

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate
increase in Monroe County by Key
Haven Utility Corporation.

DOCKET NO. 020344-SU
ORDER NO. PSC-03-0351-PAA-SU
ISSUED: March 11, 2003

The following Commissioners participated in the disposition of
this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

NOTICE OF PROPOSED AGENCY ACTION ORDER
APPROVING INCREASED RATES AND SERVICE AVAILABILITY CHARGES,
REQUIRING CREDIT TO CIAC, AND RELEASING ESCROWED FUNDS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service
Commission that the action discussed herein is preliminary in
nature and will become final unless a person whose interests are
substantially affected files a petition for a formal proceeding,
pursuant to Rule 25-22.029, Florida Administrative Code.

TABLE OF CONTENTS

| <u>DESCRIPTION</u> | <u>PAGE</u> |
|--|-------------|
| <u>I. BACKGROUND</u> | 2 |
| <u>II. QUALITY OF SERVICE</u> | 4 |
| A. Quality of Utility's Product | 5 |
| B. Quality of Plant | 5 |
| C. Customer Satisfaction | 6 |
| <u>III. RATE BASE</u> | 8 |
| A. Utility Plant in Service | 8 |
| B. Retire Abandoned Wastewater Plant | 9 |

DOCUMENT NUMBER-DATE

02412 MAR 11 8

FPSC-COMMISSION CLERK

| | | |
|--------------|--|--------|
| C. | Used and Useful Percentages | 10 |
| D. | Working Capital | 15 |
| E. | Test Year Rate Base | 15 |
| <u>IV.</u> | <u>COST OF CAPITAL</u> | 15 |
| <u>V.</u> | <u>NET OPERATING INCOME</u> | 16 |
| A. | Purchased Power Expense | 16 |
| B. | Miscellaneous Expense | 16 |
| C. | Additional Billing Expense | 16 |
| D. | Rate Case Expense | 17 |
| E. | Taxes Other Than Income | 19 |
| F. | Test Year Net Operating Income | 20 |
| <u>VI.</u> | <u>REVENUE REQUIREMENT</u> | 20 |
| <u>VII.</u> | <u>RATES AND CHARGES</u> | 21 |
| A. | Conservation Rate Structure | 21 |
| B. | Gallonage Cap | 21 |
| C. | Rates | 22 |
| D. | Credit to CIAC Account in Lieu of Interim Refund | 23 |
| E. | Four-Year Rate Reduction | 24 |
| F. | Service Availability Charges | 25 |
| <u>VIII.</u> | <u>SCHEDULES</u> | |
| 1-A | Wastewater Rate Base | 33 |
| 1-B | Adjustments to Rate Base | 34 |
| 2 | Capital Structures | 35 |
| 3-A | Wastewater Operating Income | 36 |
| 3-B | Adjustments to Operating Income | 37 |
| 4 | Wastewater Service Rates | 38 |
| | Attachment A Used and Useful Calculations | 39, 40 |

I. BACKGROUND

Key Haven Utility Corporation (Key Haven or utility) is a Class B wastewater utility providing service to 418 residential customers and one general service customer in Monroe County, Florida. In its 2001 Annual Report, the utility reported operating revenues of \$237,181 and net operating income of \$1,258.

By Order No. PSC-94-1557-S-SU, issued December 13, 1994, in Docket No. 940299-SU, this Commission approved a stipulated rate increase to the previously authorized flat rates. Since that last rate case, the utility has received price index increases in 1996 through 2000. Also, Key Haven's rates were reduced in 1998 to reflect the removal of rate case expense from the last rate case.

On August 14, 2002, the utility filed for approval of permanent and interim rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes. However, the information submitted did not satisfy the minimum filing requirements (MFRs) for a general rate increase. Subsequently, on September 26, 2002, the utility satisfied the MFRs, and this date was designated as the official filing date, pursuant to Section 367.083, Florida Statutes. Pursuant to the utility's request, this Commission has processed this case using the proposed agency action (PAA) procedure.

The test year for interim and final purposes is the historical test year ended December 31, 2001. By Order No. PSC-02-1720-PCO-SU, issued December 9, 2002, we approved an interim revenue requirement of \$296,454 on an annual basis. This resulted in an increase of \$55,347, or 22.96%, which was applied to the utility's existing flat rates. The interim increase was subject to refund with interest, pending the conclusion of this proceeding and was secured by an escrow account. The utility's requested final revenues are \$330,623, representing an increase of \$89,516, or 37.13%.

The utility's service rates are currently based on a flat rate structure. In this filing, the utility is requesting to change from the present flat rates, to a measured service rate structure. Historically, we have encouraged the use of measured service rates to promote conservation, and minimize subsidies from low-use customers to high-use customers.

As part of the PAA process, our staff held a customer meeting on December 5, 2002, in Key West, Florida. This meeting is discussed under the Quality of Service heading below.

This Order addresses the revenue requirement, service rates and charges, and rate structure. We have jurisdiction pursuant to Sections 367.081 and 367.101, Florida Statutes.

II. QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), Florida Administrative Code, in every water and wastewater rate case, we determine the overall quality of service provided by a utility by evaluating three separate components or operations. These are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) the utility's attempt to address customers' satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the County Health Department over the preceding three year period shall be considered, along with input from the DEP and health department officials and consideration of customer comments or complaints. Our analysis below addresses each of these three components of quality of service.

Key Haven provides wastewater service to approximately 418 residential customers and one commercial customer at the Key Haven subdivision in Monroe County. Water service is provided by the Florida Keys Aqueduct Authority (FKAA). Key Haven's service area is located two miles east of the city of Key West off the Overseas Highway (US 1). The utility's wastewater treatment facility has a permitted capacity of 200,000 gallons per day (gpd) three-month-average daily flow. The plant consists of a dual-train (parallel 100,000 gpd units), extended aeration process, field-erected (built on site), concrete installation. The filtered, chlorinated effluent is sent to six underground injection wells. The wastewater collection system is made up of clay pipe in the older sections of the development, with PVC pipe in the newer areas. There are four lift stations located throughout the utility's service area.

On October 21, 2002, our staff performed a field investigation of the utility's treatment facility and collection system. A customer meeting was held on December 5, 2002, to allow customers to provide input into the utility's quality of service.

A. Quality of Utility's Product

At the time of the October 21, 2002, engineering field investigation, it was noted that the stilling baffles in the wastewater treatment plant's aeration tanks were full of solids and heavy foam. This was the same condition noted in DEP's August 26, 2002, Wastewater Compliance Inspection Report. Although this gave the appearance of the system being overloaded with solids, our staff observed that clear effluent was being produced and no foul odors were evident.

Increased solids removal could help the operating situation, but that would mean additional sludge removal costs. Increased sludge removal may be required as a specific condition when the upcoming DEP operating permit is reissued later this year. DEP is aware of this situation, and should be allowed to address the situation as it deems appropriate.

Presently, there are no DEP enforcement actions against the utility. As such, we find that the quality of the utility's product is satisfactory.

B. Quality of Plant

1. Wastewater Treatment Plant: As stated above, there is currently no DEP enforcement action pending against the utility. The plant appears to be properly operated and maintained, although a harsh environment exists because of exposure to salt air and saltwater infiltration and inflow from the collection system into the wastewater treatment plant.

2. Wastewater Collection System: Over the years, the pipes, along with service laterals and manholes, have deteriorated to a point to cause significant groundwater infiltration and customer backup problems. The utility has corrected the most serious of these problems. During the test year, the utility recorded \$441,055 of additions to the gravity collection system, with virtually all of the additions being for line repair and replacement. The utility has indicated that although these significant additions to the collection system have improved the infiltration situation, more work is planned for the future. The

utility has made significant strides to improve the infiltration problem.

Given the above, we find that the utility is properly maintaining the wastewater plant and collection system. Therefore, we find that the quality of the utility's plant is satisfactory. Later in this Order, we address infiltration in further detail.

C. Customer Satisfaction

There are currently no customer complaints on file at DEP or with the PSC. The eight complaints listed in the MFRs to this case all dealt with collection system problems such as sewer backups due to collapsed pipes and root intrusion. These problems were addressed by either repairing the pipes, or unclogging the plug by using a high pressure device. The utility appears to have addressed these problems properly.

Approximately twenty-one customers were present at the customer meeting which was held on December 5, 2002, at the Harvey Government Center in Key West, Florida. Of that number, five customers offered comments concerning the rate increase and quality of service. The first customer who spoke presented our staff with a petition of eighty signatures. The petition stated that no rate increase should be approved unless basic questions could be answered, such as inequities over the proposed final rate structure based on metered water consumption and the use of an interim flat rate. There was also concern over the timeliness of obtaining water consumption records used for billing purposes from the FKAA.

Management of the utility was cited as the possible cause of allowing earnings to fall to the point of making a rate increase necessary. Also, there was a question about the utility's supporting documentation of improvements made to the collection system and a request to have identified the part of the increased revenues dedicated to better vegetative screening, noise abatement and odor control at the wastewater treatment plant.

Addressing the concerns listed in the petition, our staff explained the basic premise of how the rate structure, both interim and proposed final, was to be implemented. This included incorporating consumption information received from the FKAA.

Reassurances were given concerning review of management practices and the verification of documentation on improvements made. As far as identifying the portion of the increase related to improving vegetation screening, noise abatement, and odor problems, nothing specific could be offered. However, our staff did explain that the utility was meeting treatment standards as required by the DEP, with no enforcement action pending against the utility. In addition, our staff explained that its review of the utility's facilities found them to be operating satisfactorily.

The customer who presented the customer petition also stated her opposition to the rate increase. In addition, she noted a sewage overflow incident where the utility was contacted but did not respond. After the customer meeting, our staff reviewed the utility's emergency response procedure. The phone number listed for emergencies on the customer bills was active and contact was made with the contracted operating company who handles emergencies. Our staff reviewed the emergency management procedures with a representative from the operating company, but found no indication that the utility's response procedure to emergencies was deficient.

A customer was also concerned over current rezoning plans to add more residences to the development area, which could result in additional strain on the utility's system. Our staff contacted the county planning department to verify that discussions for possible rezoning had occurred between the county and the Key Haven developer. However, no formal plans have been submitted, and it would take at least a year to process any application to rezone. As far as the additional strain on the utility's system is concerned, any new areas to be brought on line would have to have the approval of the DEP, and the utility would have to prove that plant capacity is available.

Other customers who provided statements at the customer meeting were generally concerned about the amount of the rate increase and how the proposed final rates using potable water consumption would be determined. One customer expressed a concern about future rate increases to cover future plant improvements and the costs related to higher wastewater treatment standards effective in 2010. Our staff explained that there was no consideration related to the future requirements in the present rate case.

Based on the above, we find that the utility satisfactorily addresses customer concerns.

Summary

In summary, we find that the quality of the utility's wastewater product and the operational condition of its wastewater treatment plant and collection system is satisfactory. The utility is not under any DEP enforcement action, and all applicable customer complaints and comments have been satisfactorily addressed. Therefore, we find that the overall quality of service provided by Key Haven is satisfactory.

III. RATE BASE

A. Utility Plant in Service

During the course of this rate case, staff auditors conducted an audit of Key Haven's books and records. Most of the field work was done at the utility's office, along with a tour of the utility's wastewater treatment facility in the service area. The audit report included a number of exceptions, disclosures and recommendations for adjustments. In its response to the audit report, dated January 8, 2003, Key Haven agreed with the adjustments discussed below.

As stated in Audit Exception No. 5, the utility reduced utility plant in service (UPIS) by \$4,802 to reconcile to the prior rate case Order No. PSC-94-1557-S-SU. However, prior to making this adjustment, the ending balance for this account agreed with the ending balance in the Order. Therefore, the utility's reconciling adjustment was unnecessary and plant should be increased by \$4,802. Associated with this correction to plant in service, we have increased accumulated depreciation by \$1,574, and increased depreciation expense by \$105.

The audit also reflected \$2,411 in total unsupported and unreported additions to plant in service since the last rate case. For the unsupported items, the utility failed to supply documentation supporting these amounts. As such, we have not included these additions in rate base. Further, the auditors found several unreported assets that the utility should have recorded on

its books. These amounts, which reflect a net decrease to plant, shall be removed. Based on this adjustment, we have made corresponding adjustments to reduce accumulated depreciation by \$182, and to reduce depreciation expense by \$53.

The total plant adjustments result in a net increase of \$2,391 (\$4,802 - \$2,411) to plant in service. Accumulated depreciation shall be increased by a net amount of \$1,392 (\$1,574 - \$182). The adjustments to test year depreciation expense, result in a net increase of \$52 (\$105 - \$53).

B. Retire Abandoned Wastewater Plant

In the current rate case filing, the utility made a non-used and useful adjustment of \$47,757 to remove an abandoned wastewater plant, held as a stand-by unit, from rate base. Key Haven also made a corresponding reduction of \$7,997 to test year depreciation expense, related to this plant. Based on our staff engineer's review, this wastewater plant is no longer suitable for use, nor economically feasible to repair. Therefore, the abandoned plant shall be retired and removed from the utility's books and records.

According to the National Association of Regulated Commissioners (NARUC) Uniform System of Accounts (USOA), accounting instruction 22.B(2), when a retirement unit is retired from public service, the original book cost, if determinable, is credited to the appropriate plant account. Also, if the retirement unit is of a depreciable class, the original book cost is charged to the corresponding accumulated depreciation account. In Audit Exception No. 2, our staff auditors recommended and we so find that the original book cost of the abandoned wastewater plant be \$325,474.

Therefore, Key Haven shall retire the abandoned wastewater plant, and remove the plant from its books and records, as required by the above-referenced NARUC accounting instructions. The utility shall facilitate the retirement by decreasing both plant and the corresponding accumulated depreciation account by \$325,474. Also, the inappropriate non-used and useful adjustment shall be removed, and rate base shall be increased by \$47,757. After the utility's adjustment, the depreciation expense remaining on the books is appropriate for current assets. Therefore, no further adjustment

is necessary to depreciation expense associated with the abandoned wastewater plant.

C. Used and Useful Percentages

1. Wastewater Treatment Facility - The wastewater treatment plant has a DEP permitted capacity of 200,000 gpd based on three-month average daily flow. The utility believes that its investment should be considered 100% used and useful because of the following:

a) In the utility's last rate case (Docket No. 940299-SU), the Commission, Office of Public Council, and the utility stipulated that the treatment plant and collection system were 100% used and useful. The utility indicates that the plant capacity has not changed since 1993, and that just 44 connections have been added since that time.

b) The utility is located in the Florida Keys and operates under severe environmental conditions. The salt air and saltwater that enters the system is corrosive to above ground structures and equipment.

c) In 1991, the utility entered a consent order with DEP to expand the plant capacity from 100,000 gpd. The utility determined that a 50,000 gpd expansion would not be adequate to handle historic flows and meet DEP treatment standards. In addition, at that time, there was no guarantee that saltwater inflow would be minimized. So it was determined that a larger addition would be needed. The utility determined that since a 75,000 or a 100,000 gpd expansion were almost identical in costs, it opted to increase capacity by 100,000 gpd. The utility noted that the needed additional capacity has proven to be a good choice since the plant capacity has been exceeded at least seventeen times during the test year. Although flows may have exceeded plant capacity during the test year, the DEP permit is based on a three-month average daily flow, and as such there has been no connection moratorium placed on this facility.

We do not agree with the utility's position that we should use a 100% used and useful determination because of a stipulated agreement authorized in a previous proceeding. The stipulation was not based on any known factual information that could be used in this present rate case, and we are not bound by that decision in this docket. See, Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS (pages 76-77).

By its very nature, ratemaking "is never truly capable of finality." See Sunshine v. Florida Public Service Commission, 577 So. 2d 663, 666 (Fla. 1st DCA 1991). Because of the prospective nature of ratemaking, we are not bound to follow used and useful findings from our previous orders. Section 367.081(2), Florida Statutes; Citizens v. Florida Public Service Commission, 435 So. 2d 784, 786 (Fla. 1983). Therefore, we find that it is appropriate to review the used and useful percentage in each proceeding, and that the used and useful situation in the current proceeding differs significantly from that found in the prior proceeding.

The utility's explanations concerning severe environmental conditions, inflow (and infiltration), and the choice of constructing a larger, more cost effective plant are reasonable. In addition, pursuant to Rule 25-30.432, Florida Administrative Code, we have also considered the utility's improved infiltration and inflow control, and available capacity to allow additional flows related to future connections. Finally, we find that economies of scale must also be considered.

In reference to the improved infiltration and inflow situation, the utility recorded \$441,055 of improvements to the gravity collection system. Virtually all of the improvements to this account were for line repair and replacement. The utility has indicated that although significant improvements to the collection system have reduced the amount of infiltration, more work is planned in the future.

The improvements to the collection system during the test year and earlier appear to be reducing infiltration and inflow to the treatment plant. This is reflected by the reduced gallons per equivalent residential connection (ERC) of treated wastewater. Pursuant to the utility's application, total gallons treated per ERC have dropped from a six-year peak in 1998 of 361 gallons per

ERC, to the test-year low of 269 gallons per ERC. This is approximately a 25% reduction. Although there may be other reasons for the decrease in the overall plant flows, we find that a major factor is the system improvements made by the utility over the years. We find this to be a very positive accomplishment, and compliment the utility for addressing the problem. However, this does free up treatment plant that was once needed to handle excessive infiltration. While there is a good chance that the reductions will continue, particularly if the utility continues with the improvements, there is no guarantee. As infiltration is further reduced, additional capacity will be available for future growth.

With purchased water information now available, our staff compared water purchased during the test year from the FKAA (39,959,000 gallons) to wastewater treated during the test year. For a typical residential area, industry standards suggest that 80% of the potable water consumed (31,967,000 gallons) is returned to the wastewater treatment plant. Adding on 10% for a reasonable amount of infiltration (3,197,000 gallons), an estimated 35,164,000 gallons should have been returned to the wastewater treatment plant. During the test year, 40,919,000 gallons of wastewater were treated. We believe the difference of 5,755,000 gallons (18%) represents excessive infiltration.

Adjustments to the used and useful calculation and operating expenses, such as power and chemicals, could be considered because of the excessive infiltration determination. However, in this case consideration should be given to the age of the system, the severe conditions the facilities are exposed to with the saltwater and high ground-water environment, and the recent improvements made to the collection system to help reduce the problem. Therefore, we shall not penalize the utility by further reducing used and useful percentages or expenses based on excessive infiltration when the problem is being addressed satisfactorily.

In 1999, the utility replaced its original 100,000 gpd treatment plant with a new 100,000 gpd plant component. The utility also has a 1992 100,000 gpd treatment plant component, which gives the utility a total plant capacity of 200,000 gpd.

Records show that the peak three-month average daily flow during the test year was 150,000 gpd. However, the allowance for growth, pursuant to Rule 25-30.431(2)(c), Florida Administrative Code, is 8,280 gpd. Therefore, it appears that the utility could have met its current needs by replacing the old 100,000 gpd plant in 1999 with a 75,000 gpd treatment capacity, for a total capacity of 175,000 gpd. However, even a 175,000 gpd plant would have only been 90.45% used and useful for the test year (test year flows of 150,000 gpd plus 8,280 gpd for growth allowance divided by 175,000 gpd = 90.45%).

Although the utility only needed to replace its 100,000 gpd treatment facility with a 75,000 gpd treatment facility, the utility states that it chose to replace the old plant with a new 100,000 gpd component in order to take advantage of the economies of scale.

The utility argues that the incremental cost was insignificant, but provided no figures as to what it would have cost to build the 75,000 gpd component. However, the utility did provide us with supporting costs in 1988 dollars for building a 50,000 gpd plant versus a 100,000 gpd plant. Based on our analysis of those costs, there was a 16% cost differential in 1988 dollars, which did not include labor. We conservatively estimate that in 1999 dollars there would be a 10% differential to increase the plant expansion from 75,000 to 100,000 gpd. Therefore, we shall remove 10% of the total cost of \$268,652 for the 1999 construction costs, i.e., \$26,865, of the 100,000 gpd increase as non-used and useful. We then shall apply a 90.45% used-and-useful factor to the remaining plant balance. Based on these adjustments, rate base should be reduced by \$63,939 for non-used and useful components. See Attachment A.

2. Wastewater Collection System - The wastewater collection system has a capacity of 514 connections. The number of test year connections was 419 connections. Like the wastewater treatment plant, the utility believes that its investment should be 100% used and useful because:

- a) In the utility's last rate case (Docket No. 940299-SU), the Commission, OPC, and the utility stipulated that the treatment plant and collection system were 100% used

and useful. No expansion of the collection system has occurred or is possible due to location and environmental restrictions.

b) Due to the salt water that enters the collection system, the utility has replaced significant portions of its collection system and fights a continuous battle against saltwater infiltration.

c) Active wastewater connections are spread equally throughout the developed system.

Similar to the wastewater treatment plant analysis, we are not required to use the 100% used and useful percentage based on a stipulated agreement authorized in a previous proceeding. Allowing 23 connections for growth pursuant to Rule 25-30.431(2)(c), Florida Administrative Code, the used and useful percentage based on connections would be 86%.

However, we find that recognition should be given to the utility's efforts to reduce infiltration. The utility has made improvements to the collection system in the form of repairing and replacing existing pipes. The work done to the collection system has provided better sewer service to the existing customers located throughout the system. Basically, the system is the size necessary to accommodate the needs of the existing customer base and some future growth. Therefore, as reflected in Attachment A, the wastewater collection system shall be considered 100% used and useful.

Summary

In summary, we recognize the economies of scale in building a 100,000 gpd replacement component over just a 75,000 gpd component, and find that the total cost of the 100,000 gpd expansion was only 10% over what would have been spent for the 75,000 gpd expansion. This differential cost of \$26,865 is removed from rate base as non-used-and-useful. The remaining cost of the expansion is found to be 90.45% used-and-useful, and the remaining cost of the plant is allowed in rate base only up to this level. The wastewater collection system shall be considered 100% used and useful.

In order to reflect our used-and-useful adjustments, non-used and useful plant shall be reduced by \$76,463 and accumulated depreciation shall be reduced by \$12,524. This reflects a net adjustment of \$63,939 to rate base. Depreciation expense shall also be reduced by \$3,338.

Pursuant to Rule 25-30.433(5), Florida Administrative Code, property taxes associated with non-used and useful property are disallowed as an expense for ratemaking. Therefore, we have reduced by \$126 the real estate and personal property taxes.

Our calculation of rate base is shown on Schedule No. 1-A, with an explanation of adjustments shown on Schedule 1-B.

D. Working Capital

Rule 25-30.433(2), Florida Administrative Code, requires that Class B utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula approach. However, we have made several adjustments to the utility's balance of O&M expenses to reflect an adjusted amount of \$179,937. Accordingly, the working capital allowance shall be \$22,492, which is a decrease of \$725 from the utility's requested working capital allowance.

E. Test Year Rate Base

Based on our above-noted adjustments, we calculate Key Haven's wastewater rate base to be \$945,380.

IV. COST OF CAPITAL

Key Haven's capital structure reflects 70.73% long-term debt and 29.27% common equity. Our staff auditors agree with the utility's effective cost rate of 8.54% for debt in this filing. The long-term debt consists of a single ten-year note, issued August 13, 2001, with the First State Bank of the Florida Keys, an unrelated party. The terms of the note are 8.25% for the first sixty months, and prime plus 1.5% thereafter.

The current leverage formula was approved by Order No. PSC-02-0898-PAA-WS, issued July 5, 2002, in Docket No. 020006-WS, and consummated by Order No. PSC-02-1252-CO-WS, issued September 9, 2002. Pursuant to that order, the appropriate rate of return on equity (ROE) for utilities with equity ratios of less than 40% is 11.10%. Therefore, the utility's appropriate ROE is 11.10%, with a range of 10.10% to 12.10%. Based on the above, we calculate a weighted average cost of capital of 9.29%, with a range of 9.00% to 9.58%. Our calculation of the weighted average cost of capital is shown on Schedule No. 2.

V. NET OPERATING INCOME

A. Purchased Power Expense

In Audit Exception No. 3, the staff auditors state that their review of purchased power expense reflected total electric expense of \$22,677. The utility's MFRs reflect a test year electric expense of \$23,194. The utility agreed with this exception in their response to the audit. As such, purchased power expense shall be reduced by \$517.

B. Miscellaneous Expense

Audit Disclosure No. 5 identifies \$1,500 included in miscellaneous expenses as overhead expenses paid to Southernmost Insurance Agency, Inc., a related party of the utility. The auditors stated that the utility included the utility's pro rata share of common expenses (overhead) as a component of rental expense. Therefore, miscellaneous expense shall be reduced by \$1,500 to avoid the duplication of overhead expenses.

C. Additional Billing Expense

Pursuant to Rule 25-30.437(6), Florida Administrative Code, in filing a rate case, a utility shall propose a base facility and usage charge rate structure unless another rate structure is adequately supported. In the current filing, the utility requested \$150 per month, (\$1,800 annually) in additional billing expense to recover the fee charged by the Florida Keys Aqueduct Authority (FKAA) for monthly, potable water billing data. This information is necessary to facilitate moving from a flat rate billing

structure to a measured service billing structure. Key Haven intends to begin billing customers monthly at the conclusion of this rate case. Prior to this filing, Key Haven has billed its customers bi-annually, with coupon booklets containing six monthly bills for the approved flat rate service fee.

In its response to the staff audit, the utility amended its original request for additional billing expenses in the MFRs. The amended billing expenses were for recovery of increased postage, supplies, and labor. In calculating the additional billing expense request, the utility subtracted the cost savings from discontinuing the coupon booklets from the new billing expenses estimate. Key Haven used 433 customers to calculate the additional billing expense request of \$10,109. The utility's component costs in this request appear to be appropriate, but using a customer base other than the test year is improper. The utility served a total of 419 customers during the test year.

The purpose of a test year in rate setting is to properly match all components, such as revenues, expenses, and customers. To adjust only one component will misrepresent test year revenue requirements. Therefore, we have calculated the additional billing expense using the test year customer base, and the utility's component cost rates and calculate the total expense to be \$9,538. Because the \$1,800 expense paid to the FKAA was already included in the MFRs, the net addition to O&M Expenses is \$7,738.

D. Rate Case Expense

The utility included \$100,000 as an estimate in the MFRs for current rate case expense. Our staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete. The utility submitted a revised estimate of rate case expense through completion of the PAA process of \$56,728. The filing fee of \$2,000 was paid by the utility's attorney and included in legal expenses. We have broken the \$2,000 out separately for presentation purposes. The components of the estimated rate case expense are as follows:

| | <u>MFR</u> <u>ESTIMATED</u> | <u>ACTUAL</u> | <u>ADDITIONAL</u> <u>ESTIMATE</u> | <u>TOTAL</u> |
|-------------------------|--------------------------------|-----------------|--------------------------------------|-----------------|
| Filing Fee | \$2,000 | \$2,000 | \$0 | \$2,000 |
| Legal Fees | 45,000 | 13,120 | 4,095 | 17,215 |
| Accounting Fees | 52,000 | 33,153 | 3,748 | 36,901 |
| Miscellaneous Expense | <u>1,000</u> | <u>409</u> | <u>203</u> | <u>612</u> |
| Total Rate Case Expense | <u>\$100,000</u> | <u>\$48,682</u> | <u>\$8,046</u> | <u>\$56,728</u> |

Pursuant to Section 367.081(7), Florida Statutes, we must determine the reasonableness of rate case expense and disallow all amounts determined to be unreasonable. We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. The revised estimate appears to be prudent with the exception of \$2,813 incurred to revise and refile the MFRs.

The utility filed its original MFRs with this Commission on August 14, 2002. After reviewing the information in the MFRs, our staff determined that there were deficiencies. A letter was sent out on August 26, 2002, identifying two specific deficiencies in the MFRs, and one material error. The specific deficiencies were: failure to submit appropriate system maps; and failure to submit sufficient detail of related party transactions as required in Rule 25-30.436(4)(h), Florida Administrative Code. Subsequently, our staff also discovered a material error in the revenue requirement calculation, and informed the utility. After contacting the utility's consultant, our staff learned that the utility would be revising its MFRs further to remove material pro forma plant adjustments, and to request a change in its rate structure. The utility submitted its revised MFR response on September 26, 2002, and this date was designated as the official filing date.

We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs. See, Order No. PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU. Key Haven made a management decision to make material changes to its filing. As a result, it had to resubmit a completely revised set of MFRs. We believe that this additional

cost to completely revise and refile the MFRs, would not have been incurred if the utility had included these revisions in its original MFRs. The cost incurred to compile the billing analysis was not duplicative, and we will not remove these amounts from rate case expense.

Our calculation of the appropriate total rate case expense is \$53,915. A breakdown of the allowance of rate case expense is as follows:

| | MFR ESTIMATED | UTILITY REVISED ACTUAL & ESTIMATE | COMMISSION ADJUST- MENTS | COMMISSION APPROVED BALANCE |
|-------------------------|------------------|--|--------------------------------|-----------------------------------|
| Filing Fee | \$2,000 | \$2,000 | \$0 | \$2,000 |
| Legal Fees | 45,000 | 17,215 | 0 | 17,215 |
| Accounting Fees | 52,000 | 36,901 | (2,813) | 34,088 |
| Miscellaneous Expense | 1,000 | 612 | <u>0</u> | 612 |
| Total Rate Case Expense | <u>100,000</u> | <u>56,728</u> | <u>(2,813)</u> | <u>53,915</u> |
| Annual Amortization | <u>\$25,000</u> | | <u>(\$11,521)</u> | <u>\$13,479</u> |

The allowable rate case expense is to be amortized over four years, pursuant to Chapter 367.0816, Florida Statutes, at \$13,479 per year. Based on the data provided by the utility and the adjustments mentioned above, rate case expense shall be reduced by \$11,521. This is the difference between the \$13,479 approved, and the \$25,000 included by the utility as rate case expense on MFR Schedule B-10.

E. Taxes Other Than Income

Audit Exception No. 4 states that a review of real estate and personal property taxes reflected an understatement of \$1,578. Also in Audit Exception No. 4, staff auditors reported that payroll taxes were overstated by \$1,313. Our auditors thought that these accounts were reversed before payroll taxes were calculated. Accordingly, adjusting for these corrections, we find that the real

estate and personal property taxes should be \$2,230, and payroll taxes should be \$918.

Audit Exception No. 4 also identified \$405 of intangible taxes paid by the utility as an agent for stockholders. In its audit response, the utility objected to the removal of intangible taxes from taxes other than income expense. The utility stated that they were unaware of any previous instance when intangible taxes were removed for ratemaking purposes. We disagree, and find that intangible taxes paid on behalf of the utility's shareholders shall be disallowed for ratemaking purposes. See, Order PSC-01-1274-PAA-GU, issued June 8, 2001, in Docket No. 001447-GU. Therefore, we have reduced intangible taxes by \$405.

The above adjustments result in a net decrease of \$140 to test year taxes other than income.

F. Test Year Net Operating Income

As shown on attached schedule No. 3-A, after applying our adjustments, we calculate net operating income for the test year to be \$13,841. Consistent with its request in the last rate case, the utility is not seeking any allowance for income tax expense. Our adjustments to operating income are listed on Schedule No. 3-B.

VI. REVENUE REQUIREMENT

Key Haven requested final rates designed to generate annual revenues of \$330,623. These revenues would exceed test year revenues by \$89,516 (37.13%).

Based upon our adjustments concerning rate base, cost of capital, and operating income, we find that rates should be set designed to generate a revenue requirement of \$318,556. These revenues exceed the adjusted test year revenues by \$77,449 (32.12%) Our calculation of the revenue requirement, with an explanation of our adjustments, is shown on attached Schedule Nos. 3-A and 3-B, respectively. This increase will allow the utility the opportunity to recover its expenses and earn a 9.29% return on its investment in rate base.

VII. RATES AND CHARGES

A. Conservation Rate Structure

All of the utility's wastewater customers receive their water service from the FKAA. The utility's current rate structure is a flat rate charged to all residential and general service customers. The rate prior to the filing was \$48.07, which was increased to \$59.11 for interim purposes. The utility's current rate structure for wastewater service was approved by this Commission in the last rate case, primarily because water use information from the FKAA was not available at that time.

The utility, pursuant to Rule 25-30.437(6), Florida Administrative Code, requested that it be allowed to implement a base facility/gallorage charge rate structure in this filing. The utility has submitted a billing analysis using potable water data obtained from the FKAA, and has provided documentation stating that this data will be available, for a fee, from the FKAA on a going-forward basis. Previously in this Order, we addressed the reasonable level of expense associated with this change in rate structure, and how measured service promotes conservation.

Therefore, the utility's rate structure shall be changed from the current flat rate structure, to the base facility/gallorage charge rate structure.

B. Gallorage Cap

In changing from a flat rate structure to measured consumption, we establish a residential wastewater gallorage cap. This cap recognizes that any water used by residential customers over the cap, for purposes such as lawn sprinkling and washing automobiles, is not collected by the wastewater system. In determining the appropriate wastewater gallorage charge, we commonly recognize that only 80% of the residential water used is collected and treated by the wastewater system; the other 20% of the residential water is used for other purposes and is not returned to the wastewater system. There is no cap on usage for general service wastewater bills.

Generally, we set residential wastewater gallonage caps of 6,000, 8,000, or 10,000 gallons per month. Key Haven's billing analysis indicates that approximately 78% of the total residential water bills obtained from the FCAA, were for usage not exceeding 10,000 gallons per month. These residential water bills accounted for approximately 77% of total water usage.

Considering the above factors, the residential wastewater gallonage cap for Key Haven shall be set at 10,000 gallons per month. This is the gallonage cap the utility requested in the MFRs. Setting a lower cap would raise the gallonage charge and may result in more low users subsidizing high users.

C. Rates

We have determined that the revenue requirement is \$318,556. After excluding miscellaneous service charges of \$420, the revenue to be recovered through rates is \$318,136. The utility's customers of record at the end of the test year included 418 residential customers with 5/8" x 3/4" meters, and one general service customer with a 1" meter.

We calculate rates using test year data for the total number of bills and gallons of water used for both residential and general customers. Residential rates were adjusted for a 10,000 gallonage cap for wastewater billing. We have applied standard allocation factors to each wastewater expense account. These factors considered the account's emphasis on fixed or variable costs. The resulting rates split the revenue requirement between the base facility charge and the gallonage charge by approximately 40% to 60%, respectively.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code. The rates shall not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

A comparison of the utility's original rates and requested final rates, the approved interim rates and our calculation of the appropriate final rates is shown on Schedule No. 4.

D. Credit to CIAC Account In Lieu of Interim Refund

In Order No. PSC-02-1720-PCO-SU, issued on December 9, 2002, the utility's proposed rates were suspended and interim wastewater rates were approved subject to refund, pursuant to Section 367.082, Florida Statutes. The interim increase was secured by an escrow account. The interim revenues are shown below:

| | <u>Interim</u> <u>Revenues</u> | <u>Dollar</u> <u>Increase</u> | <u>Percent</u> <u>Increase</u> |
|------------|-----------------------------------|----------------------------------|-----------------------------------|
| Wastewater | \$296,454 | \$55,347 | 22.96% |

According 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 interim rates are in effect shall 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 and final rates is the historical twelve months ended December 31, 2001. The approved interim rates did not include any consideration of pro forma 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 have calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because it was not an actual expense during the interim collection period. Additionally, the pro forma billing expenses to allow the utility to implement its requested measured rate structure were not actual expenses during the test year, and have been removed.

Using the principles discussed above, we have calculated the revenue requirement from service rates for the interim collection period to be \$294,035. This revenue level is slightly less (a 0.68% difference) than that authorized for the interim revenues granted in Order No. PSC-02-1720-PCO-SU. As such, the utility would ordinarily be required to refund this difference. However, because the amount is immaterial, we shall require that the total amount of what would have been the interim refund plus interest be credited to Contributions in Aid of Construction (CIAC).

E. Four-Year Rate Reduction

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four-year period by the amount of rate case expense previously authorized in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees, which is \$14,114. The decreased revenues will result in the rate reductions as shown on Schedule No. 4.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the approved lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate reductions. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code. The rates shall not be implemented until our staff has approved the proposed customer notice, and the notice has been received by the customers. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

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 for the reduction in the rates due to the amortized rate case expense.

F. Service Availability Charges

At the customer meeting held on December 5, 2001, several customers expressed concern that the service rate increase would finance expansion of the wastewater system to meet additional growth in the service area. These comments prompted our staff to review the utility's current CIAC to UPIS ratio, which was 16.02% in the test year. Our staff also reviewed Key Haven's current service availability charge of \$1,200 which was increased from \$1,000 pursuant to Order No. 21100, issued March 24, 1989, in Docket No. 880537-SU. Considering these factors, our staff initiated a review of Key Haven's current and future CIAC status, and need for a service availability charge increase. We have jurisdiction to adjust service availability charges pursuant to Section 367.101, Florida Statutes.

Pursuant to Rule 25-30.580(1), Florida Administrative Code, the maximum amount of CIAC, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at design capacity. The purpose of this cut-off point is to encourage utilities to retain a 25% investment and maintain an interest in its facilities. Rule 25-30.580(2), Florida Administrative Code, also states that the minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the sewage collection system.

The utility's collection system is mostly clay pipe, which has deteriorated over time, allowing for excessive saltwater intrusion. During the years 1999 and 2001, Key Haven completed significant improvements to its treatment plant and disposal facilities, and its collection system. These improvements were necessary to comply with DEP wastewater treatment standards and to reduce infiltration in its collection system.

In addition to the improvements mentioned above, it appears that it will become necessary to replace more of the clay pipe collection lines in the future. In fact, in the original MFRs Key Haven included pro forma additions to UPIS of \$895,656, to replace collection lines. The pro forma additions to UPIS were removed from this filing in the revised MFRs. We believe that the remaining collection lines will have to be replaced in the future.

The utility is properly including the cost of replacing plant, and collection lines in UPIS.

The utility serves Key Haven subdivision, a residential community which is approximately 80% built out. Key Haven has been under the jurisdiction of this Commission since 1976. Customer growth over the last five years has averaged only six ERCs per year, according to the MFRs in this filing. In setting the appropriate service availability charges, we have considered the following: (1) the prospective increase to UPIS of replacing the collection lines, (2) the extended term of CIAC amortization; and (3) the limited number of remaining new residential ERCs, and extremely slow growth in the service area. Based on these considerations, we find that the current system capacity charge shall be increased.

A system capacity charge is designed to defray a portion of the cost of the plant, as well as a portion of the cost of lines. A plant capacity charge represents the reimbursement by a developer or a customer to offset the cost of the treatment plant facilities. A main extension charge represents the reimbursement by a developer or a customer to offset the cost of the lines. We have previously approved separate service availability charges for the cost of plant and the cost of lines, instead of one system capacity charge. See, Order No. PSC-00-1528-PAA-WU, issued August 23, 2000, in Docket 991437-WU. To be consistent with our past practice, we shall cancel Key Haven's existing system capacity charge, and approve a plant capacity charge of \$1,800, and a main extension charge of \$700.

In determining the appropriate plant capacity charge, we divided the total treatment plant in service of \$919,620 at build out, by the total plant capacity in ERCs of 514. This resulted in a plant capacity charge of \$1,789 per residential ERC and a plant capacity charge of \$6.85 per gallon for all others. The plant capacity charge is divided by the average daily demand to derive the per gallon charge for non-residential customers. Using the \$1,789 plant capacity charge, we adjusted the main extension charge until the projected CIAC ratio at build-out equaled 75%. As a result, the main extension charge is calculated to be \$700 per residential ERC and \$2.68 per gallon for all others.

Due to the extremely slow growth in the utility's service area, the system was not projected to be built out until the year 2017. The length of these projections concerned us. Therefore, we compared the combined system and main extension charges of \$2,489, rounded up to \$2,500, to another wastewater utility which is under our jurisdiction and adjacent to Key Haven's service territory. Pursuant to Order No. PSC-98-1053-FOF-SU, issued August 6, 1998, in Docket No. 980341-SU, the service availability charge for K W Resort Utilities Corporation is \$2,700 per ERC.

Therefore, we find that a plant capacity charge of \$1,800 and a main extension charge of \$700 per new ERC is appropriate, and shall be approved. These combined charges of \$2,500 will be competitive with other regulated utilities in the service area, and allow for greater recovery from new customers than the current service availability charge. If there is no timely protest to this portion of our PAA Order by a substantially affected person, the utility shall file the appropriate revised tariff sheets, and a proposed notice within twenty days of the effective date of the PAA Order. The revised tariff sheets shall be approved administratively upon staff's verification that the tariffs are consistent with our decision and the utility's proposed notice is adequate. If the revised tariff sheets are approved, the existing system capacity charge shall be cancelled. The new plant capacity, and main extension charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475(2), Florida Administrative Code, providing the appropriate notice has been made.

Pursuant to Rule 25-30.4345(3)(b), Florida Administrative Code, the notice shall be mailed or hand delivered to all persons in the service area who have filed a written request for service within the past 12 calendar months or who have been provided a written estimate for service within the past 12 calendar months. The utility shall provide proof of the date the notice was given within 10 days after the date of the notice.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Key Haven Utility Corporation's application for increased rates and

ORDER NO. PSC-03-0351-PAA-SU
DOCKET NO. 020344-SU
PAGE 28

charges is hereby approved as set forth in the body of this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that 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 in the attachments and schedules attached hereto are incorporated herein by reference. It is further

ORDERED that Key Haven Utility Corporation is hereby authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that Key Haven Utility Corporation shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. It is further

ORDERED that the rates shall not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided customers have received notice. The tariff sheets will be approved upon our staff's verification that the tariffs are consistent with this Order and the customer notice is adequate. It is further

ORDERED that in no event shall the rates be effective for service rendered prior to the stamped approval date. It is further

ORDER NO. PSC-03-0351-PAA-SU

DOCKET NO. 020344-SU

PAGE 29

ORDERED that Key Haven Utility Corporation shall reduce its rates following the expiration of the four-year rate case expense recovery period pursuant to Section 367.0816, Florida Statutes. It is further

ORDERED that Key Haven Utility Corporation shall file revised tariff sheets and a proposed customer notice to reflect the approved lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate reductions. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code. It is further

ORDERED that the rates shall not be implemented until our staff has approved the proposed customer notice, and the notice has been received by the customers. It is further

ORDERED that if Key Haven Utility Corporation 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. It is further

ORDERED that Key Haven Utility Corporation shall charge the service availability charges approved in this Order and that these charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed and provided customers have been noticed. It is further

ORDERED that if there is no timely protest to this portion of our proposed agency action Order by a substantially affected person, Key Haven Utility Corporation shall file the appropriate revised tariff sheets, and a proposed notice within twenty days of the effective date of the proposed agency action Order. It is further

ORDERED that the revised tariff sheets shall be approved administratively upon staff's verification that the tariffs are

ORDER NO. PSC-03-0351-PAA-SU
DOCKET NO. 020344-SU
PAGE 30

consistent with our decision and the utility's proposed notice is adequate. It is further

ORDERED that if the revised tariff sheets are approved, the existing system capacity charge shall be cancelled. It is further

ORDERED that the new plant capacity and main extension charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475(2), Florida Administrative Code, providing the appropriate notice has been made. It is further

ORDERED that pursuant to Rule 25-30.4345(3)(b), Florida Administrative Code, the notice shall be mailed or hand delivered to all persons in the service area who have filed a written request for service within the past 12 calendar months or who have been provided a written estimate for service within the past 12 calendar months. It is further

ORDERED that Key Haven Utility Corporation shall retire the abandoned wastewater treatment plant as set forth in the body of this Order. It is further

ORDERED that for all notices required by this Order, Key Haven Utility Corporation shall provide proof of the date notice was given within 10 days after the date of the notice. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of this Order, a Consummating Order will be issued. It is further

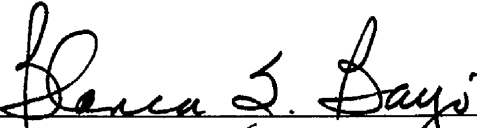
ORDERED that this docket shall remain open for our staff's verification that the revised tariff sheets and notices have been filed and approved, but may then be administratively closed. It is further

ORDERED that, as set forth in the body of this Order, Key Haven Utility Corporation shall credit Contributions in Aid of Construction for the total amount of what would have been the interim refund plus interest. It is further

ORDER NO. PSC-03-0351-PAA-SU
DOCKET NO. 020344-SU
PAGE 31

ORDERED that, upon the issuance of a Consummating Order, the funds in the escrow account for the interim revenues may be released to the utility and the escrow account may be closed.

By ORDER of the Florida Public Service Commission this 11th day of March, 2003.



BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

(S E A L)

RRJ

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, 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 will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

ORDER NO. PSC-03-0351-PAA-SU

DOCKET NO. 020344-SU

PAGE 32

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on April 1, 2003.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

| KEY HAVEN UTILITY CORPORATION SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 12/31/2001 | | | | SCHEDULE NO. 1-A DOCKET 020344-SU | |
|---|-----------------------------|-----------------------------|--------------------------------------|--------------------------------------|-------------------------------------|
| DESCRIPTION | TEST YEAR PER UTILITY | UTILITY ADJUST- MENTS | ADJUSTED TEST YEAR PER UTILITY | COMM ADJUST- MENTS | COMMISSION APPROVED TEST YEAR |
| 1 UTILITY PLANT IN SERVICE | \$1,668,919 | \$0 | \$1,668,919 | (\$323,083) | \$1,345,836 |
| 2 LAND | \$5,666 | \$0 | \$5,666 | \$0 | \$5,666 |
| 3 NON-USED & USEFUL COMPONENTS | (\$47,757) | \$0 | (\$47,757) | (\$46,373) | (\$63,939) |
| 4 ACCUMULATED DEPRECIATION | (\$617,860) | \$0 | (\$617,860) | \$324,082 | (\$293,778) |
| 5 CIAC | (\$308,379) | \$0 | (\$308,379) | \$0 | (\$308,379) |
| 6 AMORTIZATION OF CIAC | \$237,482 | \$0 | \$237,482 | \$0 | \$237,482 |
| 8 WORKING CAPITAL ALLOWANCE | <u>\$22,974</u> | <u>\$243</u> | <u>\$23,217</u> | <u>(\$725)</u> | <u>\$22,492</u> |
| 9 RATE BASE | <u>\$961,045</u> | <u>\$243</u> | <u>\$961,288</u> | <u>(\$15,908)</u> | <u>\$945,380</u> |

| KEY HAVEN UTILITY CORPORATION ADJUSTMENTS TO RATE BASE TEST YEAR ENDED 12/31/2001 | | SCHEDULE 1-B DOCKET 020344-SU PAGE 1 OF 1 |
|--|--------------------|---|
| EXPLANATION | WASTEWATER | |
| <u>PLANT IN SERVICE</u> | | |
| 1 Remove incorrect reconciling adjustment, unreported & unreported additions | \$2,391 | |
| 2 Retire treatment plant | <u>(\$325,474)</u> | |
| 3 Total | <u>(\$323,083)</u> | |
| <u>NON-USED AND USEFUL</u> | | |
| 1 To reflect net non-used and useful adjustment | (\$63,939) | |
| 2 Retire abandoned sewer plant | <u>\$47,757</u> | |
| Total | <u>(\$16,182)</u> | |
| <u>ACCUMULATED DEPRECIATION</u> | | |
| 1 Remove incorrect reconciling adjustment, unreported & unreported additions | (\$1,392) | |
| 2 Retire treatment plant | <u>\$325,474</u> | |
| 3 Total | <u>\$324,082</u> | |
| <u>WORKING CAPITAL</u> | | |
| Adjusted O&M expenses. | <u>(\$725)</u> | |

| KEY HAVEN UTILITY CORPORATION | | SCHEDULE NO. 2 | | | | | | |
|------------------------------------|-----------------------|---------------------------------|-----------------------|---------------------------------|------------------|----------------|---------------|--------------|
| CAPITAL STRUCTURE - SIMPLE AVERAGE | | DOCKET 020344-SU | | | | | | |
| TEST YEAR ENDED 12/31/2001 | | | | | | | | |
| DESCRIPTION | TOTAL CAPITAL | SPECIFIC ADJUST-MENTS (EXPLAIN) | PRO RATA ADJUST-MENTS | CAPITAL RECONCILED TO RATE BASE | RATIO | COST RATE | WEIGHTED COST | |
| PER UTILITY | | | | | | | | |
| 1 | LONG TERM DEBT | \$739,608 | \$0 | (\$59,689) | \$679,919 | 70.73% | 8.54% | 6.04% |
| 2 | SHORT-TERM DEBT | \$0 | \$0 | \$0 | \$0 | 0.00% | 0.00% | 0.00% |
| 3 | PREFERRED STOCK | \$0 | \$0 | \$0 | \$0 | 0.00% | 0.00% | 0.00% |
| 4 | COMMON EQUITY | \$306,030 | \$0 | (\$24,661) | \$281,369 | 29.27% | 11.34% | 3.32% |
| 5 | CUSTOMER DEPOSITS | \$0 | \$0 | \$0 | \$0 | 0.00% | 6.00% | 0.00% |
| 6 | DEFERRED INCOME TAXES | \$0 | \$0 | \$0 | \$0 | 0.00% | 0.00% | 0.00% |
| 7 | TOTAL CAPITAL | <u>\$1,045,638</u> | <u>\$0</u> | <u>(\$84,350)</u> | <u>\$961,288</u> | <u>100.00%</u> | | <u>9.36%</u> |
| PER COMMISSION | | | | | | | | |
| 8 | LONG TERM DEBT | \$739,608 | \$0 | (\$92,270) | \$647,338 | 70.73% | 8.54% | 6.04% |
| 9 | SHORT-TERM DEBT | \$0 | \$0 | \$-0 | \$0 | 0.00% | 0.00% | 0.00% |
| 10 | PREFERRED STOCK | \$0 | \$0 | \$-0 | \$0 | 0.00% | 0.00% | 0.00% |
| 11 | COMMON EQUITY | \$306,030 | \$0 | (\$38,179) | \$267,851 | 29.27% | 11.10% | 3.25% |
| 12 | CUSTOMER DEPOSITS | \$0 | \$0 | \$-0 | \$0 | 0.00% | 6.00% | 0.00% |
| 13 | DEFERRED INCOME TAXES | \$0 | \$0 | \$-0 | \$0 | 0.00% | 0.00% | 0.00% |
| 14 | TOTAL CAPITAL | <u>\$1,045,638</u> | <u>\$0</u> | <u>(\$130,449)</u> | <u>\$915,189</u> | <u>100.00%</u> | | <u>9.29%</u> |
| | | | | | <u>LOW</u> | <u>HIGH</u> | | |
| RETURN ON EQUITY | | | | | <u>10.10%</u> | <u>12.10%</u> | | |
| OVERALL RATE OF RETURN | | | | | <u>9.00%</u> | <u>9.58%</u> | | |

| KEY HAVEN UTILITY CORPORATION STATEMENT OF WASTEWATER OPERATIONS TEST YEAR ENDED 12/31/2001 | | | | | | SCHEDULE NO. 3-A DOCKET 020344-SU | |
|---|-----------------------------|-----------------------------|--------------------------------------|--------------------------|-------------------------------|--------------------------------------|------------------------|
| DESCRIPTION | TEST YEAR PER UTILITY | UTILITY ADJUST- MENTS | ADJUSTED TEST YEAR PER UTILITY | COMM ADJUST- MENTS | COMM ADJUSTED TEST YEAR | REVENUE INCREASE | REVENUE REQUIREMENT |
| 1 OPERATING REVENUES | <u>\$237,181</u> | <u>\$93,442</u> | <u>\$330,623</u> | <u>(\$89,516)</u> | <u>\$241,107</u> | <u>\$77,449</u> 32.12% | <u>\$318,556</u> |
| OPERATING EXPENSES | | | | | | | |
| 2 OPERATION & MAINTENANCE | \$183,795 | \$1,942 | \$185,737 | (\$5,800) | \$179,937 | | \$179,937 |
| 3 DEPRECIATION | \$38,462 | (\$7,997) | \$30,465 | (\$4,950) | \$27,180 | | \$27,180 |
| 4 AMORTIZATION - Other | \$0 | \$6,532 | \$6,532 | \$0 | \$6,532 | | \$6,532 |
| 5 TAXES OTHER THAN INCOME | \$13,707 | \$4,205 | \$17,912 | (\$4,294) | \$13,618 | \$3,485 | \$17,103 |
| 6 INCOME TAXES | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| 7 TOTAL OPERATING EXPENSES | <u>\$235,964</u> | <u>\$4,682</u> | <u>\$240,646</u> | <u>(\$13,380)</u> | <u>\$227,266</u> | <u>\$3,485</u> | <u>\$230,751</u> |
| 8 OPERATING INCOME | <u>\$1,217</u> | <u>\$88,760</u> | <u>\$89,977</u> | <u>(\$76,136)</u> | <u>\$13,841</u> | <u>\$73,964</u> | <u>\$87,805</u> |
| 9 RATE BASE | <u>\$961,045</u> | | <u>\$961,288</u> | | <u>\$945,380</u> | | <u>\$945,380</u> |
| 10 RATE OF RETURN | <u>0.13%</u> | | <u>9.36%</u> | | <u>1.46%</u> | | <u>9.29%</u> |

KEY HAVEN UTILITY CORPORATION
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDED 12/31/2001

SCHEDULE 3-B
DOCKET 020344-SU
PAGE 1 OF 1

| EXPLANATION | WASTEWATER |
|--|-------------------|
| <u>OPERATING REVENUES</u> | |
| Remove requested final revenue increase | <u>(\$89,516)</u> |
| <u>OPERATION & MAINTENANCE EXPENSE</u> | |
| 1 Purchased power overstated. | (517) |
| 2 Miscellaneous expense-duplicate overhead costs | (1,500) |
| 3 Additional billing expenses | 7,738 |
| 4 Amortization of rate case expense. | <u>(11,521)</u> |
| 5 Total | <u>(\$5,800)</u> |
| <u>DEPRECIATION EXPENSE-NET</u> | |
| 1 Remove incorrect reconciling adjustment, unsupported & unreported additions | \$52 |
| 2 Non-used and useful adjustment. | <u>(3,338)</u> |
| 3 Total | <u>(\$3,285)</u> |
| <u>TAXES OTHER THAN INCOME</u> | |
| 1 RAFs on revenue adjustments above | (\$4,028) |
| 2 Adjust to payroll, property & intangible taxes | (\$140) |
| 3 Nonused & useful property taxes | <u>(\$126)</u> |
| 4 Total | <u>(\$4,294)</u> |

| KEY HAVEN UTILITY CORPORATION | | | | SCHEDULE NO. 4 |
|---|--|--|--------------------------------------|---|
| WASTEWATER MONTHLY SERVICE RATES | | | | DOCKET 020344-SU |
| TEST YEAR ENDED 12/31/2001 | | | | PAGE 1 OF 1 |
| | Commission Approved Interim | Utility Requested Final | Commn. Approved Final | 4-Year Reduction for Rate Case Expense |
| Residential | | | | |
| Base Facility Charge: | | | | |
| Meter Size: | | | | |
| 5/8" x 3/4" | \$59.11 | \$26.96 | \$24.27 | \$1.08 |
| Gallage Charge per 1,000 Gallons, Maximum of 10,000 Gallons | \$0.00 | \$6.34 | \$6.39 | \$0.28 |
| General Service and Multi-Family | | | | |
| Base Facility Charge: | | | | |
| Meter Size: | | | | |
| 5/8" x 3/4" | \$59.11 | \$26.96 | \$24.27 | \$1.08 |
| 1" | \$59.11 | \$67.40 | \$60.67 | \$2.69 |
| 1-1/2" | \$59.11 | \$134.80 | \$121.34 | \$5.38 |
| 2" | \$59.11 | \$215.68 | \$194.14 | \$8.61 |
| 3" | \$59.11 | \$431.36 | \$388.28 | \$17.23 |
| 4" | \$59.11 | \$674.00 | \$606.69 | \$26.92 |
| 6" | \$59.11 | \$1,348.00 | 1,213.39 | \$53.83 |
| 8" | \$59.11 | \$2,156.80 | 1,941.42 | \$86.13 |
| Gallage Charge, per 1,000 Gallons | \$0.00 | \$7.45 | \$7.66 | \$0.34 |
| Typical Residential Bills | | | | |
| 5/8" x 3/4" Meter Size | | | | |
| 3,000 Gallons | \$59.11 | \$45.98 | \$43.43 | |
| 5,000 Gallons | \$59.11 | \$58.66 | \$56.20 | |
| 10,000 Gallons | \$59.11 | \$90.36 | \$88.13 | |

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 020344-SU - Key Haven Utility Corp.

| | | |
|--|---------|-----------------------|
| 1) Permitted Capacity of Plant (3 month average) | 200,000 | gallons per day (gpd) |
| 2) Economies of Scale Plant Capacity | 175,000 | gpd |
| 3) Average Daily Flow (3 month average) | 150,000 | gpd |
| 4) Growth | 8,280 | gpd |
| a) Test year Customers in ERCs: | Average | 416 ERCs |
| b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year | 4.6 | ERCs |
| c) Statutory Growth Period | 5 | Years |
| (b)x(c) x [2\ (a)] = | 8,280 | gpd for growth |
| 5) Excessive Infiltration or Inflow (I&I) Removed from Calculation | 0 | gpd Note (A) |
| a) Total I&I: | 24,525 | gpd |
| b) Reasonable I&I (10% of average Daily Flow) | 8,758 | gpd Note (B) |
| c) Calculated Excess I&I (a-b) | 15,767 | gpd |

ECONOMIES OF SCALE USED AND USEFUL FORMULA

$$[(3)+(4)-(5)]/(2) = 90.45\% \text{ Used and Useful}$$

Notes:

(A) Total wastewater treated (40,919,000 gallons) - 80% of total water usage (31,967,200 gallons) equals total I&I of 8,951,800/365 = 24,525 gpd. No adjustment made for excessive infiltration.

(B) Total test year potable water billed - 39,959,000 gallons. Estimated return of 80% to Wastewater Treatment Plant - 31,967,200 gallons. 10% for a reasonable level of I&I - 3,196,720 gallons, or 8,758 gpd.

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

Docket No. 020344-SU - Key Haven Utility Corp.

| | |
|---|-----------------|
| 1) Capacity of System | 514 connections |
| 2) Test year connections(End of Year) | 419 connections |
| a)Beginning of Test Year | 412 connections |
| b)End of Test Year | 419 connections |
| c)Average Test Year | 416 connections |
| 3) Growth | 23 connections |
| a)Customer growth in connections for last 5 years including Test Year using Regression Analysis | 4.6 connections |
| b)Statutory Growth Period | 5 Years |
| (a)x(b) = 23 connections allowed for growth | |

USED AND USEFUL FORMULA

$$[(2)+(3)]/(1) = 86\% \text{ Used and Useful Note (1)}$$

Notes:

(1) After consideration of age, location and harsh environment, and efforts to reduce I&I, allow 100% used and useful.