STATE OF FLORIDA

Commissioners:
J. TERRY DEASON, CHAIRMAN
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LILA A. JABER
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DIVISION OF LEGAL SERVICES
NOREEN Z.. DAVIS
DIRECTOR
(850) 413-6199

Public Service Commission

October 30, 2000

Mr. J. Ray Keen, President
Keen Sales, Rentals and Utilities, Inc.
685 Dyson Road
Haines City, Florida 33844

Re: Docket No. 000580-WU, Application for a Staff Assisted Rate Case by Keen Sales, Rentals and Utilities, Inc. (Keen or utility) for its Alturas Water Works system. The utility is located in Polk County.

Dear Mr. Keen:

This will confirm that Commission staff will hold a customer meeting in the above-referenced docket at 6:00 pm on Thursday, November 30, 2000. The location of the meeting will be:

Bartow Civic Center
The Game Room
2250 South Floral Avenue
Bartow, Florida 33830

We ask that, if at all possible, you or another knowledgeable representative of the utility attend the meeting in order to answer customer questions.

The original customer meeting notice is enclosed. Please note the date has been left blank so that you can fill in the date that the notice is sent to the customers. The customers must have at least 14 calendar days' notice of the meeting, calculated from the day that they receive the notice. Please furnish me with a copy of the notice, as reproduced at the time it is distributed to your customers, together with a cover letter indicating the exact date(s) on which the notice was mailed or otherwise delivered to the customers.

Three copies of the staff report dated October 26, 2000, are enclosed. Please ensure that a copy of the complete Application for Staff Assistance and the reports are available for review by all interested persons at the utility or the post office located in Alturas, Florida. If you have any questions, please do not hesitate to call me at (850) 413-6185.

Sincerely,

Tyler Van Leuven
Staff Attorney

APP
CAF
CMP
COM
CTR
ECR
LEG
OPC
PAI
RGO
SEC
SER
OTH

Enclosure (4)

cc: Division of Records and Reporting
Division of Consumer Affairs (DeMello, Raspberry)
Division of Economic Regulation (Willis, Rendell, Butts, Munroe)
Office of Public Counsel

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

NOTICE OF CUSTOMER MEETINGS

TO THE CUSTOMERS OF KEEN SALES, RENTALS AND UTILITIES, INC.

(ALTURAS WATER WORKS)

AND

ALL OTHER INTERESTED PERSONS

DOCKET NO. 000580-WU

APPLICATION OF KEEN SALES, RENTALS AND UTILITIES, INC.

FOR A STAFF-ASSISTED RATE CASE IN

POLK COUNTY

Issued:

Notice is hereby given that the staff of the Florida Public Service Commission will conduct a customer meeting to discuss the application of Keen Sales, Rentals and Utilities, Inc. (Keen Sales or utility) Alturas Water Works for a staff-assisted rate case in Polk County. The meeting will be held at the following time and place:

6:00 p.m., Thursday, November 30, 2000
Bartow Civic Center
The Game Room
2250 South Floral Avenue
Bartow, Florida 33830

All persons who wish to comment are urged to be present at the beginning of the meeting, since the meeting may be adjourned early if no customers are present. One or more of the Commissioners of the Florida Public Commission may attend and participate in this meeting. The meeting will begin as scheduled and will continue until all the customers have been heard.

The Public Service Commission Staff will be available at the civic center on November 30, 2000 between 2:00pm and 4:00pm. All persons who wish to participate in individual meetings are urged to make an appointment, since individual meetings may be canceled if no appointments are made. If you wish to meet with staff, please contact Johnny Butts at (850) 413-6920 prior to November 29, 2000.

Any person requiring some accommodation at the customer meeting(s) because of a physical impairment should call the Division of Records and Reporting at (850) 413-6770 at least five calendar days prior to the meeting(s). Any person who is hearing or speech impaired should contact the Florida Public Service Commission by using the Florida Relay Service, which can be reached at 1-800-955-8771 (TDD).

PURPOSE

The purpose of this meeting is to give customers and other interested persons an opportunity to offer comments to the Public Service Commission Staff regarding the quality of service the utility provides, the proposed rate increase, and to ask questions and comment on staff's preliminary rates included in this notice as well as other issues. Staff members will summarize Keen Sales' proposed filing, the preliminary work accomplished, and answer questions to the extent possible. A representative from the utility has also been invited to respond to questions.

At the beginning of the meeting, procedures will be established for the order of comments. The Public Service Commission Staff will have sign-up sheets, and customers will be called to speak in the order that they sign-up. Public Service Commission Staff will be available to coordinate customers' comments and to assist members of the public.

Any person who wishes to comment or provide information to staff may do so at the meetings, orally or in writing. Written comments may also be sent to the Commission at the address given at the end of this notice. Your letter will be placed in the correspondence file of this docket. You may also submit comments through the Public Service Commission's toll-free facsimile line at 1-800-511-0809.

BACKGROUND

Keen Sales is a Class C utility which provides water service to approximately 62 residential customers and 2 general service customers in its Alturas Water Works service area located in Polk County. The utility's adjusted test year revenues are $13,419, and its staff adjusted operating expenses are $23,079, which results in a staff adjusted test year loss of ($9,660) for this utility. The test period for setting rates is the historical twelve month period ending March 31, 2000.

CURRENT AND PRELIMINARY RATES AND CHARGES

Staff has compiled the following rates and charges for the purpose of discussion at the customer meeting. These rates are

preliminary and subject to change based on information gathered at the customer meeting, further staff review, and the final decision by the Commissioners. Staff has compiled the following rates and charges for the purpose of discussion at the customer meeting. The utility is currently under a base facility and gallonage charge rate structure with rates that consist of a base rate of $13.50 up to 3,000 gallons. After the 3,000 gallons are consumed, the charge becomes $1.00 per 1,000 gallons used. The utility's current and staff's preliminary rates and charges are as follows:

Residential & General Service Water Rates

Base Facility Charge Meter Size	Minimum Charge for 3,000 gallons Existing Monthly Rate	Staff Preliminary Monthly Rate
5/8" x 3/4"	$ 13.50	$ 9.64
3/4"	13.50	14.46
1"	13.50	24.10
1-1/2"	13.50	48.20
2"	13.50	77.12
3"	N/A	154.24
4"	N/A	241.00
6"	N/A	482.00
Gallonage Charge Per 1,000 gallons over 3,000 gallons	$ 1.00	
Gallonage Charge Per 1,000 gallons		$ 3.87

Based on staff's preliminary rates, the following would be the estimated average residential water monthly billings for the consumption shown:

Monthly Consumption (In Gallons)	**Monthly Billing**	**Using Staff's Preliminary Rates**
3,000	$13.50	$21.25
5,000	$15.50	$28.99
7,500	$18.00	$38.67

STAFF REPORTS AND UTILITY APPLICATION

The results of staff's preliminary investigation are contained in a staff report dated October 26, 2000. Copies of the report may

be examined by interested members of the public 24 hours a day on the bulletin board at the following location:

Post Office located in Alturas, Florida

PROCEDURES AFTER CUSTOMER MEETINGS

After the meetings, Public Service Commission Staff will prepare a recommendation which is scheduled to be submitted to the Public Service Commission on January 4, 2001. The Public Service Commission will then vote on staff's recommendation at its January 16, 2001 agenda conference. The Commission will thereafter issue a proposed agency action (PAA) order containing rates which may be different from those contained in staff's final recommendation. Substantially affected persons have 21 days from the date the PAA order is issued to protest the Commission's proposed agency action order. Five to ten customers or persons who attend the meeting and who wish to receive a copy of the recommendation and the order should so indicate at the meeting. Those individuals are expected to distribute the information in the recommendation and the order to other customers. Anyone who is unable to attend and who wishes to obtain a copy of the recommendation or the order may do so in writing to the Commission at the address at the end of this notice.

HOW TO CONTACT THE COMMISSION

Written comments regarding the utility and the proposed rates, and requests to be placed on the mailing list for this case, may be directed to this address:

Director, Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

All correspondence should refer to "Docket No. 000580-WU, Keen Sales, Rentals and Utilities, Inc."

If you wish to contact the Commission regarding complaints about service, you may call the Commission's Division of Consumer Affairs at the following toll-free number: 1-800-342-3552.

This notice was prepared by Commission Staff for distribution by the utility to its customers.

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: OCTOBER 26, 2000

TO: MARSHALL WILLIS, BUREAU CHIEF

FROM: JOHNNY BUTTS, PROFESSIONAL ACCOUNTANT
LEE MUNROE, ENGINEER III
JENNIE LINGO, ECONOMIC ANALYST

RE: DOCKET NO. 000580-WU - APPLICATION FOR STAFF-ASSISTED RATE CASE BY KEEN SALES, RENTALS AND UTILITIES, INC. FOR ITS ALTURAS WATER WORKS SYSTEM.

COUNTY: POLK

STAFF REPORT

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

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DOCKET NO. 000580-WU
DATE: OCTOBER 26, 2000

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CASE BACKGROUND

This Staff Report is a **preliminary** analysis of the utility prepared by the Florida Public Service Commission (PSC) staff to give utility customers and the utility an advance look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed January 4, 2001 for the January 16, 2001 Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

Keen Sales, Rentals and Utilities, Inc. (Keen or utility) is a Class C water utility operating in Polk County. Keen currently owns and operates the following water systems in Polk County: Alturas Water Works, Sunrise Water Company, Lake Region Paradise Island, and the subdivision. These four water systems provide service to approximately 548 customers in its certificated territory. This report will address one of the four systems, Alturas Water Works system (Alturas). The Alturas water system provides water service to approximately 62 residential customers and 2 general service customers in its service area. On May 12, 2000, the utility applied for this staff assisted rate case (SARC).

In preparation for this report, staff audited the utility's records for compliance with Commission rules and orders and examined all components necessary for rate setting. The staff engineer has also conducted a field investigation, which included a visual inspection of the water facilities along with the service area. The utility's operating expenses, maps, files, and rate application was also reviewed to determine reasonableness of maintenance expenses, regulatory compliance, utility plant in service, and quality of service. Staff has selected a historical test year ended March 31, 2000.

Based on staff analysis, the utility's adjusted revenue was $13,419 for the test year. The adjusted operating expenses were $23,079 during the test year; this resulted in operating loss of ($9,660).

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Keen-Alturas considered satisfactory?

PRELIMINARY RECOMMENDATION: The quality of service provided by Keen-Alturas will be determined after the customer meeting. (MUNROE)

STAFF ANALYSIS: Rule 25-30.433(1), Florida Administrative Code (F.A.C.) states that:

> The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of the utility's product (water and wastewater); operational conditions of the utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and the county health departments or lack thereof over the preceding 3-year period shall also be considered. DEP and Health department officials' comments or testimony concerning quality of service as well as the complaints or testimony of utility's customers shall be considered.

Staff's analysis below addresses each of these three components.

Keen-Alturas is a class C utility with a service area located west of Lake Wales, Florida, which is in Polk County. The Alturas Water system provides water service to 62 residential customers (66 Equivalent Residential Connections (ERCs)) and 2 general service customers (4 ERCs). The utility obtains its raw water from 1 well in the area surrounding the water plant. The water treatment plant includes a 3,000 gallon hydropneumatic tank, a chlorine injection system and a filtration system which was provided and is maintained by Department of Environmental Protection (DEP).

QUALITY OF UTILITY'S PRODUCT

In Polk County, the potable water program is regulated by the Polk County Health Department (PCHD). According to the PCHD, the utility is currently up-to-date with all chemical analysis and all test results have been satisfactory for the past three years. The

utility's testing program indicates that they serve water which meets or exceeds all standards for safe drinking water and the water quality is considered satisfactory.

OPERATIONAL CONDITIONS OF THE UTILITY'S PLANT AND FACILITIES

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. Maintenance of the building which house the chlorine system at the water treatment plant is satisfactory. The PCHD has had a few minor plant-in-service deficiencies over the last three years, but, the utility was responsive and addressed these in a prompt manner. Currently, there are no outstanding violations, citations, or corrective orders. The operational conditions at the water treatment plant is considered satisfactory.

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

This component'z. evaluation is pending the customer service meeting scheduled for November 30, 2000.

ISSUE 2: Are any pro forma adjustments needed for the Alturas Water Works plant?

PRELIMINARY RECOMMENDATION: Yes, pro forma adjustments of $26,895 are needed for continuation of the meter replacement program, replacement of the hydropneumatic tank and construction of a plant security fence. (MUNROE)

STAFF ANALYSIS : The meters have exceeded their expected life and have been found to be inaccurate. Therefore, replacement is necessary. Staff has reviewed the utility's estimate of $3,940 and finds it reasonable and prudent.

The hydropneumantic tank has also exceeded its expected life, and has been patched twice. Its failure would result in the customers being left with no potable water. Scheduled replacement which would minimize down time to a few hours is recommended. Staff has reviewed the utility's estimate of $21,685 for the installation of a new hydropneumatic tank and finds the cost prudent and reasonable.

All utility plants and wells should be secured. This utility's plant and well are not. The plant has been vandalized in the past. Installation of a security fence is necessary, prudent and recommended. Staff has reviewed the utility's estimate of $1,270 and finds it both prudent and reasonable.

The pro forma adjustments of $26,895 are needed for continuation of the meter replacement program, replacement of the hydropneumatic tank and construction of a plant security fence.

ISSUE 3: Should the Commission approve a year end rate base for Keen-Alturas, and if so, what is the appropriate year end rate base?

PRELIMINARY RECOMMENDATION: Yes, the Commission should approve a year end rate base for Keen-Alturas to allow it an opportunity to earn a fair return on the utility's investment made before the test year, and earn a fair rate of return on the pro forma, as well as, to insure compensatory rates in this rate case. (BUTTS)

STAFF ANALYSIS: The utility's plant was placed in service in 1952, resulting in it being fully depreciated on December 31, 1992. A large percentage of the utility's rate base that staff is recommending is pro forma consisting of the following plant assets: meters, hydropneumatic tank, and a security fence. The utility has submitted bids or invoices on the recommended pro forma which will be major plant additions and improvements that represents 78% of the year end rate base.

The Commission should only apply a year end rate base in extraordinary circumstances. Citizens of Florida v. Hawkins, 356 So. 2d 254, 257. Staff believes that extraordinary circumstances exist in this docket. Staff's engineer performed an original cost study and it indicated that the majority of plant for this utility was installed in 1952. Therefore, all plant installed in 1952 was fully depreciated as of December 1992. Further, the results of the original cost study and audit of the utility's books and records indicated that $6,319 of additional plant was installed between January 1998 and the historical test year ending March 31, 2000. Staff believes that extraordinary circumstances do exist in this docket because the utility has indicated that it plans to installed meters, a hydropneumatic tank, and a security fence which represents 78% of its year end rate base for the test year. See Order No. PSC-98-0763-FOF-SU, issued June 3, 1998 in Docket No. 971182-SU (Improvements representing 36.07% of total plant deemed extraordinary circumstances); and Order No. PSC-00-1774-PAA-WU, issued September 27, 2000 in Docket No. 991627-WU (Improvements representing over 52% of the utility's rate base deemed extraordinary circumstances).

The year end rate base will allow the utility an opportunity to earn a fair rate return on its investment made prior to the test year, as well as, an opportunity to earn a fair rate of return on the much needed pro forma plant and to insure compensatory rates for this utility in this rate case proceeding. Pursuant to Section 367.081(2)(a), Florida Statutes, the Commission is required to consider the investment in plant made by the utility in the public

service. Keen-Alturas has provided staff with bids on the labor and installment for the recommended pro forma; therefore, staff's preliminary recommends that the Commission approve a year end rate base for this utility's water system.

ISSUE 4: Should a growth allowance be included in the calculations of used and useful plant?

PRELIMINARY RECOMMENDATION: Yes. (MUNROE)

STAFF ANALYSIS: Section 367.081(2)(b), Florida Statutes requires that the Commission consider utility property needed to serve customers 5 years after the end of the test year used and useful in the Commission's final order on a rate request. This growth rate for ERCs should not exceed 5 percent per year. In accordance with Section 367.081(2)(b), Florida Statues a 5 year period has been used in staff's calculations.

Staff's normal method of projecting growth is regression analysis where the historical growth for the past five years is projected into the future to estimate the number of ERCs expected for a given year.

For Keen-Alturas only three years of accurate data was available. Considering this limitation, an average growth of 3 ERCs per year was calculated. Over a five year statutory period that equates to 15 ERCs or 8,592 gallons per day (gpd).

ISSUE 5: Should the utility have any excessive unaccounted for water recognized in the used and useful calculation?

PRELIMINARY RECOMMENDATION: No. Although any amount over 10% of the water pumped and unaccounted for is considered excessive, in this situation the water is not being lost due to leaks, but due to old, slow meters. Because the customers are receiving this water, the water is only lost for billing purposes. (MUNROE)

STAFF ANALYSIS: When the Alturas system was purchased by the current owners approximately three years ago, annual reports showed no excessive unaccounted water. This was incorrect information. After several billing cycles, the problem was discovered. After consulting the Florida Rural Water Association, a leak detector was purchased, and a number of leaks were found and repaired. The improvement was only slight. After further evaluation of the problem, it was discovered that the meters were approximately fifty years old. The utility believes the unaccounted for water is due to these old meters which are running slow. Staff concurs with this conclusion. The utility has begun a meter replacement program and will replace all the meters within one year. The unaccounted for water is being used by the customers and not being lost due to leaks. All these facts considered, staff recommends the utility's used and useful should not be adjusted due to excessive unaccounted for water.

USED AND USEFUL

ISSUE 6: What portions of water plant and distribution system are used and useful?

PRELIMINARY RECOMMENDATION: The water treatment plant should be considered 100% used and useful. The water distribution system should also be considered 100% used and useful. (MUNROE)

STAFF ANALYSIS: Water Treatment Plant - The water treatment plant draws raw water from one well at a total rate of 350 gallons per minute (gpm). The well is equipped with a 15 horsepower pump. Well-point draw down and groundwater recovery time limits the well to a reliable extraction time equal to a 12 hour day. Alturas Water Works's firm reliable capacity of the well (350 gpm X 60 m/hr X 12 hour day) is 252,000 gpd.

Under the American Water Works Association (AWWA) method recommended for small closed systems, 1.1 gpm per ERC normal demand times a peaking factor of 2 results in a peak demand of 2.2 gpm per ERC. When this is multiplied by 84 ERCs, 69 average test year ERCs plus growth of 15 ERCs, the plant demand is 185 gpm or 266,112 gpd. While the utility is trying to support a volunteer fire station, they are actually more than 100% used and useful even without adding the fireflow demand.

By the formula, it is recommended that the water treatment plant be considered 100% used and useful. **The calculation is summarized in Attachment A, page 1 of 2, to this issue.**

The 100% used and useful should be applied to the following accounts:

304 Structures and Improvements
320 Water Treatment Equipment
309 Supply Mains
311 Pumping Equipment
320 Water Treatment Equipment
307 Wells and Springs

Water Distribution System - The water distribution system is estimated to have the potential of serving 80 ERCs. Year end data showed that the utility had 70 ERCs. When a growth of 15 ERCs is added, the utility distribution system is 100% used and useful, in

fact they must add lines before full growth can be realized. **(See attachment A, page 2 of 2 for calculations)**

The 100% used and useful should be applied to the following accounts:

330 Distribution Reservoirs and Standpipes
331 Transmission and Distribution Mains
333 Services

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 000580-WU - Alturas Water Works

1)	**Firm Reliable Capacity of Well**	252,000	gpd	
2)	**Maximum Day Flow (AWWA)** (69 ERCs X 1.1 gpm/ERC X 2 peaking factor X 60 m/h X 24 h/d)	218,592	gpd	
3)	**Average Daily Flow**	20,598	gpd	
4)	**Fire Flow Capacity**	60,000	gpd	
5)	**Growth** 15 ERCs or	47,520	gpd	
	a) Test year Customers in ERCs:		Begin	67
			End	70
			Average	69
	b) Customer Growth in ERCs		3	ERCs
	c) Statutory Growth Period		5	Years
	(b)x(c)x 1.1 x 2 x 60 x 24 = 47,520 gpd for growth			
6)	**Excessive Unaccounted for Water**	0	gpd	
	a) Total Unaccounted for Water	5,920	gpd	
	Percent of Average Daily Flow	29%		
	b) Reasonable Amount (10% of average Daily Flow)	2,598	gpd	
	c) Excessive Amount	0	gpd	

(See Analysis in Issue No. 5)

USED AND USEFUL FORMULA

[(2)+(4)+(5)-(6)]/(1) = **100% Used and Useful**

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 000580-WU - Alturas Water Works

1)	**Capacity of System** (Number of Potential Customers, ERCs or Lots Without Expansion)	80	ERCs
2)	**Test year connections**		
	a) Beginning of Test Year	67.0	ERCs
	b) End of Test Year	70.0	ERCs
	c) Average Test Year	69.0	ERCs
3)	**Growth**	15.0	ERCs
	(Due to plant additions in 1999, use end of year customer count)		
	a) customer growth in ERCs	3.0	ERCs
	b) Statutory Growth Period	5	Years

(a)x(b) = 15 ERCs allowed for growth

USED AND USEFUL FORMULA

[(2b+(3)]/(1) = **100% Used and Useful**

ISSUE 7: Should an acquisition adjustment be approved in the determination of the utility's rate base at the date of purchase?

PRELIMINARY RECOMMENDATION: No, an acquisition adjustment should not be approved in the determination of the utility's rate base at the date of purchase. (BUTTS)

STAFF ANALYSIS: An acquisition adjustment occurs when the purchase price differs from the original cost. In Order No. PSC-98-1752-FOF-WU, issued December 22, 1998, in Docket No. 980536-WU, the Commission did not determine the appropriateness of an acquisition adjustment for the Alturas Water Works system owned by Keen Sales since no rate base was established. However, the Commission did note that rate base at the time of the transfer could not be established until an original cost study was complete on the Alturas system. The Commission put the utility on notice that an original cost would be conducted upon filing for a staff assisted rate case.

On December 29, 1998, records indicate that the current owner purchased this utility for $12,000. When the utility was purchased, the prior owner did not provide any original cost documentation of the plant to the current owner. Nevertheless, the current owner reviewed a balance sheet of the Alturas system and made a decision that a fair purchase price for this system would be $12,000.

The purchase price was agreed upon by the seller, and the components of plant that made up that amount were as follows: land, wells, pumps, meters, and goodwill. In instances where original cost documentation for plant cannot be provided, an original cost study is completed to determine plant value. Based on staff's original cost information, the current owner was not provided with contributions-in-aid-of-construction (CIAC) balances at the date of purchase. CIAC was determined by the original cost study. Pursuant to Rule 25-30.570(1), Florida Administrative Code, states:

> If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the water transmission and

distribution system and the sewage collection system.

Using the data from the original cost study, staff has calculated the net book value of the purchased plant at December 31, 1998 to be $500. The calculation is as follows:

Acquired Plant in Service at 12/31/98	$ 29,403
Accum. Depre. at 12/31/98	(29,403)
Net Plant at 12/31/98	$ 00
CIAC at 12/31/98	$ (18,637)
Amortization of CIAC at 12/31/98	18,637
	$ 00
Land	500
Acquired Rate Base at 12/31/98	$ 500
Purchase Price at 12/29/98:	($ 12,000)
Positive Acquisition Adjustment:	$ 11,500

In the absence of extraordinary circumstances, it has been Commission practice that the purchase of a utility's system at a premium or discount shall not affect the rate base calculation. Keen has indicated to staff that it should be given an acquisition adjustment due to the following reasons: the Alturas system when acquired was in serious neglect from the previous owner; since the purchase of the utility the current owner has upgraded with new meters, and will purchase a new hydropneumatic tank; the system has many leaks, and Keen is constantly repairing them to better the efficiency of the system and cut down on wasting water; and that Commission's staff has indicated that the Alturas system should be valued at $0.

Staff believes the circumstances in this case do not appear to be extraordinary. Further, it is Commission practice to disallow positive acquisition adjustments unless the acquisition provides certain benefits for the customers of the utility. By Order No. 22371, issued January 8, 1990, in Docket No. 890045-SU, the Commission ordered that the utility BFF Corporation did not document any financial benefits which would accrue to its customers, nor did it provide any extraordinary circumstances justifying an acquisition adjustment. For example, some of the prudent benefits that represent positive acquisition adjustments would be increased quality of service; lowered operating costs;

increased ability to attract capital for improvements; a lower overall cost of capital; and more professional and experienced managerial, financial, technical, and operational resources.

Staff's analysis of the owner's request is that the cost of the improvements (pro forma) to the Alturas water system will be borne by the existing and future customers through the preliminary rates that staff is recommending; therefore, staff believes that the utility's request for the approval of a positive acquisition adjustment should not be approved.

ISSUE 8: What is the appropriate allocation of common costs from Keen-Alturas water system?

PRELIMINARY RECOMMENDATION: The appropriate allocation from Keen Sales to the Alturas water system is 11.68%. (BUTTS)

STAFF ANALYSIS: From the original cost study and the audit, staff determined that Keen owned more than one water system in Polk County. It is Commission practice to allocate administrative and general expenses based on the numbers of customers. By Order No. 17043, issued December 31, 1986, in Docket No. 860325-WS, Southern States Utilities, Inc, the Commission ordered that the utility's allocation of administrative and general expenses should be based on the number of customers. In this rate proceeding, staff determined that Keen had 548 customers or meters during the 12 months ending March 31, 2000. With the information from the audit, staff determined that each system should be allocated its operating cost based on the average number of customers representing that system.

Name of System	Average No. Customers	Percentage of Allocation
Alturas	64	11.68%
Sunrise	268	48.90%
Subdivision	129	23.54%
Paradise Island	87	15.88%
Total	548	100.00%

This would more equitably reflect the distribution of costs among the four water systems. For example, the Alturas system had approximately 64 customers in service for the test year ending March 31, 2000. Staff took the number of customers of the Alturas system and divided it by the total number of customers for all four systems, the allocated portion for Alturas would be 11.68%. (64/548 for 11.68%)

It is recommended that in this rate proceeding the reasonable and prudent common costs should be allocated to the Alturas water system based on the allocated portion of 11.68%. During the audit, staff informed the representatives of Keen about its decision to allocate the cost of this system based on the number of meters, and the representatives agreed with staff's decision.

ISSUE 9: What is the appropriate year end rate base?

PRELIMINARY RECOMMENDATION: The appropriate year end rate base should be $34,661. (BUTTS, MUNROE)

STAFF ANALYSIS: As stated earlier, an original cost study was completed using available information and physical inspection of the facilities during the engineer's investigation. The appropriate components of the utility's year end rate base consist of the following: utility-plant-in-service (UPIS), land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. A discussion of each component follows.

Staff selected a test year ended March 31, 2000 for this rate case. Adjustments have been made to reconcile the rate base component balances with the engineers' original cost study and the auditors' working papers to update rate base through March 31, 2000. A summary of each component and adjustments are below:

Utility Plant In Service: The utility books reflected a water utility plant in service balance of $0 at the beginning of the test year. Staff made an adjustment of $6,319 to reflect the amount of water plant per the original cost study completed by Commission's staff. An adjustment was made to reflect $29,403 for the installation of UPIS placed in service in 1952. However, as stated earlier, this plant was fully depreciated in December 1992. A new hydropneumatic tank has been included in pro forma plant. The estimate for the tank is $21,685, staff has reviewed the estimate and determined it to be reasonable. Pro forma adjustments of $3,940 and $1,270 for meters and structures and improvements, respectively, were made to this account. Staff made adjustments of ($654) and ($1,780) for the retirement of the existing hydropneumatic tank and water meters. Staff does not recommend an averaging adjustment because staff has recommended a year end rate base for this utility. Therefore, staff recommends a water utility plant in service balance of $60,183.

If approved at the Agenda Conference, the pro forma water plant should be completed within one year of the effective date of the Order.

Land: The present owners of the utility purchased land on December 29, 1998, and their CPA has allocated $2,000 as the land value which results from the entire purchase of the utility. The Polk County Property Appraiser's Office established the land value in 1998 as $1,420. However, the previous owners of the utility

purchased the utility on November 21, 1936 for $600, and land value was not established at that time.

Pursuant to National Association of Regulatory Utility Commissioners, Accounting Instruction No. 9, states that original cost as applied to utility plant, means the cost of such property to the person first devoting it to public service. Staff researched the land at the Polk County Courthouse but could not establish the true value on the land when it was first devoted to public service. For informational purposes, when the utility was purchased by its original owners in 1936, the utility's plant was already established which indicates that the land value was substantially less than $600. As a result of the cost study, staff's engineer valued the land at $500. Staff recommends that the land value is $500.

Non-Used and Useful Plant: As discussed in Issue No. 6, the water treatment plant should be considered 100% used and useful, and the water distribution system should also be considered 100% used and useful.

Contributions-in-Aid-of-Construction (CIAC): The utility recorded no CIAC on its books at the end of the test year. The staff auditor could not establish water CIAC because of inadequate utility records. Rule 25-30.570(1), Florida Administrative Code, states:

> If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.

The results of the original cost study provided information to staff that reflected the water CIAC transmission and distribution lines in the amount of ($18,637) in 1952, as a result, CIAC was fully depreciated in December 1991. Staff recommends water CIAC of ($18,637) during the test year.

Accumulated Depreciation: The utility books reflected no accumulated depreciation balances for water at the end of the test year. Staff calculated accumulated depreciation using a 2.5% depreciation rate from 1952 through March 1984, then calculated

depreciation using the rates set forth in Rule 25-30.140, Florida Administrative Code, through the test year.

Staff made an adjustment of ($1,055) to reflect the amount of accumulated depreciation using the original cost study completed by the Commission staff. Staff also made an adjustment to reflect accumulated depreciation of ($29,403) to reflect the fully depreciated plant installed in 1952. Adjustments were made to accumulated depreciation of: ($329) for the pro forma hydropneumatic tank; ($116) for the pro forma meters; ($23) for the pro forma structures and improvements; $654 for the retirement of the existing hydropneumatic tank; and $1,780 for the retirement of water meters. Therefore, staff recommends water accumulated depreciation of ($28,492).

Accumulated Amortization of CIAC: The utility recorded no accumulated amortization of CIAC at the end of the test year. Staff calculated accumulated amortization by using a 2.5% amortization rate for 1952 through March of 1984, then using a composite rate through the test year. Staff's calculation for water accumulated amortization is $18,637 as of December 31, 1991. Staff recommends accumulated CIAC amortization of $18,637 for the test year.

Working Capital Allowance: Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Pursuant to Rule 25-30.433, Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of $2,470 for water (based on water operation and maintenance of $19,758.)

Rate Base Summary: Based on the foregoing, the appropriate rate base balance for rate setting purposes is $34,661 during the test year.

Rate base is shown on Schedule No. 1-A, and adjustments are shown on Schedule No. 1-B.

COST OF CAPITAL

ISSUE 10: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

PRELIMINARY RECOMMENDATION: The appropriate rate of return on equity should be 9.94% with a range of 8.94% to 10.94% and the appropriate overall rate of return should be 7.86% with a range of 7.76% to 7.97%. (BUTTS)

STAFF ANALYSIS: Keen is a certificated utility with several different operating water systems. It is Commission practice that in cases where a consolidated capital structure exists, the Commission will evaluate and utilize the capital structure of the parent company for all of its water systems. The Commission has determined in the past that the first level that attracts funding from outside sources is the appropriate capital structure even if utility would probably be able to attract capital. For example, by Order No. 12191, issued July 1, 1983, in Docket No. 820014-WS, Avatar Utilities, Inc. of Barefoot Bay Division, the Commission found that Avatar Utilities, Inc. was the parent company, and its consolidated capital structure was appropriate in representing the only source of capital funds used by the utility to finance and support its rate base. For this report, staff has reviewed the utility's 1999 Annual Report. Staff's final determination on the utility's capital structure will be determined once supporting documentation is received. The Annual Report provided staff with the following information on the utility's long term debt and common equity: $1,000 of common stock, $18,287 of retained earnings, and $138,537 of long term debt. The utility's pro forma plant makes up the remainder of its debt. Keen has indicated that it will take out a loan for the recommended pro forma at a cost of the loan being 2% over the prime rate with the prime rate being 9.50% at the time of this report.

The rate of return on equity, using the most recent leverage formula approved by Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, in Docket No. 000006-WS, is 9.94% with a range of 8.94% - 10.94% and the overall rate of return is 7.86% with a range of 7.76% to 7.97%. Staff made pro rata adjustments to reconcile the capital structure downward to match the recommended rate base.

Keen's return on equity and overall rate of return are shown on Schedule No. 2.

NET OPERATING INCOME

ISSUE 11: What is the appropriate test year revenue for this utility?

PRELIMINARY RECOMMENDATION: The appropriate test year revenue should be $13,419. (BUTTS)

STAFF ANALYSIS: During the test year the utility provided water services to approximately 62 residential customers and 2 general service customers. Based on the audit, the utility recorded its revenues on a cash basis for the 12-month period ended March 31, 2000. The utility's billing information stated that test year revenues should be $12,904. Staff finds that during the test year, the utility made adjustments for two meters that ran fast, and did not adjust the customer's bill, causing revenues to be understated by the amount of the adjustment. Staff made adjustments of $515 to bring test year revenue to the proper amount. Staff recommends test year revenue of $13,419 for this utility.

Test year revenues are shown on Schedule No. 3, adjustments are shown on Schedule No. 3-A and 3-B.

ISSUE 12: What is the appropriate amount of operating expenses for rate setting purposes?

PRELIMINARY RECOMMENDATION: The appropriate amount of operating expenses for rate making purposes should be $23,663. (BUTTS, MUNROE)

STAFF ANALYSIS: The utility's recorded operating expense includes operation and maintenance (O&M) expense, and taxes other than income.

Test Period Operating Expenses

Based on the audit, staff's auditor could only determine O&M expenses via the utility's records. The test year O&M expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. Staff made several adjustments to the utility's operating expenses. A summary of adjustments to operating expenses is as follows:

OPERATION AND MAINTENANCE EXPENSE

Salaries and Wages-Employees: According to Audit Exception No. 6, the maintenance engineer is the utility's sole full-time employee. He acts as the person to perform general system repairs, acts as a liaison between the customers and the utility, picks up parts, investigates complaints, and performs regular maintenance checks of the water plant and distribution system. The utility recorded the maintenance engineer's salary and wages of $20,800 for the test year, of which $4,480 was charged to the Alturas water system. Staff reduced the amount charged to the Alturas system by ($2,051) based on the 11.68% of the allocation amount referenced in Issue No. 8 that should be applicable to Alturas' water system. ($20,800 X 11.68% for $2,429) Staff recommends that the salaries and wages expense for the maintenance engineer should be $2,429.

The utility employs an office person to answer phone calls, do the general filing, maintain computer records of all the utility's water systems, attend the Class C workshop held by the Commission, handle complaints, and maintain the complaint log. The utility recorded employee salaries and wages for this employee of $0 for the test year. Based on the Alturas allocation amount, staff made an adjustment for the employee salaries and wages in the amount of $2,559 for the test year. ($21,906 X 11.68% for $2,559)

The utility has a part-time employee who reads the meters for all of its systems. This employee received salaries and wages

during the test year in the amount of $1,153, of which $164 was allocated to the Alturas system. Staff reduced the amount charged to the Alturas system by ($29) based on the 11.68% of the allocation amount applicable to the Alturas' system. ($1,153 X 11.68% for $135) Staff recommends that the salaries and wages expense for the part-time employee should be $135.

Staff increased the utility's test year recorded amount by $479 to reflect the employee salaries and wages expense. Staff recommends employee salaries and wages expense for the test year of $5,123.

Salaries and Wages-Officers: On September 27, 1996, according to the minutes of Keen the president and vice president would charge the utility weekly salaries of $600 and $350, respectively. The amount was conditioned depending on the profitability of the utility. The utility recorded officers salaries and wages of $0 for the test year.

The duties of the president consist of: chief maintenance supervisor, to ensure required reports are done, to record testing statements and to ensure DEP testing certificates are properly made and filed according to the law, to secure bids on any needed improvements to the utility, and oversee any construction projects. Staff recommends that the Alturas allocated portion of the requested $600 for the president's salary is reasonable. Staff recommends that the officers salaries and wages expense for the president should be $3,644 for the test year. ($600 per week X 11.68% X 52 wks a year for $3,644)

The duties of the vice president consist of: maintaining the accounts receivable account, preparing the utility's employee payroll, and reporting the minutes of the utility's monthly meetings. Staff recommends that the Alturas allocated portion of the requested $350 for the vice president's salary is reasonable. Staff recommends that the officers salaries and wages for the vice president should be $2,126 for the test year. ($350 per week X 11.68% X 52 wks a year for $2,126)

Staff recommends officers salaries and wages expense during the test year of $5,770.

Purchased Power: The utility recorded a test year purchased power expense of $1,277. Staff has not made any adjustments to this amount for this preliminary report. However, staff may adjust this amount in its recommendation to the Commission to reflect a decrease in water consumption due to the repression adjustment

referenced in Issue No. 15. Staff recommends test year purchased power expense of $1,277.

Chemicals: The utility recorded a test year chemical expense of $1,366 for the test year. Staff made an adjustment of ($1,209) to reclassify testing expense to Account No. 635. The reclassification adjustment is the only adjustment to chemicals for this preliminary report. However, staff may adjust this amount in its recommendation to the Commission to reflect a decrease in chemical expense to reflect repression. With a decrease in water consumption, the results will be a decrease in chemical expense due to having to chemically treat less water. Staff recommends chemical expense of $157 for the test year.

Materials and Supplies: The utility recorded test year materials and supplies expense of $650. Staff made an adjustment of ($186) to this account which reflected Alturas allocated portion of office supplies. Staff recommends a materials and supplies expense of $464 for the test year.

Contractual Services - Professional: The utility recorded test year contractual services-professional expense of $46. The utility is now required to follow the National Association of Regulatory Utility Commissioners Uniform System of Accounts (USOA) as outlined in Rule 25-30.115, Florida Administrative Code. Staff has allowed a reasonable and prudent amount in this rate case proceeding for this expense. Since the Commission regulates all of Keen's water systems, staff is recommending set-up fees for all systems. Staff estimates that it will take $6,000 to set-up all the systems in conformity with the NARUC USOA. Therefore, staff is recommending set-up fees for the Alturas system based on its allocated portion of 11.68%, and amortized over five years for a total of $140 per year. (($6,000 X 11.68%) divided by 5 years)

The utility also incurred non-recurring expenses associated with its computer for the amount of $1,219. Pursuant to Rule 25-30.433(8), Florida Administrative Code, staff amortized this amount over 5-years plus the allocated amount of 11.68% applied to Alturas for a total amount of $28. (($1,219 divided by 5) X 11.68%) The utility had other computer expenses during the test year of $881 of which staff allocated $103 of these expenses to Alturas (881 X 11.68%). Staff increased the utility's test year recorded amount by $271 to allow for the contractual services professional expense.

Contractual Services - Testing: Tri-Florida Water Treatment, Inc. provides testing services for the utility. Staff reclassified $1,209 from Account No. 618 to this account. State and local

authorities require that several analysis be submitted in accordance with Rule 62-550, Florida Administrative Code. A schedule of the required tests, frequency, and costs are as follows:

---WATER---

Description	Frequency	Annual Cost
Microbiological	Monthly	$360
Primary Inorganics	36 Months	49
Secondary Inorganics	36 Months	29
Asbestos	1/ 9 Years	35
Nitrate & Nitrite	Annually	40
Pesticides & PCB	36 Months	110
Volatile Organics	36 Months	146
Lead & Copper	Biannually	$300
Radionuclides	36 Months	292
Unregulated Organics	36 Months	513
	Total Amount	$1,874

Staff made adjustments of $665 to the contractual services-testing to allow for the engineer's recommended testing expense. Staff recommends contractual services-testing expense of $1,874 for the test year.

Contractual Services - Other - The utility recorded $2,455 in this account for the test year. According to Audit Exception No. 9, staff made an adjustment of ($118) to reflect Alturas portion of the allocation for telephone expense. Staff made an adjustment of $46 to reclassify cellular phone expense from the UPIS account, staff also made an adjustment of ($79) for parts expense, both were made to reflect the allocated amount of 11.68%. Staff reclassified ($261) in this account to UPIS, ($63) non-utility expense on the golf cart, ($299) expense on repairs to the water tank. Staff made an adjustment to reclassify the meter reader expense of $16 from Account No. 675 to reflect Alturas allocated portion of this expense. Staff recommends contractual services-other expense of $1,697 for the test year.

Rents - The utility did not record any rent expense for the test year. On September 27, 1996, per the minutes of Keen, the officers of this utility decided that the utility would be charged $900 monthly for rent. However, the officers made a determination that the utility would not have to pay this rent until the utility could afford to pay it. On September 21, 2000, staff received a fax from

Brokers Realty of Central Florida, Inc. stating the following: " in my professional opinion the property located at 685 Dyson Road, Haines City, Fl, could easily be rented for $1,000 to $1,200 due to the size of the building, the large parking lot and the tranquil setting."

As stated before, the officers have requested $900 for rental expense. Based on staff's analysis and breakdown of this expense, staff recommends test year rental expense of $1,261, which is less than the quote from the Realtor. (($900 X 11.68%) X 12 months)

Transportation Expense - The utility recorded $872 of transportation expense for the test year. In the performance of utility duties, the utility owns a 1999 Ford Econoline Van that assists its employees in performing the utility duties, and staff made adjustments to reflect the gas and maintenance expense in this account. Staff made adjustments of ($416) to reflect Alturas portion of the allocation in transportation expense. Staff recommends an annual transportation expense of $456.

Insurance Expense - The utility recorded insurance expense of $950 for the test year. Staff made the following adjustments per the allocated portion for Alturas: $20 to reflect auto insurance coverage, ($363) to reflect asset and liability coverage, $283 to reflect worker's compensation. Staff recommends insurance expense of $890 for this utility during the test year.

Bad Debt Expense - The utility did not record any bad debt expense for the test year. However, the audit revealed that the utility had $383 of bad debt. Staff recommends bad debt expense of $383 for this utility during the test year.

Miscellaneous Expense - The utility recorded $1,011 in this account during the test year. Staff made adjustments for the following expenses: ($35) reclassified meter reader expense to Account No. 636, ($540) reclassified Regulatory Assessment Fees to Taxes Other than Income (TOTI), ($81) reclassified property tax to TOTI, and ($266) to reflect utility related annual expense. Staff recommends a miscellaneous expense of $89 for the test year.

Operation and Maintenance Expenses (O & M) Summary: The O&M total are $6,487. Staff recommends O&M expenses of $19,758. O&M expenses are shown on Schedule No. 3-C.

Depreciation Expense (Net of Amortization of CIAC): Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, Florida Administrative Code. Staff's

calculated test year depreciation expense is $667. Staff also made adjustments of $934 to include depreciation on pro forma plant. Therefore, staff recommends net depreciation expense of $1,601 for the test year.

Taxes Other Than Income Taxes: The utility recorded an amount of $2,144 in this account during the test year. Staff made adjustments of ($1,118) to correct payroll taxes on test year salaries, ($730) correct an error in recording taxes, ($100) of non-utility expense, $540 to include regulatory assessment fees on test year revenue, $64 to reflect regulatory assessment fees on annualized revenue, $862 to reflect for payroll taxes on staff's recommended salaries, $26 to reflect test year real estate taxes, and $32 to reflect taxes paid on well property per the used and useful percentage of 40%. Staff recommends taxes other than income expense of $1,720 for the test year.

Operating Revenues: Revenues have been increased by $12,968 to $26,387 to reflect the increase in revenue required to cover expenses and allow the utility the opportunity to earn the recommended rate of return on investment.

Taxes Other Than Income Taxes: This expense has been increased by $584 to reflect the regulatory assessment fee of 4.5% on staff's recommended increase in revenue.

Operating Expenses Summary: The application of staff's recommended adjustments to the utility's test year operating expenses results in staff's recommended operating expenses of $23,663.

Operating expenses are shown on Schedule No. 3C. Adjustments are shown on Schedule No. 3-A and 3-B.

REVENUE REQUIREMENT

ISSUE 13: What is the appropriate revenue requirement for this system?

PRELIMINARY RECOMMENDATION: The appropriate revenue requirement should be $26,387 for the test year. (BUTTS)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of $12,968 (96.64%). This will allow the utility the opportunity to recover its expenses and earn the recommended 7.86% return on its investment. The calculation is as follows:

	Water
Adjusted Rate Base	$ 34,661
Rate of Return	x .0786
Return on Investment	$ 2,724
Adjusted O & M Expenses	19,758
Depreciation Expense (Net)	1,601
Taxes Other Than Income Taxes	2,304
Revenue Requirement	$ 26,387
Annual Revenue Increase	$ 12,968
Percentage Increase/(Decrease)	96.64%

The revenue requirement and resulting annual increase are shown on Schedule No. 3.

RATES AND CHARGES

ISSUE 14: Is a continuation of the utility's current rate structure for its water system appropriate in this case, and, if not, what is the appropriate rate structure?

PRELIMINARY RECOMMENDATION: No, a continuation of the utility's current rate structure for its water system is not appropriate in this case. The rate structure should be changed to a traditional base facility charge (BFC)/gallonage charge rate structure by removing the 3,000 gallon allotment and a 50% conservation adjustment should also be implemented. (LINGO, BUTTS)

STAFF ANALYSIS: The utility's current water system rate structure consists of a monthly BFC/gallonage charge rate structure, in which the BFC of $13.50 includes an allotment of 3,000 gallons (3 kgal) of water, and all gallons in excess of 3 kgal used are charged $1.00 per 1 kgal. However, the Commission's preferred rate structure is the traditional BFC/gallonage charge rate structure in which all gallons are billed. This usage sensitive rate structure allows customers to reduce their total bill by reducing their water consumption. The utility's current rate structure is considered nonusage sensitive because of the 3 kgal allotment in the BFC. This allotment discourages conservation at and below the allotment level. Staff recommends that this allotment be eliminated from the BFC to be consistent not only with Commission practice, but with the overall statewide goal of eliminating conservation-discouraging water rate structures.

In this case, absent any rate design adjustments, the elimination of the 3 kgal allotment in the BFC will result in those customers with monthly usage at 3 kgal receiving the greatest percentage price increase. This can be seen in the table on the following page under the 0% conservation adjustment column. However, staff believes an important rate design goal is to minimize the price increase at monthly consumption of 3 kgal. To accomplish this goal, different conservation adjustments were used to shift varying portions of cost recovery from the BFC to the gallonage charge. The results of this analysis are also shown in the table on the following page.

PRICE INCREASES AT VARIOUS CONSERVATION ADJUSTMENTS					
	Conservation Adjustment Percentages				
Monthly Consumption	0%	30.0%	40.0%	45.0%	50.0%
0 kgal	42.8%	0.0%	-14.3%	-21.5%	-28.6%
1 kgal	54.5%	19.1%	7.3%	1.3%	-4.5%
2 kgal	66.2%	38.2%	28.8%	24.1%	19.6%
3 kgal	77.9%	57.3%	50.4%	47.0%	43.6%
4 kgal	76.6%	64.3%	60.1%	58.1%	56.1%
5 kgal	75.4%	70.3%	68.5%	67.7%	67.0%
10 kgal	71.1%	91.7%	98.4%	102.0%	105.6%
20 kgal	66.8%	113.4%	128.8%	136.7%	144.7%
30 kgal	64.6%	124.4%	144.1%	154.3%	164.5%
50 kgal	62.4%	135.5%	159.6%	172.1%	184.5%

As shown above, the 50% conservation adjustment (relative to the other adjustments) accomplishes two things: a) it minimizes the price increases for monthly consumption at 5 kgal or less; while b) maximizing the price increases for monthly usage at levels greater than 1.5 times than the system-wide average monthly consumption of 7.262 kgal. Therefore, staff recommends that a 50% conservation adjustment be approved in conjunction with the elimination of the 3 kgal allotment in the utility's BFC.

ISSUE 15: Is an adjustment to reflect repression of consumption appropriate due to the change in rate structure and the recommended revenue requirement in this case, and, if so, what is the appropriate repression adjustment for the water system?

PRELIMINARY RECOMMENDATION: Yes, a repression adjustment of 885 kgal is appropriate for the water system. In order to monitor the effects of both the change in rate structure and the recommended revenue increase, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. (LINGO)

STAFF ANALYSIS: Based on information contained in our database of utilities receiving rate increases and decreases, there were five water utilities that had 3 kgal allotments removed from a BFC/gallonage rate structure. On average, these utilities experienced an approximate 60% price increase while experiencing an approximate 13% reduction (repression) in average monthly consumption. Specifically, the consumption reductions were 35%, 15%, 14%, 9% and 6%, respectively. Three utilities were removed from consideration because the average monthly consumption levels were either far greater or far less than Keen's, leaving two utilities in the sample: one of the remaining utilities experienced a 15% consumption reduction, while the other utility's corresponding consumption reduction was 35%.

Although a 15% consumption reduction would be consistent with our past practice of erring on the conservative side, staff does not believe a 15% reduction is appropriate in this case, because the price increase at the average consumption level of 7.262 is approximately 85%, and 20% of the Keen's customers will receive price increases of 110% or more. Instead, staff believes a 17% repression adjustment is both conservative and appropriate. Therefore, the resulting residential repression adjustment, based on a consumption reduction of 17%, is approximately 885 kgal.

In order to monitor the effects of both the change in rate structure and the recommended revenue increase, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect.

ISSUE 16: What are the appropriate rates for this utility?

PRELIMINARY RECOMMENDATION: The recommended rates should be designed to produce revenue of $26,387. The utility should maintain its base facility and gallonage charge rate structure with the exception that no gallons be included in the BFC. Once approved, the 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), Florida Administrative Code. The rates should not be implemented until notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (LINGO, BUTTS)

STAFF ANALYSIS: Based on the audit, during the test year, the utility provided service to approximately 62 residential customers and 2 general service customers in Polk County.

The appropriate revenue requirement, excluding miscellaneous service charges, is $26,387 for the water system. As discussed in Issue 14, staff recommends that the water system rate structure be changed to a traditional BFC/gallonage charge rate structure by removing the 3 kgal allotment. In addition, staff recommends implementing a 50% conservation adjustment. As discussed in Issue 15, staff recommends that the appropriate repression adjustment is 885 kgal for the water system. Therefore, the resulting preliminary monthly rates for service are those shown below.

Staff's preliminary recommended increase in revenue requirement is $12,968, or approximately 96.64%, for the water system. The rates approved for the utility should be designed to produce revenues of $26,387 (excluding miscellaneous service charge revenues).

Approximately 34% (or $8,946) of the revenue requirement is associated with the fixed costs of providing service. Fixed costs are recovered through the BFC based on annualized number of factored ERCs. The remaining 66% (or $17,442) of the revenue requirement represents the consumption charge based on the estimated number of gallons consumed during the test period.

The preliminary rates have been calculated using the projected number of bills and the number of gallons of water billed during the test year. However, for the final recommendation, staff will adjust the number of gallons consumed by the customers to reflect the slow reading meters mentioned in Issue 5. Schedules of the utility's existing rates and staff's preliminary rates are as follows:

Residential & General Service Water Rates

Base Facility Charge

Meter Size	Minimum Charge for 3,000 gallons Existing Monthly Rate	Staff's Preliminary Monthly Rate
5/8" x 3/4"	$ 13.50	$ 9.64
3/4"	13.50	14.46
1"	13.50	24.10
1-1/2"	13.50	48.20
2"	13.50	77.12
3"	N/A	154.24
4"	N/A	241.00
6"	N/A	482.00

Gallonage Charge Per 1,000 gallons over 3,000 gallons	$ 1.00	
Gallonage Charge Per 1,000 gallons		$ 3.87

Based on staff's preliminary rates, the following would be the estimated average residential and general service water monthly billings for the consumption shown:

Monthly Consumption (In Gallons)	**Monthly Billing**	**Using Staff's Preliminary Rates**
3,000	$13.50	$21.25
5,000	$15.50	$28.99
7,500	$18.00	$38.67

The preliminary rates should be designed to produce revenue of $26,387 as shown in the staff analysis. The utility should maintain its BFC / gallonage charge rate structure. Once approved, the 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), Florida Administrative Code, provided the customers have received notice. The approved rates may not be implemented until proper notice has been received by the customers. The utility should provide the Commission staff with proof of the date notice was given within 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate should be prorated. The old charge should be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge should be prorated based on the number of days in the billing cycle on or after the effective date of the new rates.

In no event should the rates be effective for service rendered prior to the stamped approval date.

ISSUE 17: What are the appropriate customer deposits for this utility?

PRELIMINARY RECOMMENDATION: The appropriate customer deposits should be the recommended charges as specified in the staff analysis. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (BUTTS)

STAFF ANALYSIS: The utility's existing tariff provides for a Commission approved customer deposits for residential and general service customer for the amount of $35. Rule 25-30.311, Florida Administrative Code, provides guidelines for collecting, administering and refunding customer deposits. The rule also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. Staff has calculated customer deposits based on the preliminary rates and an average monthly bill for a 2-month period. A schedule of staff's recommended preliminary deposits follows:

Water

Residential

Meter Size	Staff's Preliminary Deposits
5/8" x 3/4"	$67.00

General Service

Meter Size	Staff's Preliminary Deposits
5/8" x 3/4"	$67.00
All over 5/8" x 3/4"	(2 x average bill)

After a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the utility should refund the customer's deposit pursuant to Rule 25-30.311(5), Florida Administrative Code. The utility should pay

interest on customer deposits pursuant to Rule 25-30.311(4), Florida Administrative Code.

The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets.

ISSUE 18: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility?

PRELIMINARY RECOMMENDATION: Yes, the recommended rates should be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility. The utility should be authorized to collect the temporary rates after staff's approval of the security for potential refund, the proposed customer notice, and the revised tariff sheets. (VAN LEUVEN, BUTTS)

STAFF ANALYSIS: This recommendation proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, in the event of a timely protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility shall be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of the security for potential refund and a proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of $8,964. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, 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 as security, it 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 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) No funds in the escrow account may be withdrawn by the utility without the express approval of the Commission.

2) The escrow account should be an interest bearing account.

3) If a refund to the customers is required, all interest earned by the escrow account should be distributed to the customers.

4) If a refund to the customers is not required, the interest earned by the escrow account should revert to the utility.

5) All information on the escrow account should be available from the holder of the escrow account to a Commission representative at all times.

6) The amount of revenue subject to refund should be deposited in the escrow account within seven days of receipt.

7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(z.) 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.

8) The Director of Records and Reporting must be a signatory to the escrow agreement.

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 result of the rate increase should be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

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), Florida Administrative Code, the utility should file reports with the Commission's Division of Economic Regulation no later than 20 days after each **monthly** billing. These reports

should indicate the amount of revenue collected under the increased rates.

KEEN SALES, RENTALS AND UTILITIES, INC.
TEST YEAR ENDING MARCH 31, 2000
SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1
DOCKET NO. 000580-WU

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$0	$60,183	$60,183
2. LAND & LAND RIGHTS	0	$500	$500
3. NON-USED AND USEFUL COMPONENTS	0	$0	$0
4. CIAC	0	($18,637)	($18,637)
5. ACCUMULATED DEPRECIATION	0	($28,492)	($28,492)
6. AMORTIZATION OF CIAC	0	$18,637	$18,637
7. WORKING CAPITAL ALLOWANCE	$0	$2,470	$2,470
8. WATER RATE BASE	$0	$34,661	$34,661

KEEN SALES, RENTALS AND UTILITIES, INC.
TEST YEAR ENDING MARCH 31, 2000
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-A
DOCKET NO. 000580-WU

	WATER
UTILITY PLANT IN SERVICE	
1. To reflect utility plant per original cost study.	6,319
2. To reflect fully depreciated plant placed in service in 1952.	29,403
3. To reflect pro forma hydro-pneumatic tank.	21,685
4. To include pro forma meters.	3,940
5. To include pro forma structures and improvements.	1,270
6. To reflect pro forma retirement of old hydro tank.	(654)
7. To reflect the retirement of meters.	(1,780)
Total	$60,183
LAND	
1. To reflect original cost of land.	$500
CIAC	
1. To impute CIAC as allowed by Rule 25-30.570(b), F.A.C.	($18,637)
ACCUMULATED DEPRECIATION	
1. To reflect accumulated depreciation per original cost study.	(1,055)
2 To reflect accumulated depreciation on fully depr. plant.	(29,403)
3 To reflect pro forma acc. depr. on hydro-pneumatic tank.	(329)
4 To reflect pro forma acc. depr. on meters.	(116)
5 To reflect pro forma acc. depr. on structures and impovements.	(23)
6 To reflect pro forma retirement of old hydro tank.	654
7 To reflect pro forma retirement of the meters.	1,780
Total	($28,492)
AMORTIZATION OF CIAC	
1. To reflect accumulated amortization per original cost study.	$18,637
WORKING CAPITAL ALLOWANCE	
1. To reflect 1/8 of test year O & M expenses.	$2,470

KEEN SALES, RENTALS AND UTILITIES, INC.
TEST YEAR ENDING MARCH 31, 2000
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 000580-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	$0	$1,000	$1,000					
2. RETAINED EARNINGS	0	18,287	18,287					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	0	0	0					
5. TOTAL COMMON EQUITY	$0	$19,287	19,287	(15,643)	3,644	10.51%	9.94%	1.05%
6. LONG TERM DEBT	0	75,049	75,049	(60,869)	14,180	40.91%	5.50%	2.25%
LONG TERM DEBT	0	7,256	7,256	(5,885)	1,371	3.96%	11.00%	0.44%
LONG TERM DEBT	0	42,987	42,987	(34,865)	8,122	23.43%	8.00%	1.87%
LONG TERM DEBT	0	13,245	13,245	(10,742)	2,503	7.22%	9.00%	0.65%
7. LONG TERM DEBT (Pro Forma)	0	25,625	25,625	(20,783)	4,842	13.97%	11.50%	1.61%
8. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
9. TOTAL	$0	$183,449	$183,449	($148,788)	$34,661	100.00%		7.86%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	8.94%	10.94%
OVERALL RATE OF RETURN	7.76%	7.97%

KEEN SALES, RENTALS AND UTILITIES, INC.
TEST YEAR ENDING MARCH 31, 2000
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3
DOCKET NO. 000580-WU

	TEST YEAR PER UTILITY	STAFF ADJ. TO AUDIT	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. **OPERATING REVENUES**	$12,904	$515	$13,419	$12,968 96.64%	$26,387
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	13,271	6,487	19,758	0	19,758
3. DEPRECIATION (NET)	0	1,601	1,601	0	1,601
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	2,144	(424)	1,720	584	2,304
6. INCOME TAXES	0	0	0	0	0
7. **TOTAL OPERATING EXPENSES**	$15,415	$7,664	$23,079	$584	$23,663
8. **OPERATING INCOME/(LOSS)**	($2,511)		($9,660)		$2,724
9. **WATER RATE BASE**	$0		$34,661		$34,661
10. **RATE OF RETURN**	0.00%		-27.87%		7.86%

KEEN SALES, RENTALS AND UTILITIES, INC.
TEST YEAR ENDING MARCH 31, 2000
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-A
DOCKET NO. 000580-WU
PAGE 1 OF 2

	WATER
OPERATING REVENUES	
To adjust utility revenues to audited test year amount.	$515
OPERATION AND MAINTENANCE EXPENSES	
1. Salaries and Wages - Employees	
a. To reflect Alturas allocated portion of salaries for engineer. (Audit Except. No. 6)	($2,051)
b. To reflect the Office Manager's salary per Alturas allocated portion.	$2,559
c. To reflect Alturas allocated portion of salaries for the office person. (A.E. No. 6)	($29)
Subtotal	$479
2. Salaries and Wages - Officers	
To reflect the requested officers' salary amount per Alturas allocated portion.	$5,770
3. Purchased Power	
a. To reflect repression adjustment.	$0
4. Chemicals	
a. To reclassify chemical expense to Account No. 635.	(1,209)
b. To reflect repression adjustment.	0
Subtotal	($1,209)
5. Materials and Supplies	
To reflect the annual allocated amount for office supplies.	($186)
6. Contractual Services - Professional	
a. To reflect Alturas portion of the allocation for set-up cost amortize over 5-years.	$140
b. To account for non-recurring computer expense amortize over 5-years.	$28
c. To reflect annual computer expense during the test year.	$103
Subtotal	$271
7. Contractual Services - Testing	
a. To reflect reclassified expense from Account No. 618.	1,209
b. To reflect annual testing expense.	$665
Subtotal	$1,874
8. Contractual Services - Other	
a. To reflect staff's allocation of telephone expense. (Audit Except. No. 9)	($118)
b. To reflect reclassified cellular phone expense from utility plant in service.	$46
c. To reflect utility's parts expense for the test year.	($79)
d. To reflect normal yearly repairs and maintenance expense.	($623)
e. To reflect staff allocated meter reader expense from Account No. 675.	$16
Subtotal	($758)
9. Rents	
To reflect Alturas allocated portion of office expense.	$1,261
10 Transportation Expense	
To reflect utility related transportation expenses.	($416)
11. Insurance Expenses	
a. To reflect auto insurance coverage.	$20
b. To reflect liability/asset insurance coverage.	($363)
c. To reflect worker's compensation insurances.	$283
Subtotal	($60)
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	**$7,026**

(O & M EXPENSES CONTINUED ON NEXT PAGE)

KEEN SALES, RENTALS AND UTILITIES, INC.
TEST YEAR ENDING MARCH 31, 2000
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 000580-WU

		WATER
	(O & M EXPENSES CONTINUED)	
12	Bad Debt Expense.	
	a. To reflect the uncollectible revenues occurred during the test year.	$383
13.	Miscellaneous Expense	
	a. Reclassified meter reader expense to Account No. 636.	(35)
	b. Reclassified Regulatory Assessment Fees to Taxes Other than Income.	(540)
	c. Reclassified property tax to TOTI.	(81)
	d. To reflect utility related annual expense.	(266)
	Subtotal	($922)
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	**$6,487**
	DEPRECIATION EXPENSE	
1.	To reflect test year depreciation expense calculated per 25-30.140 F.A.C.	667
2.	To reflect depreciation expense on pro forma plant.	934
	Total	$1,601
	TAXES OTHER THAN INCOME	
1.	To reflect payroll taxes on allocated salaries for the maint. engineer & office person.	(1,118)
2.	To correct error in recording taxes.	(730)
3.	To remove non-utility expense.	(100)
4.	To reflect reclassified RAF from Account No. 675.	540
5.	To reflect RAF on annualized revenue.	$64
6.	To reflect payroll taxes for recommended salaries.	862
8.	To reflect test year real estate taxes.	26
7	To reflect taxes paid on well property per the used and useful percentage of 40%.	32
	Total	($424)
	OPERATING REVENUES	
	1. To reflect staff's recommended increase in revenue.	$12,968
	TAXES OTHER THAN INCOME	
	To reflect additional regulatory assessment fee associated with recommended revenue requirement.	$584

KEEN SALES, RENTALS AND UTILITIES, INC.
TEST YEAR ENDING MARCH 31, 2000
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-C
DOCKET NO. 000580-WU

	TOTAL PER PER UTILITY	STAFF PER ADJUST.		TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	4,644	479	[1]	5,123
(603) SALARIES AND WAGES - OFFICERS	0	5,770	[2]	5,770
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0		0
(610) PURCHASED WATER	0	0		0
(615) PURCHASED POWER	1,277	0	[3]	1,277
(616) FUEL FOR POWER PRODUCTION	0	0		0
(618) CHEMICALS	1,366	(1,209)	[4]	157
(620) MATERIALS AND SUPPLIES	650	(186)	[5]	464
(630) CONTRACTUAL SERVICES - BILLING	0	0		0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	46	271	[6]	317
(635) CONTRACTUAL SERVICES - TESTING	0	1,874	[7]	1,874
(636) CONTRACTUAL SERVICES - OTHER	2,455	(758)	[8]	1,697
(640) RENTS	0	1,261	[9	1,261
(650) TRANSPORTATION EXPENSE	872	(416)	[10]	456
(655) INSURANCE EXPENSE	950	(60)	[11]	890
(655) REGULATORY COMMISSION EXPENSE	0	0		0
(670) BAD DEBT EXPENSE	0	383	[12]	383
(675) MISCELLANEOUS EXPENSES	1,011	(922)	[13]	89
	13,271	6,487		19,758