

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a rate) DOCKET NO. 940299-SU
increase in Monroe County by KEY) ORDER NO. PSC-94-1557-S-SU
HAVEN UTILITY CORPORATION.) ISSUED: December 13, 1994

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK
JULIA L. JOHNSON
DIANE K. KIESLING

FINAL ORDER APPROVING STIPULATIONS
AND GRANTING INCREASED WASTEWATER RATES AND CHARGES

BY THE COMMISSION:

BACKGROUND

Key Haven Utility Corporation (Key Haven or utility) is a Class B wastewater utility providing service to approximately 375 residential customers in Monroe County. For the test year ended December 31, 1993, the utility reported operating revenues of \$155,096 and a net operating income of \$28,623.

On June 16, 1994, the utility filed an application for approval of interim and permanent rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes. The utility satisfied the Minimum Filing Requirements (MFRs) for a rate increase, and this date was designated as the official filing date.

The utility's last rate case concluded with stipulation in Order No. 21100, issued April 24, 1989. By this order, rates were set at a flat rate, service availability charges were increased and return on equity was established at a mid-point of 14.35%; however, rate base was not set. Rate base was last set, by this Commission, in Order No. 11544, issued January 25, 1983.

The utility requested that this case not be processed as a proposed agency action pursuant to Section 367.081 (8), Florida Statutes. The utility's application for increased rates was based on the test year ended December 31, 1993, for both interim and final.

Key Haven requested interim wastewater rates designed to generate annual revenues of \$218,454. These revenues exceeded test year revenues by \$63,358, for an increase of 40.85%. The utility

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has requested final wastewater rates designed to generate annual revenues of \$233,360, which exceed test year revenues by \$78,264, a 50.46% increase.

On September 1, 1994, by Order No. PSC-94-1070-PCO-SU, we issued the order establishing procedure for this case. Order No. PSC-94-1070-PCO-SU also acknowledged the Office of Public Counsel's (OPC) intervention. Order No. PSC-94-1078-FOF-SU, issued September 1, 1994, suspended the utility's permanent rate increase request and granted the utility interim rates subject to refund.

On October 12, 1994, a Prehearing Conference was held. This case was originally scheduled for an October 27-28, 1994, hearing. Since the parties reached a proposed stipulation on the major issues prior to the hearing, the hearing was cancelled. At the November 22, 1994, agenda conference, we approved the parties' stipulations.

STIPULATIONS

As stated earlier, prior to the hearing, the utility, OPC, and Staff agreed to a number of stipulations, and the hearing was cancelled. The actual calculation of the rates and the revenue requirement will be discussed in subsequent issues. The stipulations appear to be reasonable and we find it appropriate to accept them. The stipulations have been identified below.

CATEGORY A

Category A includes the stipulations which the utility, OPC and the Commission Staff believed to be reasonable. We agree and they shall be accepted.

1. Plant in service will be reduced by \$11,119, according to Audit Exception No. 1.
2. Account No. 354 will be increased by \$1,840 and Account No. 361 will be increased by \$1,237. Also, adjustments will be made to increase accumulated depreciation by \$40, decrease materials and supplies by \$3,678 and increase depreciation expense by \$40.
3. The used and useful percentages for the wastewater treatment plant and the wastewater collection system are 100%.
4. The rate of return on equity is 10.93%, with a range of plus or minus 1%.

5. The appropriate cost rate for long-term debt is 9.75%.
6. The overall rate of return is 10.31%.
7. The utility's net operating losses should offset any income tax expense, resulting in a zero income tax expense provision. This does not imply that the utility agrees that there is no income tax expense.
8. The wastewater rates will be designed using a flat rate structure.

CATEGORY B

9. The appropriate amount of rate case expense is \$45,000. This results in a decrease of \$45,368 to the utility's request. OPC does not agree that rate case expense should only be reduced by \$45,368, however, it does agree not to oppose this stipulation since rate case expense would have been even higher if the case had gone to hearing.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule No. 1-A, and our adjustments are itemized on Schedule No. 1-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. Using a beginning and ending year average, we find that the appropriate test year rate base is \$719,139.

NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedule No. 3-A, and our adjustments are itemized on Schedule No. 3-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. Based on the previous adjustments, the appropriate test year operating income is \$73,708.

REVENUE REQUIREMENT

Based on the utility's application, our adjustments, and the calculations discussed above, we find that the appropriate annual revenue requirement for this utility is \$210,993, which is an increase of \$55,897, or 36.09%, excluding miscellaneous service revenues.

RATES AND RATE STRUCTURE

Pursuant to Stipulation 9, we hereby find that the final rates which are based on a flat rate method are appropriate for this utility. This gives the utility an opportunity to earn a 10.31% return on its investment in rate base.

Rate Schedule
Wastewater
Monthly Rates

Residential and General Service

<u>Current</u>	<u>Commission Approved Interim</u>	<u>Utility Requested Final</u>	<u>Commission Approved Final</u>
Flat Rate: \$34.65	\$47.04	\$52.21	\$47.16

The approved rates will be effective for service rendered on or after the stamped approval date of the tariff sheets, provided the customers have received notice. Key Haven shall provide proof that notice has been given to its customers within ten days after the date of the notice. The revised tariff sheets will be approved upon our verification that the tariffs are consistent with the Commission's decision and the proposed customer notice is adequate. The comparison of the utility's original rates, interim rates, requested rates, and our final approved rates are set forth below for comparison.

STATUTORY RATE REDUCTION

Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over the period of four years. The statute further requires that the rates of the utility be reduced immediately by the amount of rate case expense previously included in the rates. Therefore, in accordance with Section 367.0816, Florida Statutes, the utility's wastewater rates shall be

reduced by \$11,780 at the expiration of the four year recovery period as shown below. The revenue reductions reflect the annual rate case amounts amortized plus the gross-up for regulatory assessment fees.

The utility shall file a revised tariff no later than one month prior to the actual date of the required rate reduction. The utility shall file a proposed customer notice setting forth the lower rates and the reason for the reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Schedule of Rate Decrease After Expiration of
Amortization Period for Rate Case Expense

Wastewater
Monthly Rates

Residential and General Service

	Commission Approved Final	Rate Decrease
Flat Rate:	\$47.16	\$2.64

REFUND REQUIREMENT

On September 1, 1994, this Commission issued Order No. PSC-94-1078-FOF-SU approving an interim rate increase of \$55,405 (35.72%). This increase has resulted in annual revenues of \$210,501. We approved this increase subject to refund in the event that excessive earnings were later determined. Pursuant to Section 367.082, Florida Statutes, any refund shall 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 should be removed. Examples of these adjustments would be an attrition allowance or rate case expense, which are recovered only after final rates are established.

In this proceeding, the test period for establishment of interim rates and final rates was the twelve months ended December 31, 1993. The approved interim rates did not include any

provisions for pro forma consideration of increased operating expenses or increased plant. The interim increase was designed to allow recovery of actual interest costs and the floor of the last authorized range for equity earnings.

To establish the proper refund amount, we calculated a revised interim revenue requirement using the same data used to establish final rates, but excluding pro forma provision for rate case expense. This pro forma charge was excluded since it was not an actual expense during the interim collection period. We computed the comparable revenue requirement using the cost of capital for final rate purposes since the cost of debt included in the calculation was in effect during the interim period.

Using the principles discussed above, we calculated that the correct interim revenue requirement would be \$199,212. Accordingly, the utility shall be required to refund 5.32% of the of the wastewater service revenues collected under interim rates.

This docket shall be closed upon staff's verification that the utility has completed the required refund and upon staff's approval of the utility's revised tariff sheets. The utility's escrow agreement may be released upon staff's verification that the refund has been completed. The utility may treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that Key Haven Utility Corporation's application for a rate increase in Monroe County is granted to the extent set forth in this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained herein, whether in the form of discourse in the body of this Order or Schedules attached hereto are, by reference, expressly incorporated herein. It is further

ORDERED that the stipulations included in Categories A and B in this Order are hereby approved. It is further

ORDERED that Key Haven Utility Corporation shall be authorized to collect the rates approved herein for service rendered on or after the stamped approval date of the revised tariff pages, provided that its customers receive notice of the revised rates and the reasons therefor. It is further

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ORDERED that, prior to implementing the approved rates, Key Haven Utility Corporation shall submit revised tariff pages reflecting the approved rates. It is further

ORDERED that, prior to implementing the approved rates, Key Haven Utility Corporation shall submit a proposed notice to its customers of the revised rates and the reasons therefor. It is further

ORDERED that the revised tariff pages will be approved upon Staff's verification that the tariff pages are consistent with our decision and upon Staff's approval of the proposed customer notice. It is further

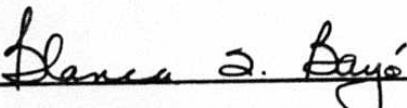
ORDERED that Key Haven Utility Corporation shall provide proof that notice has been given to its customers within ten (10) days after the date of the notice. It is further

ORDERED that the rates approved herein shall be reduced at the end of the four-year rate case expense amortization period, consistent with this Order. Key Haven Utility Corporation shall file revised tariff sheets no later than one month prior to the actual date of reduction. It is further

ORDERED that Key Haven Utility Corporation shall treat any unclaimed refunds as CIAC, pursuant to Rule 25-30.360(8), Florida Administrative Code. It is further

ORDERED that this docket shall be closed upon staff's verification that the utility has completed the required refund and upon staff's approval of the utility's revised tariff sheets.

By ORDER of the Florida Public Service Commission, this 13th day of December, 1994.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), 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.

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 Director, Division of Records and Reporting 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 Director, Division of Records and Reporting 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 Civil Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

KEY HAVEN UTILITY CORPORATION SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED DECEMBER 31, 1993			SCHEDULE NO. 1-A DOCKET NO. 940299-SU		
COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 1,062,394	\$ 0	\$ 1,062,394	(\$ 8,042)	1,054,352
2 LAND	5,666	0	5,666	0	5,666
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(264,747)	0	(264,747)	(40)	(264,787)
5 CIAC	(249,330)	0	(249,330)	0	(249,330)
6 AMORTIZATION OF CIAC	144,279	0	144,279	0	144,279
7 ACQUISITION ADJUSTMENTS -NET	0	0	0	0	0
8 ADVANCES FOR CONSTRUCTION	0	0	0	0	0
9 DEFERRED TAXES	18,873	0	18,873	0	18,873
10 WORKING CAPITAL ALLOWANCE	13,370	0	13,370	(3,284)	10,086
RATE BASE	\$ 730,505	\$ 0	\$ 730,505	(\$ 11,366)	719,139

KEY HAVEN UTILITY CORPORATION
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 1-B
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EXPLANATION	WASTEWATER
PLANT IN SERVICE	
A. To reduce due to erroneous journal entry	(11,119)
B. To increase for landscaping and refurbishing	<u>3,077</u>
	\$ <u><u>(8,042)</u></u>
ACCUMULATED DEPRECIATION	
To increase for landscaping and refurbishing	\$ <u>(40)</u>
WORKING CAPITAL ALLOWANCE	
To reflect adjustment to O&M Expenses	\$ <u>(3,284)</u>

KEY HAVEN UTILITY CORPORATION
 CAPITAL STRUCTURE
 TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 2-A
 DOCKET NO. 940299-SU

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	UTILITY WEIGHTED COST	COMMISSION RECONC. ADJ. TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST PER COMMISSION	
1 LONG TERM DEBT	\$ 379,330	53.67%	9.66%	5.18%	\$ (2,061)	\$ 377,269	52.46%	9.75%	5.11%	
2 SHORT-TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
3 PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
4 COMMON EQUITY	327,410	46.33%	15.27%	7.07%	14,460	341,870	47.54%	10.93%	5.20%	
5 CUSTOMER DEPOSITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
7 DEFERRED ITC'S	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
8 DEFERRED TAX CREDITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
9 TOTAL CAPITAL	\$ 706,740	100.00%		12.25%	\$ 12,399	\$ 719,139	100.00%		10.31%	
RANGE OF REASONABLENESS							LOW	HIGH		
							9.93%	11.93%		
							9.84%	10.79%		

KEY HAVEN UTILITY CORPORATION ADJUSTMENTS TO CAPITAL STRUCTURE TEST YEAR ENDED DECEMBER 31, 1993		SCHEDULE NO. 2-B DOCKET NO. 940299-SU			
DESCRIPTION	SPECIFIC ADJUSTMENT (1)	SPECIFIC ADJUSTMENT (2)	PRO RATA RECONCILE	NET ADJUSTMENT	
1 LONG TERM DEBT	\$ (18,018)\$	0 \$	15,957 \$	(2,061)	
2 SHORT-TERM DEBT	0	0	0	0	
3 PREFERRED STOCK	0	0	0	0	
4 COMMON EQUITY	0	0	14,460	14,460	
5 CUSTOMER DEPOSITS	0	0	0	0	
6 ACCUM. DEFERRED INCOME TAX	0	0	0	0	
7 OTHER (Explain)	0	0	0	0	
8 TOTAL CAPITAL	\$ (18,018)\$	0 \$	30,417 \$	12,399	

KEY HAVEN UTILITY CORPORATION
 STATEMENT OF WASTE/WATER OPERATIONS
 TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 3-A
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DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 153,846	\$ 79,514	\$ 233,360	(78,264)	\$ 155,096	\$ 55,897	210,993
OPERATING EXPENSES		51.68%				36.04%	
2 OPERATION AND MAINTENANCE	\$ 83,867	\$ 23,292	\$ 106,959	(15,020)	\$ 91,939	\$	91,939
3 DEPRECIATION NET OF CIAC AMORT.	33,995	0	33,995	40	34,035		34,035
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	8,755	3,120	11,875	(3,522)	8,353	2,515	10,868
6 INCOME TAXES	0	6,823	6,823	(6,823)	0	0	0
7 TOTAL OPERATING EXPENSES	\$ 126,417	\$ 33,235	\$ 159,652	(25,325)	\$ 134,327	\$ 2,515	136,842
8 OPERATING INCOME	\$ 27,429	\$ 46,279	\$ 73,708	(52,939)	\$ 20,769	\$ 53,381	74,150
9 RATE BASE	\$ 730,505		\$ 730,505		\$ 719,139		\$ 719,139
RATE OF RETURN	3.75%		10.09%		2.89%		10.31%

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KEY HAVEN UTILITY CORPORATION
 ADJUSTMENTS TO OPERATING STATEMENTS
 TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 3-B
 DOCKET NO. 940299-SU

EXPLANATION	WASTEWATER
<u>OPERATING REVENUES</u> To remove the utility's test year revenue request	\$ <u>(78,264)</u>
<u>OPERATION AND MAINTENANCE EXPENSES</u>	
A. To decrease materials and supplies	(3,678)
B. To decrease rate case expense	<u>(11,342)</u>
	\$ <u>(15,020)</u>
<u>DEPRECIATION</u> To reflect adjustment to plant	\$ <u>40</u>
<u>TAXES OTHER THAN INCOME</u> To remove requested provision for RAF's	\$ <u>(3,522)</u>
<u>INCOME TAXES</u> To remove requested provision	\$ <u>(6,823)</u>
<u>OPERATING REVENUES</u> Adjustment to reflect recommended revenues	\$ <u>55,897</u>
<u>TAXES OTHER THAN INCOME</u> To reflect RAF's related to adjustment to revenues.	\$ <u>2,515</u>