

State of Florida



Public Service Commission

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RECORDS AND REPORTING

DATE: JANUARY 4, 2001

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (RAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (RENDELL, BUTTS, LINGO, MUNROE)
DIVISION OF LEGAL SERVICES (VAN LEUVEN)

RE: DOCKET NO. 000580-WU - APPLICATION FOR STAFF-ASSISTED RATE CASE IN POLK COUNTY BY KEEN SALES, RENTALS AND UTILITIES, INC. (ALTURAS WATER WORKS).
COUNTY: POLK

AGENDA: 01/16/01 - REGULAR AGENDA - PROPOSED AGENCY ACTION, EXCEPT ISSUES NOS. 17, 18, AND 19 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: 10/12/01 (SARC)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\000580.RCM

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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CASE BACKGROUND

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 Ray Keen, Earlene, and Ellison Park subdivision. These four water systems provide service to approximately 548 customers in the utility's certificated territory. This recommendation addresses the Alturas Water Works system (Alturas). Alturas provides water service to approximately 50 residential customers and 12 general service customers. On May 12, 2000, the utility applied for a staff assisted rate case (SARC). The utility's service area is located in a water use caution area in the Southwest Florida Water Management District (SWFWMD).

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 SARC application were also reviewed to determine reasonable maintenance expenses, regulatory compliance, utility plant in service, and quality of service. Staff has selected a historical test year ended March 31, 2000.

A customer meeting was conducted on November 30, 2000 at the Bartow Civic Center in Bartow, Florida. Sixteen customers attended the meeting. The owner/vice-president of the utility was also present at the meeting, along with a representative of the SWFWMD. Seven customers gave comments regarding the utility's quality of service, the proposed rate increase and other issues related to the case. Quality of service and customer service issues are discussed in Issue No. 1.

The Commission has the authority to consider this application pursuant to Section 367.0814, Florida Statutes.

QUALITY OF SERVICE

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

RECOMMENDATION: Yes. The quality of service provided by Alturas is satisfactory. (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.

Alturas is a class C utility with a service area located west of Lake Wales, Florida, which is in Polk County. The utility provides water service to 50 residential customers and 12 general service customers. The utility obtains its raw water from one 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 maintained by Florida 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 it serves 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 houses 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. However, 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 are considered satisfactory.

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

On November 30, 2000 at 6:00 PM, a customer meeting was held in the Bartow Civic Center. The meeting was attended by sixteen customers of Alturas, seven of whom spoke. All the customers complained of poor response times to calls for maintenance, inconsistent quality of the water, water outages and air in the lines. One customer complained that calls to the Division of Consumer Affairs (Consumer Affairs), PCHD, DEP and the utility went unanswered.

The staff engineer investigated all of these complaints. As to the poor response time to calls, this was caused by the remote location of Alturas, poor communications by maintenance personnel as to the repair process and a lack of prioritizing calls. The utility has assigned a person to coordinate call priority and insure customers are aware of repair status on a 24 hour basis. The inconsistent quality and air in the lines was caused by a faulty DEP maintained EDB filter at the water plant. A DEP representative has identified the problem and repairs are ongoing. DEP also indicated that under the EDB Grant Program a project has been started to interconnect this system with the City of Bartow. Once the interconnection is complete, the EDB filter will be eliminated. The water outages were primarily caused by ruptures in the hydropneumatic tank. This required outside maintenance to be called for repairs to the tank, thus increasing the duration of the outage. The tank was recognized as needing replacement, and is addressed in Issue 2. Mr. Keen, the owner of the utility, has agreed to replace the tank as soon as possible and staff is assisting the utility in this process.

As to the complaint calls, the investigation revealed no records of these calls at DEP, PCHD or Consumers Affairs. Staff has provided this information to Consumer Affairs, which is in the process of contacting the customer. As to the utility, its logs did show these calls and dispatching of maintenance personal. Staff's investigation covered the past three years.

In view of the company's response to the customers' concerns, and in consideration of all of the forgoing, staff recommends that the quality of service is satisfactory.

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

RECOMMENDATION : Yes, pro forma adjustments are needed for continuation of the meter replacement program (\$3,940), replacement of the hydropneumatic tank (\$17,200), and construction of a plant security fence (\$1,270). The total pro forma cost is \$22,410, and all pro forma plant improvements should be completed within six months of the effective date of the Order. (MUNROE)

STAFF ANALYSIS : The meters have exceeded their expected lives and have been found to be inaccurate. Therefore, replacement is necessary at a cost of \$3,940.

The hydropneumatic tank has also exceeded its expected life, and has been patched twice. As stated earlier, water outages were primarily caused by ruptures in the tank, requiring outside maintenance to be called for repairs, and increasing the duration of the outage. The failure of the hydropneumatic tank would result in customers being left with no potable water. Scheduled replacement which would minimize down time to a few hours is recommended. The total pro forma cost is \$17,200.

All utility plants and wells should be secured. This utility's plant and well are not secured. The plant has been vandalized in the past. Installation of a security fence is necessary, prudent and recommended at a cost of \$1,270. All pro forma plant improvements should be completed within six months of the effective date of the Order.

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

RECOMMENDATION: Yes, the Commission should approve a year end rate base for Alturas to allow it an opportunity to earn a fair return on the utility's investment made prior to the test year, to earn a fair rate of return on the pro forma plant improvements, and 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 74% 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 (Fla. 1978). Staff believes that extraordinary circumstances exist in this docket because needed repairs and new plant represent 74% of the year end rate base. 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 install meters, a hydropneumatic tank, and a security fence which represents 74% 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 of 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. Further, allowing a year end rate base will insure compensatory rates 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

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by the utility in the public service. Alturas has provided staff with bids on the labor and installment for the recommended pro forma plant additions. For the foregoing reasons, staff recommends that the Commission approve a year end rate base for Alturas.

ISSUE 4: Should the company have any excessive unaccounted for water recognized in the used and useful calculation?

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 Alturas was purchased by the current owners approximately three years ago, annual reports showed no excessive unaccounted water. Staff believes that its annual reports were incorrect because after several billing cycles the unaccounted for water problem was discovered. After consulting the Florida Rural Water Association, a leak detector was purchased, and a number of leaks were found and repaired. However, the improvement was only slight. After further evaluation of the problem, it was discovered that the meters were approximately 50 years old. The company believes the unaccounted for water is due to these old meters which are running slow. Staff concurs with this conclusion. The company 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 is not being lost due to leaks. Considering all of these facts, staff recommends that the utility's used and useful should not be adjusted due to excessive unaccounted for water.

ISSUE 5: What portions of the water plant and distribution system are used and useful?

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 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. The firm reliable capacity of the Alturas' well (350 gpm X 60 m/hr X 12 hour day) is 252,000 gpd. Based upon staff's recommendation in Issue 3, test year end number of ERCs were used for the used and useful calculation.

Section 367.081(2)(b), Florida Statutes, requires that the Commission consider utility property needed to serve customers five 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 ERC should not exceed five percent per year. In accordance with Section 367.081(2)(b), Florida Statutes, a five 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. However, Alturas only has three years of accurate data available. Considering this limitation, an average growth of three ERCs per year was calculated. Over a five year statutory period, this equates to 15 ERCs or 47,520 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 95 ERCs, 80 test year end ERCs plus growth of 15 ERCs, the plant demand is 300,960 gpd. While the utility is trying to support a volunteer fire station, it is actually more than 100% used and useful even without adding the fireflow demand.

By the above-described 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.

Water Distribution System - The water distribution system is estimated to have the potential of serving 80 ERCs. Year end data

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showed that the utility had 80 ERCs. When a growth of 15 ERCs is added, the utility distribution system is 100% used and useful. In fact, the utility must add lines before full growth can be realized. See attachment A, page 2 of 2 for calculations.

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) (80 ERCs X 1.1 gpm/ERC X 2 peaking factor X 60 m/h X 24 h/d)	253,440	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 end Customers in ERCs:	80	
	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. 4)

USED AND USEFUL FORMULA

$$[(2)+(4)+(5) - (6)] / (1) = 100\% \text{ Used and Useful}$$

Attachment A page 2 of 2

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 000580-WU - Alturas Water Works

1)	Capacity of System (Number of Potential ERCs)	80	ERCs
2)	Test year end connections		
	a)End of Test Year	80	ERCs
3)	Growth	15	ERCs
	(Due to plant additions in 1999, end of year customer count used)		
	a)customer growth in ERCs	3	ERCs
	b)Statutory Growth Period	5	Years
	(a)x(b) = 15 ERCs allowed for growth		

USED AND USEFUL FORMULA

$$[(2b+(3))]/(1) = 100\% \text{ Used and Useful}$$

ISSUE 6: Should an acquisition adjustment be approved in the determination of the utility's rate base at the date of purchase?

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 system owned by Keen since no rate base was established. However, the Commission noted 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 study would be conducted upon filing for a SARC.

Records indicate that the current owner purchased this utility on December 29, 1998, 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 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	<u>(29,403)</u>
Net Plant at 12/31/98	<u>\$ 0</u>
CIAC at 12/31/98	\$ (18,637)
Amortization of CIAC at 12/31/98	<u>18,637</u>
	<u>\$ 0</u>
Land	<u>500</u>
Acquired Rate Base at 12/31/98	<u>\$ 500</u>
Purchase Price at 12/29/98:	(\$ 12,000)
Positive Acquisition Adjustment:	<u>\$ 11,500</u>

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.

The evaluation of positive acquisition adjustments is based upon several factors. Specifically, in Order No. 23858, issued December 11, 1990, in Docket No. 891353-GU, the Commission enumerated five potential benefits to customers which should be considered:

- 1) increased quality of service;
- 2) lowered operating costs;
- 3) increased ability to attract capital for improvements;
- 4) a lower overall cost of capital; and
- 5) more professional and experienced managerial, financial, technical and operational resources.

In a letter dated September 5, 2000, Keen requested that the lump sum amount paid, \$12,000, be deemed an extraordinary expenditure due to the following reasons:

1. The engineer for the PSC from Tallahassee has determined that the value of the system is \$0;
2. This system was in serious neglect from the previous owner. Upon our acquisition, we have upgraded the meters and realized the need for purchasing another hydropneumatic tank. The

one currently in use has been patched many times and could possibly be a hazard in the future;

3. Many leaks exist in this system. We are constantly repairing them to better facilitate the overall efficiency of the system and cut down on water being wasted.

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. See Order No. 22371, issued January 8, 1990, in Docket No. 890045-SU. (the Commission found that 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). If the inclusion of a positive acquisition adjustment is directly related to cost reductions, the inclusion in rate base is not considered a double recovery of the utility's investment. A review of Alturas' 1998 Annual Report, under the previous owners, indicates operating expenses of \$5,615. In the current SARC, staff is recommending a operating expense of \$19,514 (Schedule 3-C). Staff notes that the unaudited information from the 1998 Annual Report only includes three categories of operating expense: chemicals, purchased power, and insurance. No other expenses were reported.

Further, as discussed in Issue 1, Alturas' customers offered comments as to a declining quality of service since being purchased by Keen. Although Keen is working to rectify the current quality of service problems, there has not been a substantial increased quality of service since being purchased. Further, staff believes that there has not been an increased ability to attract capital, lower overall cost of capital, or more professional and experienced managerial, financial, technical and operational resources.

Moreover, staff's analysis of the owner's request is that the cost of the pro forma improvements to Alturas will be borne by the existing and future customers through the rates that staff is recommending. For the foregoing reasons, staff believes that the utility's request for the approval of a positive acquisition adjustment should not be approved.

ISSUE 7: What is the appropriate allocation of common costs from Keen to Alturas?

RECOMMENDATION: The appropriate allocation from Keen to Alturas is 11.68%. (BUTTS)

STAFF ANALYSIS: It is Commission practice to allocate administrative and general expenses based on the number 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 common operating costs based on the average number of customers representing that system.

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

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%. This would more equitably reflect the distribution of costs among the four water systems. During the audit, staff informed the representatives of Keen about its decision to allocate the cost to this system based on the number of meters, and the utility agreed with staff.

ISSUE 8: What is the appropriate year end rate base?

RECOMMENDATION: The appropriate year end rate base should be \$30,217. (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 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 (UPIS): The utility books reflected a water UPIS 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 \$17,200, 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 recommends a water UPIS balance of \$55,698.

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.

National Association of Regulatory Utility Commissioners (NARUC), 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. 5, 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. 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: (\$261) 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 (\$28,424).

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 \$2,443 for water (based on water operation and maintenance expenses of \$19,542.)

Rate Base Summary: Based on the foregoing, the appropriate rate base balance for rate setting purposes is \$30,217 during the test year.

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

COST OF CAPITAL

ISSUE 9: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

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 7.91% with a range of 7.83% to 7.99%. (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 the 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.

Based on the staff audit and the original cost study, the capital structure for this system consists of the following: \$1,000 of common stock, \$18,287 of retained earnings, and \$229,748 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. Staff has included a loan amount for proforma at being 2% over the prime rate with the prime rate being 9.50% at the time of filing this recommendation.

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 7.91% with a range of 7.83% to 7.99%. Staff made pro rata adjustments to reconcile the capital structure to the recommended rate base.

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

NET OPERATING INCOME

ISSUE 10: What is the appropriate test year revenue for this utility?

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 customers' bills, causing revenues to be understated by the amount of the adjustment. Staff made an adjustment 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, the adjustment is shown on Schedule No. 3-A.

ISSUE 11: What is the appropriate amount of operating expenses for rate setting purposes?

RECOMMENDATION: The appropriate amount of operating expenses for rate making purposes should be \$23,472. (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

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 a 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. 7. ($\$20,800 \times 11.68\%$) 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. ($\$21,906 \times 11.68\%$)

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%) 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 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. The utility stated that the president spends in excess of 40 hours weekly; therefore, staff recommends that the Alturas allocated portion of the requested 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)

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. The utility reported that the vice president spends approximately 30 hours a week. Therefore, 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)

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. Issue No. 14 includes a repression adjustment to recognize that consumption levels will decrease once new rates are effective. With a decrease in consumption, there will be a decrease in purchased power expense due to having to pump less

water. Staff made an adjustment of (\$192) to reflect repression. Staff recommends test year purchased power expense of \$1,085.

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. As stated earlier, Issue No. 14 includes a repression adjustment to recognize that consumption levels will decrease once new rates are effective. With a decrease in consumption, there will be a decrease in chemical expense due to having to chemically treat less water. Staff recommends a repression adjustment of (\$24) to reflect the estimated decrease in chemical expense. Staff recommends chemical expense of \$133 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 NARUC 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%, amortized over five years for a total of \$140 per year. ($\$6,000 \times 11.68\%$) 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. ($\$1,219 \text{ divided by } 5 \times 11.68\%$) The utility had other computer expenses during the test year of \$881 of which staff allocated \$103 of these expenses to Alturas ($881 \times 11.68\%$). 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---

<u>Description</u>	<u>Frequency</u>	<u>Annual Cost</u>
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	<u>513</u>
	Total Amount	<u>\$1,874</u>

Staff made adjustments of \$665 to the contractual services-testing to allow for the 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) 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. (($\$900 \times 11.68\%$) \times 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. Audit Exception No. 5 states 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 the following adjustments: (\$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 \$6,271. Staff recommends O&M expenses of \$19,542. 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. As

stated earlier, CIAC is fully amortized. Therefore, staff recommends a 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) to correct an error in recording taxes, (\$100) of utility expense, \$540 to reclassify regulatory assessment fees, \$64 to reflect regulatory assessment fees on annualized revenue, \$862 to reflect for payroll taxes on staff's recommended officer salaries, \$26 to reflect test year real estate taxes, and \$81 to reflect taxes paid on the well property. Staff recommends taxes other than income expense of \$1,769 for the test year.

Operating Revenues: Revenues have been increased by \$12,443 to \$25,862 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 \$560 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 \$23,472.

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

REVENUE REQUIREMENT

ISSUE 12: What is the appropriate revenue requirement for this system?

RECOMMENDATION: The appropriate revenue requirement should be \$25,862 for the test year. (BUTTS)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of \$12,443 (92.73%). This will allow the utility the opportunity to recover its expenses and earn the recommended 7.91% return on its investment. The calculation is as follows:

	<u>Water</u>
Adjusted Rate Base	\$ 30,217
Rate of Return	x <u>.0791</u>
Return on Investment	\$ 2,390
Adjusted O & M Expenses	19,542
Depreciation Expense (Net)	1,601
Taxes Other Than Income Taxes	<u>2,329</u>
Revenue Requirement	<u>\$ 25,862</u>
Annual Revenue Increase	\$ 12,443
Percentage Increase/(Decrease)	<u>92.73%</u>

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

RATES AND CHARGES

ISSUE 13: 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?

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 BFC /gallonage charge rate structure by removing the 3,000 gallon allotment; a 40% 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.

The Commission's preferred rate structure is the traditional BFC/gallonage charge rate structure. This usage sensitive rate structure allows customers to reduce their total bill by reducing their water consumption. However, 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, and customers do not receive the appropriate price signal for each kgal of water used. 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 adjustment, 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. Therefore, staff believes an important rate design goal is to minimize the price increase at monthly consumption of 3 kgal, especially because consumption at (or below) 3 kgal is considered nondiscretionary, essential consumption. 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 shown in the table on the following page.

PRELIMINARY PRICE INCREASES AT VARIOUS CONSERVATION ADJUSTMENTS					
	Conservation Adjustment Percentages				
Monthly Consumption	0%	25.0%	30.0%	35.0%	40.0%
0 kgal	35.9%	1.9%	-4.9%	-11.7%	-18.5%
1 kgal	47.6%	19.6%	14.1%	8.4%	2.9%
2 kgal	59.3%	37.3%	33.0%	28.6%	24.3%
3 kgal	71.0%	55.0%	52.0%	48.7%	45.7%
4 kgal	70.1%	60.8%	59.2%	57.2%	55.6%
5 kgal	69.3%	65.8%	65.4%	64.6%	64.2%
10 kgal	66.5%	83.7%	87.5%	90.8%	94.6%
20 kgal	63.7%	101.8%	110.0%	117.4%	125.6%
30 kgal	62.3%	111.0%	121.3%	130.9%	141.2%
50 kgal	60.9%	120.2%	132.8%	144.5%	157.0%

As shown above, the 40% conservation adjustment (relative to the other adjustments) accomplishes several rate design goals: a) it minimizes the price increases for monthly consumption at 5 kgal or less; b) the preliminary price increase at 10 kgal is approximately equal to the overall revenue requirement percentage increase; c) it maximizes the price increases for monthly usage at levels greater than 1.5 times than the system-wide average monthly consumption of 7.262 kgal; and d) it results in a 40% BFC and 60% gallonage charge revenue recovery allocation, which meets the conservation rate structure criteria of the Southwest Florida Water Management District.

Due to revenue stability concerns, it is unusual for staff to recommend a conservation adjustment which results in a reduction in the BFC. However, monthly consumption at 1 kgal or less accounts for only 8% of the utility's bills. Our concerns are mitigated by the fact that the magnitude of the price increases at other consumption levels would negate the monthly revenue reductions at 0 kgal of consumption.

ISSUE 14: Is an adjustment to reflect repression of residential consumption appropriate due to the change in rate structure and price increase in this case, and, if so, what is the appropriate repression adjustment?

RECOMMENDATION: Yes, a repression adjustment of 676 kgal to residential consumption is appropriate. 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/gallage 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. Two utilities were removed from consideration because the average monthly consumption levels were far greater or far less than Keen's, leaving three utilities in the sample: one utility experienced a 35% consumption reduction, while the other two utilities' corresponding consumption reductions were 15% and 6%, respectively.

There are two reasons why staff does not believe a 35% consumption reduction is appropriate in this case. First, the 35% consumption reduction resulted from an average price increase of 142%, which is substantially greater than the approximate average preliminary price increase of 80% in this case. Second, Keen's average monthly consumption per customer is approximately 7.5 kgal. We do not believe this consumption level is sufficient to sustain a 35% reduction.

Nor does staff believe that a 6% reduction is appropriate in this case, as it is less than half of the overall five-utility average consumption reduction of 13%. Instead, staff believes a 15% repression adjustment is both conservative and appropriate. Therefore, the resulting residential repression adjustment, based on a consumption reduction of 15%, is approximately 676 kgal, and the resulting total consumption for ratesetting is 4,715 kgal.

In order to monitor the effects of both the changes in rate structure and the recommended revenue increases, 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 15: What are the appropriate rates for this utility?

RECOMMENDATION: The recommended rates should be designed to produce revenue of \$25,862. 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 50 residential customers and 12 general service customers in Polk County.

The appropriate revenue requirement, excluding miscellaneous service charges, is \$25,862 for the water system. As discussed in Issue 13, 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 40% conservation adjustment. As discussed in Issue 14, staff recommends that the appropriate repression adjustment is 676 kgal for the water system. Therefore, the resulting monthly rates for service are those shown below.

Staff's recommended increase in revenue requirement is \$12,443, or approximately 92.73%, for the water system. The rates approved for the utility should be designed to produce revenues of \$25,862 (excluding miscellaneous service charge revenues).

Approximately 41% (or \$10,539) 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 59% (or \$15,323) of the revenue requirement represents the consumption charge based on the estimated number of gallons consumed during the test period.

The rates have been calculated using the projected number of bills and the number of gallons of water billed during the test year. However, staff will adjust the number of gallons consumed by the customers to reflect the slow reading meters mentioned in Issue 4. Schedules of the utility's existing rates and staff's recommended rates are as follows:

Residential & General Service Water Rates

Base Facility Charge

<u>Meter Size</u>	Minimum Charge for 3,000 gallons	
	Existing <u>Monthly Rate</u>	Recommended <u>Monthly Rate</u>
5/8" x 3/4"	\$ 13.50	\$ 11.00
3/4"	13.50	16.50
1"	13.50	27.50
1-1/2"	13.50	55.00
2"	13.50	88.00
3"	N/A	176.00
4"	N/A	275.00
6"	N/A	550.00

Gallorage Charge

Per 1,000 gallons
 over 3,000 gallons \$ 1.00

Gallorage Charge

Per 1,000 gallons \$ 3.25

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

<u>Monthly Consumption (In Gallons)</u>	<u>Monthly Billing</u>	<u>Using Staff's Recommended Rates</u>
3,000	\$13.50	\$20.75
5,000	\$15.50	\$27.25
7,500	\$18.00	\$35.38

The recommended rates should be designed to produce revenue of \$25,862 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.

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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 16: What are the appropriate customer deposits for this utility?

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 recommended rates and an average monthly bill for a 2-month period. A schedule of staff's recommended deposits follows:

Water

Residential

<u>Meter Size</u>	<u>Recommended Deposits</u>
5/8" x 3/4"	\$65.00

General Service

<u>Meter Size</u>	<u>Recommended Deposits</u>
5/8" x 3/4"	\$65.00
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

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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 17: 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?

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 \$8,581. 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 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

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DATE: JANUARY 4, 2001

reports with the Commission's Division of Economic Regulation no later than the 20th of the month. These reports should indicate the amount of revenue collected under the increased rates.

ISSUE 18: Should the utility be required to show cause, in writing within 21 days, why it should not be fined up to \$5,000 per day for its apparent violation of Rule 25-30.115, Florida Administrative Code, for its failure to maintain its books and records in conformance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA)?

RECOMMENDATION: No. A show cause proceeding should not be initiated. However, the utility should be ordered to maintain its books and records in conformance with the 1996 NARUC USOA and submit a statement from its accountant by March 31, 2001 along with its 2000 annual report, stating that its books are in conformance with the NARUC USOA and reconciled with the Commission Order. Further, staff recommends that the utility reflect each of its systems as an independent company rather than commingling them in its annual report. (VAN LEUVEN, BUTTS)

STAFF ANALYSIS: During the staff audit, the auditor discovered the utility's accounting system was not maintained in conformance with the NARUC USOA. The utility keeps its general ledger on the cash basis. Staff noticed that neither the utility's plant nor its expense accounts were maintained according to the NARUC USOA. The utility contracts with a CPA firm to prepare its annual report for the Commission; however, the annual report is commingled with all the other utility companies owned by Keen. Staff is recommending that the utility reflect each system as an independent company rather than commingling them together in its annual report. As stated in Issue 11, staff has allowed monies for the set-up of the utility's books.

Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Sewer Utilities," states:

Water and Wastewater Utilities shall, effective January 1, 1998, maintain their accounts and records in conformity with the 1996 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners.

Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. In failing to maintain its books and records in conformance with the USOA, the utility's act was "willful" in the sense intended by Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No.

890216-TL, titled In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., the Commission having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

Although the utility's failure to keep its books and records in conformance with the NARUC USOA is an apparent violation of Rule 25-30.115, Florida Administrative Code, staff believes that there are factors present which mitigate the utility's apparent violation. Staff has included monies in this recommendation to have the utility's accounting, bookkeeping, and other general office duties set-up in conformity with Rule 25-30.115, Florida Administrative Code. Staff has included this cost in O&M expenses, amortizing it over five years. Therefore, staff believes that the utility should be given time and an accounting allowance for setting up the utility's books to conform with the NARUC USOA and to reconcile the utility's books with the Commission's Order.

Based on the foregoing, staff does not believe that the apparent violation of Rule 25-30.115, Florida Administrative Code, under these circumstances rises to the level that warrants the initiation of a show cause proceeding. Therefore, staff recommends that the Commission not order the utility to show cause for failing to keep its books and records in conformance with the NARUC USOA. However, the utility should be ordered to maintain its books and records in conformance with the 1996 NARUC USOA and submit a statement from its accountant by March 31, 2001, along with its 2000 annual report, stating that its books are in conformance with the NARUC USOA and have been reconciled with the Commission Order. Further, the utility should be required to reflect each of its systems as an independent company rather than commingling them in its annual report.

ISSUE 19: Should this docket be closed?

RECOMMENDATION: No. If no timely protest is received upon expiration of the protest period, the PAA Order will become final and effective upon the issuance of a Consummating Order. However, this docket should remain open for an additional six months from the effective date of the Order to allow staff to verify that the utility has installed its recommended pro forma plant. Once staff has verified that this work has been completed, the docket should be closed administratively. (VAN LEUVEN, BUTTS)

STAFF ANALYSIS: Staff has recommended that pro forma is needed for the Alturas water system. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of the Consummating Order. However, this docket should remain open for an additional six months from the effective date of the Order to verify that the work staff is recommending has been completed, the docket should be closed administratively.

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	\$55,698	\$55,698
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	(\$28,424)	(\$28,424)
6. AMORTIZATION OF CIAC	0	\$18,637	\$18,637
7. WORKING CAPITAL ALLOWANCE	\$0	\$2,443	\$2,443
8. WATER RATE BASE	\$0	\$30,217	\$30,217

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

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

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.	17,200
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	<u>\$55,698</u>

LAND

1. To reflect original cost of land.	<u>\$500</u>
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CIAC

1. To impute CIAC as allowed by Rule 25-30.570(b), F.A.C.	<u>(\$18,637)</u>
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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.	(261)
4 To reflect pro forma acc. depr. on meters.	(116)
5 To reflect pro forma acc. depr. on structures and improvements.	(23)
6 To reflect pro forma retirement of old hydro tank.	654
7 To reflect pro forma retirement of the meters.	1,780
Total	<u>(\$28,424)</u>

AMORTIZATION OF CIAC

1. To reflect accumulated amortization per original cost study.	<u>\$18,637</u>
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WORKING CAPITAL ALLOWANCE

1. To reflect 1/8 of test year O & M expenses.	<u>\$2,443</u>
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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		PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS				
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	(16,947)	2,340	7.74%	9.94%	0.77%
6. LONG TERM DEBT-Whiting	0	40,791	40,791	(35,842)	4,949	16.38%	8.00%	1.31%
LONG TERM DEBT-Keen	0	26,682	26,682	(23,445)	3,237	10.71%	8.00%	0.86%
LONG TERM DEBT-Roberts	0	12,136	12,136	(10,663)	1,473	4.87%	10.00%	0.49%
LONG TERM DEBT-Hoff	0	4,855	4,855	(4,266)	589	1.95%	10.00%	0.19%
LONG TERM DEBT-Keen		75,002	75,002	(65,902)	9,100	30.12%	5.50%	1.66%
LONG TERM DEBT-Roberts		6,471	6,471	(5,686)	785	2.60%	11.00%	0.29%
LONG TERM DEBT-Hoff		2,039	2,039	(1,792)	247	0.82%	10.00%	0.08%
LONG TERM DEBT-Keen		12,000	12,000	(10,544)	1,456	4.82%	11.00%	0.53%
LONG TERM DEBT-Ford		13,662	13,662	(12,004)	1,658	5.49%	2.90%	0.16%
LONG TERM DEBT-Keen		13,700	13,700	(12,038)	1,662	5.50%	10.00%	0.55%
LONG TERM DEBT-Keen		1,270	1,270	(1,116)	154	0.51%	10.00%	0.05%
7. LONG TERM DEBT (Pro Forma)	0	21,140	21,140	(18,575)	2,565	8.49%	11.50%	0.98%
8. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
9. TOTAL	\$0	\$249,035	\$249,035	(\$218,818)	\$30,217	100.00%		7.91%

RANGE OF REASONABLENESS

RETURN ON EQUITY

OVERALL RATE OF RETURN

LOW	HIGH
8.94%	10.94%
7.83%	7.99%

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	\$12,443 92.73%	\$25,862
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	13,271	6,271	19,542	0	19,542
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	(375)	1,769	560	2,329
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	\$15,415	\$7,497	\$22,912	\$560	\$23,472
8. OPERATING INCOME/(LOSS)	<u>(\$2,511)</u>		<u>(\$9,493)</u>		<u>\$2,390</u>
9. WATER RATE BASE	\$0		\$30,217		\$30,217
10. RATE OF RETURN	<u>0.00%</u>		<u>-31.42%</u>		<u>7.91%</u>

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.	<u>\$2,559</u>
c. To reflect Alturas allocated portion of salaries for the office person. (A.E. No. 6)	<u>(\$29)</u>
Subtotal	<u>\$479</u>
2. Salaries and Wages - Officers	
To reflect the requested officers' salary amount per Alturas allocated portion.	<u>\$5,770</u>
3. Purchased Power	
a. To reflect repression adjustment.	<u>(\$192)</u>
4. Chemicals	
a. To reclassify chemical expense to Account No. 635.	(1,209)
b. To reflect repression adjustment.	(24)
Subtotal	<u>(\$1,233)</u>
5. Materials and Supplies	
To reflect the annual allocated amount for office supplies.	<u>(\$186)</u>
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.	<u>\$103</u>
Subtotal	<u>\$271</u>
7. Contractual Services - Testing	
a. To reflect reclassified expense from Account No. 618.	1,209
b. To reflect annual testing expense.	<u>\$665</u>
Subtotal	<u>\$1,874</u>
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.	<u>\$16</u>
Subtotal	<u>(\$758)</u>
9. Rents	
To reflect Alturas allocated portion of office expense.	<u>\$1,261</u>
10. Transportation Expense	
To reflect utility related transportation expenses.	<u>(\$416)</u>
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.	<u>\$283</u>
Subtotal	<u>(\$60)</u>

(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
PAGE 2 OF 2

WATER

(O & M EXPENSES CONTINUED)

12. Bad Debt Expense.	
a. To reflect the uncollectible revenues occurred during the test year.	<u>\$383</u>
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.	<u>(266)</u>
Subtotal	<u>(\$922)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$6,271</u>

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.	<u>934</u>
Total	<u>\$1,601</u>

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.	<u>81</u>
Total	<u>(\$375)</u>

OPERATING REVENUES

1. To reflect staff's recommended increase in revenue.	<u>\$12,443</u>
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TAXES OTHER THAN INCOME

To reflect additional regulatory assessment fee associated with recommended revenue requirement.	<u>\$560</u>
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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	(192) [3]	1,085
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	1,366	(1,233) [4]	133
(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	6,271	19,542