP amount of U&U, the Commission will consider I&I.

Since all wastewater collection systems experience I&I, the conventions noted above provide guidance for determining whether the I&I experienced at a WWTP is excessive. Staff calculates the allowable infiltration based on system parameters, and calculates the allowable inflow based on water billed to customers. The sum of these amounts is the allowable I&I. Staff next calculates the estimated amount of wastewater returned from customers. The estimated return is determined by summing 80 percent of the water billed to residential customers with 90 percent of the water billed to non-residential customers. Adding the estimated return to the allowable I&I yields the maximum amount of wastewater that should be treated by the wastewater system

without incurring adjustments to operating expenses. If this amount exceeds the actual amount treated, no adjustment is made. If it is less than the gallons treated, then the difference is the excessive amount of I&I.

From January 1, 2021, through December 31, 2021, the allowance for infiltration was calculated as 1,054,698 gallons, and the allowance for inflow was calculated as 278,064 gallons; therefore, the total I&I allowance was calculated as 1,332,762 gallons. Based on staff's audit, the total water billed to residential customers was 2,595,480 gallons, and the total water billed to general service customers was 24,780 gallons. Therefore, the estimated amount of wastewater returned from customers was calculated as 2,098,686 gallons. Summing the estimated return and the allowable I&I results in a maximum of 3,431,448 gallons of wastewater that should be treated by the wastewater system without incurring adjustments to operating expenses. Based on the Utility's discharge monitoring reports, the actual amount of wastewater treated during the test year was 3,958,000 gallons. As the actual amount exceeds the allowable amount there is excessive I&I of 526,552 gallons or 13.3 percent. This results in a recommended 13.3 percent adjustment to purchased power and chemicals expenses for excessive I&I.

Conclusion

Hidden Cove's WTP, water distribution, WWTP, and wastewater collection system should be considered 100 percent used and useful. Staff recommends that for wastewater a 13.3 percent adjustment be made to purchased power and chemicals expenses for excessive I&I. No adjustment is recommended for EUW.

Issue 4: What is the appropriate average test year rate base for Hidden Cove?

Recommendation: The appropriate average test year rate base for Hidden Cove is \$66,204 for water and \$12,133 for wastewater. (Higgins, Wooten)

Staff Analysis: The appropriate components of the utility's rate base include utility plant in service (UPIS), land, accumulated depreciation, and working capital. Hidden Cove does not have any contributions-in-aid-of-construction (CIAC). Staff selected the test year ended December 31, 2021, for the instant rate case. Commission audit staff determined that the utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component and staff's recommended adjustments are discussed below.

Utility Plant in Service (UPIS)

The utility recorded UPIS of \$72,554 for water and \$120,896 for wastewater. There was an audit adjustment increasing UPIS by \$230 for wastewater plant Account 395. Additionally, staff made an adjustment to increase both water and wastewater UPIS balances by \$2,706 to reflect the purchase of three Ford F-250 trucks (Accounts 341 and 391 – Transportation Equipment). The costs for the three trucks were incorrectly being expensed. Staff made adjustments to remove the payments from O&M expense accounts and added the cost of the trucks to UPIS and capitalized the investment.

Related adjustments were performed to Account 370 – Receiving Wells and Account 371 – Pumping Equipment to reflect reclassifications of costs. A further reclassification of costs were performed between Accounts 381 – Plant Sewers and Account 390 – Office Furniture and Equipment. In order to reflect the test year beginning and ending UPIS average balances, staff performed adjustments decreasing UPIS by \$6,248 for water and \$2,278 for wastewater.

Pro Forma Projects

Table 4-1 shows the pro-forma plant projects requested by Hidden Cove.³ The Back-Up Generator project is intended to provide back-up power to the water plant. Currently, there is only limited back-up power available to the water plant. Therefore, in the case of a power-outage water service would be interrupted. Purchasing a permanent back-up generator would allow the utility to provide service to its customers during power-outage events. The Meter Reading Equipment Upgrades project consists of the utility switching to new meter reading software. According to the utility, there are issues being encountered in capturing all of the readings from the meters due to the reading system being outdated and not functioning properly with the meters. This issue would be resolved with the new meter reading software.

As is Commission practice, staff requested that three bids be provided for each pro forma project. However, the utility provided one bid for each item. According to the utility, multiple bids were sought for the Back-Up Generator project; but, the utility had difficulty finding vendors who had the equipment necessary to serve the needs of the plant and the vendor ultimately selected was the only vendor that was able to complete the work in a timely manner. Regarding the Electronic Meter Reading Equipment Upgrades project, this project is being

³ The utility also requested one operation and maintenance (O&M) pro forma project which is discussed in Issue 7.

completed by the same company that installed the utility’s water meters as they have familiarity with the meters and software. Staff recommends that the pro forma project costs are appropriate.

**Table 4-1
 Pro Forma Plant Items**

Project	Additions	Retirements
Account 310 – back-up electric generator.	\$52,814	(\$39,611)
Account 334 – allocated meter reading equipment upgrades.	481	(361)
Total water pro forma projects.	\$53,295	(\$39,972)

Sources: Responses to staff’s data requests and Utility filings.

As detailed above in Table 4-1, staff increased UPIS by \$53,295 for water. There were no pro forma adjustments for wastewater. The increase for water was offset by a retirement of \$39,972. Table 4-2 below summarizes staff’s adjustments to UPIS.

**Table 4-2
 Adjustments to UPIS**

Description	Water	Wastewater
To reflect an auditing adjustment.	\$0	\$230
To reflect appropriate transportation plant balance.	2,706	2,706
To reflect reclassification of receiving wells from Account 371.	0	(9,158)
To reflect reclassification of receiving wells to Account 370.	0	9,158
To reflect reclassification of costs from account 381.	0	(218)
To reflect reclassification of costs to account 390.	0	218
To reflect averaging adjustments.	(6,248)	(2,278)
To reflect pro forma additions.	53,295	0
To reflect pro forma retirements.	(39,972)	0
Total adjustments to UPIS.*	<u>\$9,782</u>	<u>\$659</u>

Sources: Staff audit, Responses to staff’s data requests, and utility filings.

*May not sum due to rounding.

As described above and summarized in Table 4-2, staff’s adjustments to UPIS result in increases of \$9,782 for water and \$659 wastewater. Therefore, staff recommends an average UPIS balance of \$82,336 (\$72,554 + \$9,782) for water and \$121,555 (\$120,896 + \$659) for wastewater.

Land & Land Rights

The utility recorded test year land values of \$320 for water and \$1,680 for wastewater. There have been no additions to land since Hidden Cove’s last SARC; therefore, no adjustments are necessary.⁴ Staff recommends a land and land rights balance of \$320 for water and \$1,680 for wastewater.

⁴Order No. PSC-08-0262-PAA-WS.

Used & Useful

As discussed in Issue 3, Hidden Cove’s WTP, WWTP, water distribution, and wastewater collection systems are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

Accumulated Depreciation

Hidden Cove recorded a test year accumulated depreciation balance of \$37,696 for water and \$114,185 for wastewater. Staff made auditing adjustments increasing accumulated depreciation by \$22,320 for water and \$291 for wastewater. Staff further made adjustments decreasing accumulated depreciation by \$83 in Account 311, increasing accumulated depreciation by \$7 in Account 320, and decreasing accumulated depreciation by \$28 in Account 355. These adjustments are to reflect the correct balance in the Accounts. Further, staff increased accumulated depreciation by \$1,014 for water and wastewater to reflect the appropriate balances in Accounts 341 and 391 – Transportation Equipment. Staff made adjustments decreasing accumulated depreciation by \$1,996 for water and \$1,077 for wastewater to reflect appropriate averaging adjustments. Finally, staff decreased accumulated depreciation by \$39,188 for water due to the retirements related to pro forma additions. Staff’s adjustments are summarized in Table 4-3.

Table 4-3
Adjustments to Accumulated Depreciation

Description	Water	Wastewater
To reflect auditing adjustments.	\$22,320	\$291
To reflect appropriate balance in account 311.	(83)	0
To reflect appropriate balance in account 320.	7	0
To reflect appropriate balance in account 355.	0	(28)
To reflect appropriate amounts in accounts 341 and 391.	1,014	1,014
To reflect averaging adjustments.	(1,996)	(1,077)
To reflect pro forma adjustments.	<u>(39,188)</u>	<u>0</u>
Total adjustments to accumulated depreciation.	<u>(\$17,926)</u>	<u>\$200</u>

Sources: Staff audit, responses to staff data requests, and Utility filings.

As described above and summarized in Table 4-3, staff’s adjustments to accumulated depreciation result in a decrease of \$17,926 for water and an increase of \$200 for wastewater. Therefore, staff recommends an average accumulated depreciation balance of \$19,771 (\$37,696 - \$17,926) for water and \$114,385 (\$114,185 + \$200) for wastewater.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(3), F.A.C., staff used one-eighth of the operation and maintenance (O&M) expense (less rate case expense) formula for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. As such, staff removed the unamortized balance of rate case expense of \$841 for water and \$794 for wastewater. Removing rate case expense results in adjusted O&M expenses of \$26,547 (\$27,388 - \$841) for water, and \$26,272 (\$27,066 - \$794)

for wastewater. Therefore, staff recommends a working capital allowance of \$3,318 ($\$26,547 \div 8$) for water and \$3,284 ($\$26,272 \div 8$) for wastewater.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$66,204 for water and \$12,133 for wastewater. Rate base is shown on Schedule Nos. 1-A and 1-B. The related adjustments are shown on Schedule 1-C.

Issue 5: What is the appropriate return on equity and overall rate of return for Hidden Cove?

Recommendation: The appropriate return on equity (ROE) is 10.45 percent with a range of 9.45 percent to 11.45 percent. The appropriate overall rate of return is 4.82 percent. (Higgins)

Staff Analysis: Hidden Cove's reported capital structure consists of \$5,039,000 in long-term debt, and \$1,199,500 in common equity. The utility has no customer deposits.

The utility's capital structure has been reconciled with staff's recommended rate base. The appropriate rate of return is 4.82 percent based upon the Commission-approved leverage formula currently in effect.⁵ Staff recommends an ROE of 10.45 percent, with a range of 9.45 percent to 11.45 percent, and an overall rate of return of 4.82 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁵Order No. PSC-2022-0208-PAA-WS, issued June 15, 2022, in Docket No. 20220006-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.*

Issue 6: What are the appropriate test year revenues for Hidden Cove's water and wastewater systems?

Recommendation: The appropriate test year revenues for Hidden Cove's water system is \$18,751 and \$27,869 for the wastewater system. (Bruce)

Staff Analysis: Hidden Cove recorded test year revenues of \$18,730 for water and \$27,084 for wastewater. The utility did not record any miscellaneous revenues during the test year. To determine the appropriate service revenues for water and wastewater, staff applied the number of billing determinants to the utility's existing rates. As a result, staff determined that service revenues for water should be \$18,751, which is an increase of \$21 (\$18,751 – \$18,730). For wastewater service, staff determined service revenues should be \$27,869, which is an increase of \$785 (\$27,869 – \$27,084). Based on the above, staff recommends the appropriate test year revenues for Hidden Cove's water and wastewater systems are \$18,751 and \$27,869, respectively.

Issue 7: What are the appropriate operating expenses for Hidden Cove?

Recommendation: The appropriate amounts of operating expenses are \$32,529 for water and \$30,942 for wastewater. (Higgins)

Staff Analysis: The utility recorded operating expense of \$29,800 for water and \$33,985 for wastewater. The test year O&M expenses have been reviewed by staff, including invoices and other supporting documentation. Staff has made several adjustments to the utility's operating expenses as discussed below.

Operation and Maintenance Expense

After review of the utility's records, staff made no adjustments to the recorded balances in materials and supplies (620/720), contractual services – billing (630/730), contractual services – professional (631/731), contractual services – testing (635/735), insurance expense (655/755), and miscellaneous expense (675/775). Staff's recommended balances for these accounts are shown on Schedule Nos. 3-D and 3-E.

Salaries and Wages – Employees (601 / 701)

The utility recorded salaries and wages – employees expense of \$8,106 for water and \$8,314 for wastewater. Staff reviewed the utility's response to Staff's Second Data Request containing salary information on a per employee basis and the audited employee responsibilities and duties. The utility does not employ its own staff and is operated and managed by employees of Mobile Home Lifestyles, Inc. and Realco Properties, Inc. The utility's salary expenses are allocated by the percentage of time the employees spend working on water and wastewater utility matters. The utility shares a full-time wastewater operator and engineer with four other sister water and wastewater utilities. Staff reviewed the employee allocations and salaries and believe them to be reasonable. Therefore, staff recommends salaries and wages – employees expenses of \$8,106 for water and \$8,314 for wastewater.

Sludge Removal Expense (711)

The utility recorded a sludge removal expense of \$4,910. As described in Issue 3, staff calculated an I&I adjustment of 13.30 percent. As such, staff decreased this expense by \$653, and therefore recommends sludge removal expense of \$4,257 (\$4,910 - \$653).

Purchased Power (615 / 715)

The utility recorded purchased power of \$5,264 for wastewater. The utility did not record purchased power for water. As described in Issue 3, staff calculated an I&I adjustment of 13.30 percent. As such, staff decreased purchased power for wastewater by \$700. Therefore, staff recommends purchased power of \$4,564 (\$5,264 - \$700) for wastewater.

Chemicals (618 / 718)

The utility recorded chemicals expenses of \$554 for water and \$4,394 for wastewater. As described in Issue 3, staff calculated an I&I adjustment of 13.30 percent. As such, staff decreased chemicals expense for wastewater by \$584. Staff made no adjustments to chemicals expense for water. Therefore, staff recommends chemicals expenses of \$554 for water and \$3,810 (\$4,394 - \$584) for wastewater.

Contractual Services – Other (636 / 736)

The utility recorded contractual services – other expense of \$10,296 for water and \$1,495 for wastewater. Staff made two adjustments to Account 636 – Contractual Services - Other. The first adjustment reduces Account 636 by \$23 due to a recalculation of the expenses that are recorded to this account. The second adjustment is related to an O&M pro forma project, specifically water storage tank re-coating. The water tank is required by DEP to be inspected every five years and coated as needed based on the results of the inspection. During the most recent inspection, it was determined that a new water tank coating was necessary. The utility sought multiple bids; however, it only obtained one bid because only one vendor would bid the project. The total estimated cost for the tank re-coating is \$4,000. This amount should be amortized over a period of five years. The annual amortization expense associated with this re-coating is \$800. Thus, the total net adjustment related to Account 636 – Contractual Services is \$777 (\$800 - \$23). Therefore staff recommends contractual services – other expense of \$11,073 for water and \$1,495 for wastewater.

Transportation Expense (650 / 750)

The utility recorded transportation expense of \$1,033 for water and \$1,201 for wastewater. Audit staff made an adjustment reducing transportation expense for water by \$549 and \$415 for wastewater due to these costs being capital in nature. Therefore, staff recommends transportation expense of \$484 for water and \$786 for wastewater.

Rate Case Expense (665 / 765)

The utility did not record any rate case expense. The utility is required by Rule 25-22.0407, F.A.C., to mail notices containing the rate case overview, final rates, and four-year rate reduction. Because of the rescheduling of the customer meeting due to Hurricane Ian, the utility was required to mail out a second rate case overview along with notices for the customer meeting. Staff calculated noticing costs to be \$525. In correspondence with staff, the utility advised two representatives will be present at the Commission Conference.⁶ Staff calculated the round-trip distance from the utility to Tallahassee as 486 miles. Based on the 2022 IRS business mileage rate of \$0.625, staff calculated travel and lodging expense for both representatives of \$1,008. As the utility is scheduled to have three sister utilities participate in the December 6, 2022 Commission Conference, staff equally divided the total travel and lodging amount of \$1,008 amongst the four utilities. As such, in the instant docket, staff recommends travel and lodging expense of \$252 ($\$1,008 \div 4$).

For this docket, the utility retained the legal services of Dean Mead, and on September 21, 2022, provided staff with a schedule of actual and estimated rate case expense.⁷ In its schedule, the utility indicated actual legal fees of \$273, in addition to estimated legal fees of \$4,290. Staff believes these fees are reasonable and in line with previous dockets represented by Dean Mead. Additionally, the utility paid a filing fee of \$600 for water and \$600 for wastewater.⁸

⁶Document No. 07475-2022, filed on September 21, 2022.

⁷Id.

⁸Document No. 02346-2022, filed on April 11, 2022.

Staff calculated the total amount of noticing costs, travel expenses and legal fees of \$5,340 (\$525 + \$252 + \$4,563). Staff allocated these costs between water and wastewater based on the number of ERCs, which totaled \$2,762 for water and \$2,577 for wastewater. In addition to the \$600 filing fee for each system, staff recommends total rate case expense of \$3,362 for water and \$3,177 for wastewater, which amortized over four years is \$841 and \$794 for water and wastewater, respectively.

Bad Debt Expense (670 / 770)

The utility had no recorded bad debt expense for the test year. Staff notes that it is Commission practice to calculate bad debt expense using a three-year average when the information is available.⁹ In its three most recent Annual Reports (2021, 2020 and 2019), the utility recorded bad debt expenses of \$0, \$1, and \$187 for the water system, and \$0, \$2, and \$79 for the wastewater system. Therefore, based on three-year averages, staff recommends bad debt expenses of \$63 for water and \$27 for wastewater.

Operation and Maintenance Expense Summary

The utility recorded test year O&M expenses of \$26,257 for water and \$28,597 for wastewater. Based on the above adjustments, staff recommends the O&M expense be increased by \$1,131 for water and decreased by \$1,531 for wastewater. This results in total O&M expenses of \$27,388 (\$26,257 + \$1,131) for water and \$27,066 (\$28,597 - \$1,531) for wastewater. Staff's recommended adjustments to O&M expenses are shown on Schedule Nos. 3-D and 3-E.

Depreciation Expense

The utility recorded depreciation expense of \$2,292 for water and \$2,027 for wastewater. Using the prescribed rates set forth in Rule 25-30.140, F.A.C., staff increased depreciation expense by \$36 for water and decreased depreciation expense by \$451 for wastewater to reflect auditing adjustments. Staff further increased depreciation expense for water by \$27 and \$7 to reflect the appropriate depreciation balances in Accounts 311 and 320, respectively. Staff further increased depreciation expense by \$60 for water and decreased depreciation expense by \$77 for wastewater to correspond to the recommended balances in plant Accounts 341 and 391 – Transportation Equipment. Finally, staff increased depreciation expense by \$784 for water to reflect the incremental depreciation expense associated with pro forma investments. These adjustments result in a net increase of \$914 (\$36 + \$27 + \$7 + \$60 + \$784) for water, and a net decrease of \$528 (\$451 + \$77) for wastewater. Therefore, staff recommends depreciation expense of \$3,206 (2,292 + \$914) for water and \$1,499 (\$2,027 - \$528) for wastewater.

Taxes Other Than Income (TOTI)

The utility recorded TOTI of \$1,251 for water and \$3,361 for wastewater. As a result of the staff audit, adjustments were performed to decrease the water TOTI amount by \$79 and decrease the wastewater TOTI amount by \$1,264. These audit adjustments relate to recalculations of property

⁹Order No. PSC-2022-0043-PAA-WU, issued on January 26, 2022, in Docket No. 20210055-WU, *In re: Application for staff-assisted rate case in Lake County by Brendenwood Waterworks, Inc.*; Order No. PSC-2021-0106-PAA-WS, issued on March 17, 2021, in Docket No. 20200169-WS, *In re: Application for staff-assisted rate case in Lake County, and request for interim rate increase, by Lake Yale Utilities, LLC.*; Order No. PSC-2021-0107-PAA-WU, issued on March 19, 2021, in Docket No. 20200168-WU, *In re: Application for staff-assisted rate case in Polk County, and request for interim rate increase, by McLeod Gardens Utilities, LLC.*

taxes for both the water and wastewater systems. Further adjustments were performed to include regulatory assessment fees (RAFs) associated with the recommended revenue increases. These adjustments are increases of \$764 for the water system and \$280 for the wastewater system. Therefore, staff recommends the appropriate TOTI amounts are \$1,935 ($\$1,251 - \$79 + \764) for water and \$2,377 ($\$3,361 - \$1,264 + \280) for wastewater (rounded).

Total Operating Expense

The utility recorded operating expenses of \$29,800 for water and \$33,985 for wastewater. The application of staff's recommended adjustments to the utility's test year operating expenses result in a total operating expense of \$32,529 for water and \$30,942 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B for water and wastewater, respectively. The related adjustments are shown on Schedule No. 3-C.

Issue 8: Does Hidden Cove meet the criteria for the application of the Operation Ratio Methodology?

Recommendation: Hidden Cove's water system does not meet the criteria for the application of the Operating Ratio Methodology. However, Hidden Cove's wastewater system does meet the criteria for the application of the Operating Ratio Methodology for calculating revenue requirement. (Higgins)

Staff Analysis: Rule 25-30.4575(2), F.A.C., provides that, in rate cases processed under Rule 25-30.455, F.A.C., the Commission will use the operating ratio methodology to establish the utility's revenue requirement when a utility's rate base is no greater than 125 percent of O&M expenses and the use of the Operating Ratio Methodology does not change the utility's qualification for a SARC.

Under the Operating Ratio Methodology, instead of calculating the utility's revenue requirement based on a rate of return on the utility's rate base, the revenue requirement is calculated using a margin of 12 percent of O&M expenses, not to exceed \$15,000. Purchased water and wastewater expenses, if any, must be removed from O&M expense prior to calculating the margin of 12 percent.

With respect to Hidden Cove, staff has recommended a rate base of \$66,204 for water and \$12,133 for wastewater. Staff calculated an adjusted O&M expense of \$26,547 and \$26,271 for water and wastewater, respectively. Based on the recommended amounts, the utility's rate base is 249.3 percent of its O&M expense for water, and the utility's rate base is 46.2 percent of its O&M expense for wastewater. Based on this, Hidden Cove's water system does not meet the criteria for the application of the Operating Ratio Methodology. However, Hidden Cove's wastewater system does meet the criteria for the application of the Operating Ratio Methodology for calculating revenue requirement.

Issue 9: What are the appropriate revenue requirements for Hidden Cove?

Recommendation: The appropriate revenue requirements are \$35,720 and \$34,095 for water and wastewater, respectively. These revenue requirements result in annual increases of \$16,969 (90.5 percent) for water and \$6,226 (22.3 percent) for wastewater (Higgins)

Staff Analysis: Hidden Cove should be allowed annual increases of \$16,969 (90.5 percent) for water and \$6,226 (22.3 percent) for wastewater. This should allow the utility the opportunity to recover its expenses and earn a 4.82 percent return on its water system investment and a 12.00 percent margin on wastewater O&M. The revenue requirement calculations for water and wastewater are shown in Tables 9-1 and 9-2, respectively:

**Table 9-1
 Water Revenue Requirement**

Water Rate Base	\$66,204
Rate of Return	<u>4.82%</u>
Return On Rate Base	\$3,191
Water O&M Expense	\$27,388
Depreciation Expense	\$3,206
Taxes Other Than Income	\$1,935
Revenue Requirement	<u>\$35,720</u>
Less Test Year Revenues	<u>\$18,751</u>
Annual Increase / (Decrease)	<u>\$16,969</u>
Percent Increase / (Decrease)	90.50%

Source: Staff calculations.

**Table 9-2
 Wastewater Revenue Requirement**

Adjusted Wastewater O&M Expense	\$26,271
Operating Margin (%)	<u>12.00%</u>
Operating Margin (\$)	\$3,153
Wastewater O&M Expense	\$27,066
Depreciation Expense	\$1,499
Taxes Other Than Income	\$2,377
Revenue Requirement	<u>\$34,095</u>
Less Test Year Revenues	<u>\$27,869</u>
Annual Increase / (Decrease)	<u>\$6,226</u>
Percent Increase / (Decrease)	22.34%

Source: Staff calculations.

Issue 10: What are the appropriate rate structures and rates for Hidden Cove's water and wastewater systems?

Recommendation: The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. 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 sheets 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 the notice. (Bruce)

Staff Analysis:

Water Rates

The utility provides water service to 122 residential customers and 3 general service customers. A review of the billing data indicates approximately 14 percent of the residential customer bills during the test year had zero gallons. However, the billing data at the 1,000 gallon level indicates 41 percent of the residential customer bills, which is an indication of a highly seasonal customer base. The average residential water demand was 1,761 gallons per month during the test period. The average water demand, excluding zero gallons bills, was 2,038 gallons per month. The utility's current rate structure consists of a monthly base facility charge (BFC) and a uniform gallonage charge rate structure for the residential and general service customers.

Staff performed an analysis of the utility's billing in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the utility's customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

As mentioned above, the customer base is seasonal coupled with low average consumption. Therefore, staff recommends that 60 percent of the revenue requirement be recovered through the BFC in an effort to maintain revenue stability. Furthermore, staff evaluated whether or not a repression adjustment was appropriate in this case. Despite the relatively high staff recommended revenue percentage increase, a repression adjustment was de minimis due to the very little discretionary usage for this customer base. The billing data indicate that approximately 90 percent of the water consumed is for non-discretionary usage, while 10 percent for discretionary usage. Typically a repression adjustment is made to account for the reduction in consumption above the non-discretionary threshold resulting from a price increase. Non-discretionary usage is essential and therefore relatively unresponsive to changes in prices. For this reason, staff recommends a continuation of the utility's existing monthly BFC and gallonage charge rate structure for its residential and general service customers and no repression adjustment.

Wastewater Rates

The utility provides wastewater service to 122 residential customers and 1 general service customer. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with a 6,000 gallonage cap. The general service rate structure consists of a uniform BFC for all meter sizes and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

Staff performed an analysis of the utility's billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential wastewater customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the utility's customers; and (3) implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

For this case, staff allocated 60 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants and seasonal customer base. Staff's recommended BFC allocation will allow the utility to maintain revenue stability while customers are out of residence. As mentioned above, Hidden Cove's current residential wastewater cap is 6,000 gallons per month. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. It is Commission practice to set the wastewater cap at approximately 80 percent of residential water sold. Based on staff's review of the billing analysis, approximately 80 percent of the residential gallons are captured at the 3,000 gallon level. However, it is Commission practice to set the wastewater cap in gallonage caps of 6,000, 8,000, or 10,000. For this reason, staff recommends a continuation of the utility's current gallonage cap of 6,000 gallons per month. Since there is no repression adjustment for water, there is no corresponding repression adjustment for wastewater. General service customers should continue to be billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

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

Issue 11: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense?

Recommendation: The rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. Hidden Cove 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, 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 (Bruce, Higgins) (Procedural Agency Action)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the recovery period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. The total reduction for water is \$880. For wastewater, the total reduction is \$832.

Staff recommends that the rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. Hidden Cove 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, 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.

Issue 12: Should the recommended rates be approved for Hidden Cove on a temporary basis subject to refund with interest, in the event of a protest filed by a party other than the utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the utility. Hidden Cove should file revised tariff sheets and a proposed customer notice reflecting the Commission-approved rates. The approved rates should be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Further, prior to implementing any temporary rates, the utility should provide appropriate financial security.

If the recommended rates are approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating both the current monthly and total amount subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Higgins) (Procedural Agency Action)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay a rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, staff recommends that the proposed rates be approved on a temporary basis. Hidden Cove should file revised tariff sheets and a proposed customer notice reflecting the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and it has been received by the customers. The additional revenue produced by staff's recommended rates and collected by the utility should be subject to the refund provisions discussed below.

Hidden Cove should be authorized to initiate the temporary rates upon staff's approval of an appropriate security for the potential refund and cost of the proposed customer notice. Security should be in the form of either a bond or letter of credit in the amount of \$15,781. Alternatively, the utility may establish an escrow agreement with an independent financial institution.

If the utility chooses a bond for securing the potential refund, the bond should contain wording to the effect that it will be terminated only under the following conditions:

1. The Commission approves the rate increase; or,
2. If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit for securing the potential refund, the letter of credit should contain the following conditions:

1. The letter of credit is irrevocable for the period it is in effect.
2. The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

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

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as a result of the rate increase should be maintained by the utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission Clerk's office no later than the 20th of every month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 13: Should Hidden Cove be required to notify the Commission within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts?

Recommendation: Yes. Hidden Cove should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Hidden Cove should submit a letter within 90 days of the Commission's final order in this docket, confirming that the adjustments to all applicable NARUC USOA primary accounts have been made to the utility's books and records. In the event the utility needs additional time to complete the adjustments, a notice providing good cause should be filed not less than seven days prior to the deadline. Upon providing a notice of good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Higgins) (Procedural Agency Action)

Staff Analysis: Hidden Cove should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. Hidden Cove should submit a letter within 90 days of the Commission's final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the utility's books and records. In the event the utility needs additional time to complete the adjustments, a notice providing good cause should be filed not less than seven days prior to the deadline. Upon providing a notice of good cause, staff should be given administrative authority to grant an extension of up to 60 days.

Issue 14: 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. This docket should remain open for staff's verification that the revised tariff sheets and customer notices have been filed by the utility and approved by staff. Also, the docket should remain open to allow the utility to provide the recommended reporting information. Upon staff's approval of the tariff sheets and customer notices, along with staff's completion of its review of the recommended reporting information, this docket should be closed administratively if no adjustments are necessary. (Trierweiler)

Staff Analysis: 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. This docket should remain open for staff's verification that the revised tariff sheets and customer notices have been filed by the utility and approved by staff. Also, the docket should remain open to allow the utility to provide the recommended reporting information. Upon staff's approval of the tariff sheets and customer notices, along with staff's completion of its review of the recommended reporting information, this docket should be closed administratively if no adjustments are necessary.

HIDDEN COVE, LTD.		SCHEDULE NO. 1-A		
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220034-WS		
SCHEDULE OF WATER RATE BASE				
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$72,554	\$9,782	\$82,336	
2. LAND & LAND RIGHTS	320	0	320	
3. ACCUMULATED DEPRECIATION	(37,696)	17,926	(19,771)	
4. CIAC	0	0	0	
5. ACCUMULATED AMORTIZATION OF CIAC	0	0	0	
6. WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$3,318</u>	<u>\$3,318</u>	
WATER RATE BASE	<u>\$35,178</u>	<u>\$31,026</u>	<u>\$66,204</u>	

HIDDEN COVE, LTD.		SCHEDULE NO. 1-B		
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220034-WS		
SCHEDULE OF WASTEWATER RATE BASE				
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$120,896	\$659	\$121,555	
2. LAND & LAND RIGHTS	1,680	0	1,680	
3. ACCUMULATED DEPRECIATION	(114,185)	(200)	(114,385)	
4. CIAC	0	0	0	
5. ACCUMULATED AMORTIZATION OF CIAC	0	0	0	
6. WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$3,284</u>	<u>\$3,284</u>	
WASTEWATER RATE BASE	<u>\$8,391</u>	<u>\$3,742</u>	<u>\$12,133</u>	

HIDDEN COVE, LTD.	SCHEDULE NO. 1-C	
TEST YEAR ENDED 12/31/2021	DOCKET NO. 20220034-WS	
ADJUSTMENTS TO RATE BASE		
	<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
1. To reflect an auditing adjustment.	\$0	\$230
2. To reflect staff adjustment to acct. 370 to match Auditor's accumulated depreciation adjustment.	\$0	\$9,158
3. To reflect staff adjustment to acct. 371 to match Auditor's accumulated depreciation adjustment.	\$0	(\$9,158)
4. To reflect reclassification of costs from acct. 380	\$0	(\$218)
5. To reflect reclassification of costs to acct. 390	\$0	\$218
6. To reflect staff adjustments to acct. 341 and acct. 391.	\$2,706	\$2,706
7. To reflect averaging adjustments.	(\$6,248)	(\$2,278)
8. To reflect pro forma additions.	\$53,295	\$0
9. To reflect pro forma retirement.	<u>(\$39,971)</u>	<u>\$0</u>
Total	<u>\$9,782</u>	<u>\$659</u>
<u>ACCUMULATED DEPRECIATION</u>		
1. To reflect auditing adjustments.	(\$22,320)	(\$291)
2. To reflect a staff adjustment to acct. 311.	\$83	\$0
3. To reflect a staff adjustment to acct. 320.	(\$7)	\$0
4. To reflect staff adjustments to acct. 341 and acct. 391.	(\$1,014)	(\$1,014)
5. To reflect a staff adjustment to acct. 355.	\$0	\$28
6. To reflect averaging adjustments.	\$1,996	\$1,077
7. To reflect pro forma adjustment.	<u>\$39,188</u>	<u>\$0</u>
Total	<u>\$17,926</u>	<u>(\$200)</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
To reflect 1/8 of test year O&M expenses.	<u>\$3,318</u>	<u>\$3,284</u>

HIDDEN COVE, LTD.						SCHEDULE NO. 2	
TEST YEAR ENDED 12/31/2021						DOCKET NO. 20220034-WS	
SCHEDULE OF CAPITAL STRUCTURE							
COMPONENT	BALANCE PER UTILITY	SPECIFIC ADJUST- MENTS	PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. LONG-TERM DEBT	\$5,039,000	0	(\$4,975,725)	\$63,275	80.77%	3.48%	2.81%
2. SHORT-TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
3. COMMON EQUITY	1,199,500	0	(1,184,438)	15,062	19.23%	10.45%	2.01%
4. CUSTOMER DEPOSITS	0	0	0	0	0.00%	2.00%	0.00%
5. DEFERRED INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
TOTAL CAPITAL	<u>\$6,238,500</u>	<u>\$0</u>	<u>(\$6,160,163)</u>	<u>\$78,337</u>	<u>100.00%</u>		<u>4.82%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY						9.45%	11.45%
OVERALL RATE OF RETURN						4.63%	5.01%

HIDDEN COVE, LTD.			SCHEDULE NO. 3-A		
TEST YEAR ENDED 12/31/2021			DOCKET NO. 20220034-WS		
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	ADJUST FOR INCREASE	REVENUE REQUIREMENT
1. TOTAL OPERATING REVENUES	\$18,730	\$21	\$18,751	\$16,969 90.50%	\$35,720
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$26,257	\$1,131	\$27,388	\$0	\$27,388
3. DEPRECIATION	2,292	914	3,206	0	3,206
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,251	(79)	1,172	764	1,935
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$29,800</u>	<u>\$1,966</u>	<u>\$31,766</u>	<u>\$764</u>	<u>\$32,529</u>
7. OPERATING INCOME / (LOSS)	(\$11,070)		(\$13,015)		\$3,191
8. WATER RATE BASE	\$35,178				\$66,204
9. RATE OF RETURN					4.82%

HIDDEN COVE, LTD.		SCHEDULE NO. 3-B			
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220034-WS			
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	ADJUST FOR INCREASE	REVENUE REQUIREMENT
1. TOTAL OPERATING REVENUES	\$27,084	\$785	\$27,869	\$6,226 22.34%	\$34,095
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$28,597	(\$1,531)	\$27,066	\$0	27,066
3. DEPRECIATION	2,027	(528)	1,499	0	1,499
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	3,361	(1,264)	2,097	280	2,377
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$33,985</u>	<u>(\$3,323)</u>	<u>\$30,662</u>	<u>\$280</u>	<u>\$30,942</u>
7. OPERATING INCOME / (LOSS)	(\$6,901)		(\$2,793)		\$3,153
8. WASTEWATER RATE BASE	\$8,391				\$12,133
9. OPERATING MARGIN					12.00%

HIDDEN COVE, LTD.		DOCKET NO. 20220034-WS	
TEST YEAR ENDED 12/31/2021		PAGE 1 OF 2	
ADJUSTMENTS TO OPERATING INCOME		<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES			
1.	To reflect auditing adjustments to Service Revenues.	(\$18)	\$909
2.	To reflect appropriate test year Service Revenues.	<u>\$39</u>	<u>(\$124)</u>
	Total	<u>\$21</u>	<u>\$785</u>
OPERATION AND MAINTENANCE EXPENSE			
1.	Sludge Removal Expense (711) To reflect I&I adjustment of 13.30 percent.	<u>\$0</u>	<u>(\$653)</u>
2.	Purchased Power (615 / 715) To reflect I&I adjustment of 13.30 percent.	<u>\$0</u>	<u>(\$700)</u>
3.	Chemicals Expense (618 / 718) To reflect I&I adjustment of 13.30 percent.	<u>\$0</u>	<u>(\$584)</u>
4.	Contractual Services - Other (636 / 736)		
	a. To reflect an auditing adjustment.	(\$23)	\$0
	b. To reflect annual expense associated with coating the	<u>\$800</u>	<u>\$0</u>
	Subtotal	<u>\$777</u>	<u>\$0</u>
5.	Transportation Expense (650 / 750)		
	a. To reflect auditing adjustments.	(\$549)	(\$415)
	Subtotal	<u>(\$549)</u>	<u>(\$415)</u>
6.	Rate Case Expense (665 / 765)		
	b. To reflect 1/4 rate case expense.	<u>\$841</u>	<u>\$794</u>
	Subtotal	<u>\$841</u>	<u>\$794</u>
7.	Bad Debt Expense (670 / 770)		
	c. To reflect three years of Bad Debt expense average.	<u>\$63</u>	<u>\$27</u>
	Subtotal	<u>\$63</u>	<u>\$27</u>
	TOTAL OPERATION AND MAINTENANCE	<u>\$1,131</u>	<u>(\$1,531)</u>
DEPRECIATION EXPENSE			
1.	a. To reflect auditing adjustments.	\$36	(\$451)
	b. To reflect a staff adjustment to Account 311 - Pumping	\$27	\$0
	c. To reflect a staff adjustment to Account 320 - Water	\$7	\$0

HIDDEN COVE, LTD.	SCHEDULE 3-C	
TEST YEAR ENDED 12/31/2021	DOCKET NO. 20220034-WS	
ADJUSTMENTS TO OPERATING INCOME	PAGE 2 OF 2	
d. To reflect staff adjustments to Account 341 -	\$60	(\$77)
e. To reflect a pro forma addition.	<u>\$784</u>	<u>\$0</u>
Total	<u>\$914</u>	<u>(\$528)</u>
 TAXES OTHER THAN INCOME		
1. To reflect auditing adjustments.	(\$248)	(\$1,258)
2. To reflect appropriate test year RAF's.	\$2	(\$6)
3. To reflect property taxes associated with pro forma plant	<u>\$167</u>	<u>\$0</u>
Total	<u>(\$79)</u>	<u>(\$1,264)</u>
 TOTAL OPERATING EXPENSE ADJUSTMENTS	 <u>\$1,966</u>	 <u>(\$3,323)</u>

HIDDEN COVE, LTD.		SCHEDULE NO. 3-D		
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220034-WS		
ANALYSIS OF WATER O&M EXPENSE				
ACCT.		TOTAL	STAFF	TOTAL
#	DESCRIPTION	PER	ADJUST-	PER
		UTILITY	MENT	STAFF
601	Salaries and Wages - Employees	\$8,106	\$0	\$8,106
618	Chemicals	554	0	554
620	Materials and Supplies	2,245	0	2,245
630	Contractual Services - Billing	64	0	64
631	Contractual Services - Professional	189	0	189
635	Contractual Services - Testing	2,685	0	2,685
636	Contractual Services - Other	10,296	777	11,073
650	Transportation Expense	1,033	(549)	484
655	Insurance Expense	479	0	479
665	Rate Case Expense	0	841	841
670	Bad Debt Expense	0	63	63
675	Miscellaneous Expenses	<u>606</u>	<u>0</u>	<u>606</u>
	Total O&M Expense	<u>\$26,257</u>	<u>\$1,131</u>	<u>\$27,388</u>
	Working Capital is 1/8 of O&M Less RCE			\$3,318

HIDDEN COVE, LTD.		SCHEDULE NO. 3-E		
TEST YEAR ENDED 12/31/2021		DOCKET NO. 20220034-WS		
ANALYSIS OF WASTEWATER O&M EXPENSE				
ACCT.		TOTAL	STAFF	TOTAL
#	DESCRIPTION	PER	ADJUST-	PER
		UTILITY	MENT	STAFF
701	Salaries and Wages - Employees	\$8,314	\$0	\$8,314
711	Sludge Removal Expense	4,910	(653)	4,257
715	Purchased Power	5,264	(700)	4,564
718	Chemicals	4,394	(584)	3,810
720	Materials and Supplies	1,969	0	1,969
735	Contractual Services - Testing	463	0	463
736	Contractual Services - Other	1,495	0	1,495
750	Transportation Expense	1,201	(415)	786
755	Insurance Expense	479	0	479
765	Rate Case Expense	0	794	794
770	Bad Debt Expense	0	27	27
775	Miscellaneous Expenses	<u>108</u>	<u>0</u>	<u>108</u>
	Total O&M Expense	<u>\$28,597</u>	<u>(\$1,531)</u>	<u>\$27,066</u>
	Working Capital is 1/8 of O&M Less RCE			\$3,284

HIDDEN COVE, LTD.		SCHEDULE NO. 4-A	
TEST YEAR ENDED DECEMBER 31, 2021		DOCKET NO. 20220034-WS	
MONTHLY WATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$8.13	\$13.30	\$0.33
3/4"	\$12.21	\$19.95	\$0.49
1"	\$20.34	\$33.25	\$0.82
1-1/2"	\$40.67	\$66.50	\$1.64
2"	\$65.08	\$106.40	\$2.62
3"	\$130.16	\$212.80	\$5.24
4"	\$203.37	\$332.50	\$8.19
6"	\$406.75	\$665.00	\$16.38
Charge per 1,000 gallons	\$2.03	\$5.14	\$0.13
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$12.19	\$23.58	
6,000 Gallons	\$20.31	\$44.14	
10,000 Gallons	\$28.43	\$64.70	

HIDDEN COVE, LTD.		SCHEDULE NO. 4-B	
TEST YEAR ENDED DECEMBER 31, 2021		DOCKET NO. 20220034-WS	
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes	\$11.74	\$13.60	\$0.33
Charge Per 1,000 gallons			
6,000 gallon cap	\$3.89	\$5.64	\$0.14
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$11.74	\$13.60	\$0.33
3/4"	\$17.62	\$20.40	\$0.50
1"	\$29.36	\$34.00	\$0.83
1-1/2"	\$58.72	\$68.00	\$1.66
2"	\$93.95	\$108.80	\$2.65
3"	\$187.90	\$217.60	\$5.31
4"	\$293.60	\$340.00	\$8.29
6"	\$610.00	\$680.00	\$16.59
Charge per 1,000 gallons	\$3.89	\$6.77	\$0.17
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$19.52	\$24.88	
6,000 Gallons	\$35.08	\$47.44	
10,000 Gallons	\$35.08	\$47.44	