BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Alturas Water Works).	DOCKET NO. 000580-WU ORDER NO. PSC-01-0323-PAA-WU ISSUED: February 5, 2001

The following Commissioners participated in the disposition of this matter:

E. LEON JACOBS, JR., Chairman
J. TERRY DEASON
LILA A. JABER
BRAULIO L. BAEZ
MICHAEL A. PALECKI

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST AND REQUIRING CONFORMANCE WITH NARUC SYSTEM OF ACCOUNTS
AND
NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASE IN RATES, CHARGES AND DEPOSITS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the granting of temporary rates subject to protest and our decision not to initiate a show cause proceeding, 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.

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 Order 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. The utility's service area is located in a water use caution area in the Southwest Florida Water Management District (SWFWMD).

We audited the utility's records for compliance with our rules and orders and examined all components necessary for rate setting. Our engineer 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 staff-assisted rate case application were also reviewed to determine reasonable maintenance expenses, regulatory compliance, utility plant in service (UPIS), and quality of service. We 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 commented on the utility's quality of service, the proposed rate increase, and other issues related to the case.

We have the authority to consider this application pursuant to Section 367.0814, Florida Statutes.

QUALITY OF SERVICE

Rule 25-30.433(1), Florida Administrative Code, 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 county health departments (HRS) or lack thereof over the preceding 3-year period shall also be considered. DEP and HRS officials' testimony concerning quality of service as well as the testimony of utility's customers shall be considered.

The utility obtains its raw water from one well in the area by 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 the 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 noted a few minor plant-in-service deficiencies over the last three years. However, the utility was responsive and addressed these deficiencies 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.

Customer Satisfaction

As stated above, a customer meeting was held in the Bartow Civic Center on November 30, 2000. The meeting was attended by sixteen customers of Alturas, seven of whom spoke. All of 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 our Division of Consumer Affairs (Consumer Affairs), PCHD, DEP and the utility went unanswered.

Our 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 were 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. We recognize the need for replacement, and the replacement of the tank is addressed later in this Order. Mr. Keen, the owner of the utility, has agreed to replace the tank as soon as possible and our 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. This information has been provided 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. Our investigation covered the past three years.

In view of the company's response to the customers' concerns, and in consideration of all of the foregoing, we find that the quality of service is satisfactory.

PRO FORMA ADJUSTMENTS

The meters have exceeded their expected lives and have been found to be inaccurate. Therefore, we find that 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 caused

customers to be without potable water. To minimize down time, the tank shall be replaced. The total pro forma cost is $17,200.

This utility's plant and well are not secured. The plant has been vandalized in the past. All utility plants and wells should be secured, and we find that installation of a security fence is both necessary and prudent. The estimated cost of this improvement is $1,270 and is approved as a pro forma adjustment. All pro forma plant improvements shall be completed within six months of the effective date of this Order.

YEAR-END RATE BASE

The utility's plant was placed into service in 1952, resulting in it being fully depreciated on December 31, 1992. A large percentage of the utility's rate base that is pro forma consists of meters, a hydropneumatic tank, and a security fence. The utility has submitted bids or invoices on the pro forma major plant additions and improvements that represent 74% of the year-end rate base.

We apply a year-end rate base only in extraordinary circumstances. See Citizens of Florida v. Hawkins, 356 So. 2d 254, 257 (Fla. 1978). Our engineer performed an original cost study, which 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. It appears that extraordinary circumstances do exist in this case because the utility has indicated that it plans to install meters, a hydropneumatic tank, and a security fence which represent 74% of the 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 (finding that improvements representing 36.07% of total plant were deemed extraordinary circumstances); and Order No. PSC-00-1774-PAA-WU, issued September 27, 2000 in Docket No. 991627-WU (finding that improvements representing over 52% of the utility's rate base were 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, we are required to consider the investment in plant made by the utility in the public service. Alturas has provided us with bids on the labor and installment for the approved pro forma plant additions. For the foregoing reasons, we hereby approve a year-end rate base for Alturas.

EXCESSIVE UNACCOUNTED FOR WATER

When Alturas was purchased by the current owners approximately three years ago, annual reports showed no excessive unaccounted for water. We believe that the annual reports were incorrect because, after several billing cycles, an 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. We agree with this conclusion. The company has begun a meter replacement program and will replace all the meters within one year. Therefore, it appears that the unaccounted for water is being used by the customers and is not being lost due to leaks. 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. Considering all of these facts, the utility's used and useful shall not be adjusted due to excessive unaccounted for water.

USED AND USEFUL

Water Treatment Plant

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

Test-year end number of equivalent residential connections (ERCs) were used for the used and useful calculation.

Section 367.081(2)(a)2.b., Florida Statutes, requires us to consider utility property needed to serve customers five years after the end of the test year to be used and useful. This growth rate for ERCs should not exceed five percent per year. In accordance with Section 367.081(2)(a)2.b., Florida Statutes, we have used this five-year period to calculate used and useful.

Our 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 attempting 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, the water treatment plant shall be considered 100% used and useful. The calculation is summarized in Attachment A of this Order, page 1 of 2, which by reference is incorporated herein.

Water Distribution System

The water distribution system is estimated to have the potential of serving 80 ERCs. Year-end data showed that the utility had 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 our calculations.

ACQUISITION ADJUSTMENT

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

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 our 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. Rule 25-30.570, 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, we calculated the net book value of the purchased plant on December 31, 1998, to be $500. The calculation is as follows:

Acquired Plant in Service at 12/31/98	$ 29,403
Accum. Depre. at 12/31/98	(29,403)
Net Plant at 12/31/98	$ 0
CIAC at 12/31/98	$ (18,637)
Amortization of CIAC at 12/31/98	18,637
	$ 0
Land	500
Acquired Rate Base at 12/31/98	$ 500
Purchase Price at 12/29/98:	($ 12,000)
Positive Acquisition Adjustment:	$ 11,500

In the absence of extraordinary circumstances, it has been Commission practice that the purchase of a utility's system at a premium or discount shall not affect the rate base calculation.

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, we 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 its acquisition, the utility has 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. The utility is constantly repairing them to better facilitate the overall efficiency of the system and cut down on water being wasted.

We find that the circumstances in this case concerning the purchase of the utility do not appear to be extraordinary. Further, it is our 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 (finding 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 staff-assisted rate case, we find the operating expense to be $19,514 (Schedule 3-C). We note 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 previously, 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 increase in quality of service since the purchase. Further, we find that there has not been an increased ability to: attract capital; lower overall cost of capital; or find more professional and experienced managerial, financial, technical and operational resources.

Moreover, our 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 increase in rates resulting from this Order. For the foregoing reasons, a positive acquisition shall not be approved in the determination of the utility's rate base at the date of purchase.

ALLOCATION OF COMMON COSTS

It is also our 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, we ordered that the utility's allocation of administrative and general expenses be based on the number of customers. In this rate proceeding, we determined that Keen had 548 customers or meters during the 12 months ending March 31, 2000. With the information from the audit, we determined that each system shall be allocated its common operating costs based on the average number of customers representing that system.

Our calculations of the appropriate allocation percentages are set forth below:

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

We find that the reasonable and prudent common costs allocated to the Alturas water system based on the allocated portion is 11.68%. This would more equitably reflect the distribution of costs among the four water systems. During the audit, our staff informed the representatives of Keen about allocating the cost to this system based on the number of meters, and the utility agreed with this approach.

RATE BASE

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

As previously noted, we 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. Our calculation of the appropriate rate base for the purpose of this proceeding is depicted in Schedule No. 1, and our adjustments are itemized in Schedule No. 1-A. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

UPIS

The utility books reflected a water UPIS balance of $0 at the beginning of the test year. We made an adjustment of $6,319 to reflect the amount of water plant per our original cost study. 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 as of December 1992. A new hydropneumatic tank has been included in pro forma plant. We estimate that a reasonable cost for the tank is $17,200. Pro forma adjustments of $3,940 and $1,270 for meters and structures and improvements, respectively, were made to this account. Finally, we made adjustments of ($654) and ($1,780) for the retirement of the existing hydropneumatic tank and water meters. Based on the above, we find the appropriate water UPIS balance to be $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 the 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. Even by researching the records at the Polk County Courthouse, our staff could not

establish the true value of the land when it was first devoted to public service. However, when the utility was purchased by its original owners in 1936 for $600, the utility's plant was already established. This indicates that the land value was somewhat less than $600. As a result of the cost study, our engineer valued the land at $500. Therefore, we find that the land value is $500.

Non-Used and Useful Plant

As previously discussed, the water treatment plant and the water distribution system are both 100% used and useful. Therefore, there is no non-used and useful plant.

CIAC

The utility recorded no CIAC on its books at the end of the test year. Our auditor could not establish water CIAC because of inadequate utility records. Rule 25-30.570, 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 original cost study shows water CIAC transmission and distribution lines in the amount of ($18,637) in 1952. As a result, CIAC was fully depreciated in December 1991. We find that the appropriate amount for water CIAC is ($18,637).

Accumulated Depreciation

The utility's books reflected no accumulated depreciation balances for water at the end of the test year. We 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.

We made an adjustment of ($1,055) to reflect the amount of accumulated depreciation using the original cost study. We 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, we find that the appropriate balance for water accumulated depreciation is ($28,424).

Accumulated Amortization of CIAC

The utility recorded no accumulated amortization of CIAC at the end of the test year. We calculated accumulated amortization by using a 2.5% amortization rate for 1952 through March of 1984, and then using a composite rate through the test year. Our calculation for accumulated amortization of CIAC is $18,637 as of December 31, 1991. Thus, we find that the accumulated CIAC amortization of $18,637 is appropriate 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, we used the one-eighth of operation and maintenance (O&M) expense formula approach to calculate the working capital allowance. Applying this formula, we find that a working capital allowance of $2,443 for water, based on water O&M expenses of $19,542, is appropriate.

Rate Base Summary

Based on the foregoing, the appropriate rate base balance for rate setting purposes is $30,217 during the test year. Our calculation of rate base is shown on Schedule No. 1, and adjustments are shown on Schedule No. 1-A.

COST OF CAPITAL

Keen is a certificated utility with several different operating water systems. In cases where a consolidated capital structure exists, it is our practice to evaluate and utilize the capital structure of the parent company for all of its water systems. We have determined in the past that the first level that attracts funding from outside sources is the appropriate capital structure even if the utility would likely 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, we 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 our audit and the original cost study, the capital structure for this system consists of $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 pro forma. We have included a loan amount for pro forma at being 2% over the prime rate with the prime rate being 9.50% at the time of our decision on this matter.

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%. We have made pro rata adjustments to reconcile the capital structure to the rate base.

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

NET OPERATING INCOME

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. 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.

We made an adjustment of $515 to bring test year revenue to the proper amount. Thus, test year revenue of $13,419 is appropriate for this utility.

Test year revenues are shown on Schedule No. 3, and our adjustments are shown on Schedule No. 3-A. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected in those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Test Year Operating Expenses

The test year operations and maintenance expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. We made several adjustments to the utility's operating expenses.

Operations and Maintenance Expenses (O&M)

A summary of adjustments follows:

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. We reduced the amount charged to the Alturas system by ($2,051) based on the 11.68% allocation amount previously discussed. We find $2,429 to be the appropriate amount for salaries and wages expense for the maintenance engineer.

The utility employs an office person to answer phone calls, do the general filing, maintain computer records of all of the utility's water systems, attend the Class B and 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, we made an adjustment for the employee salaries and wages in the amount of $2,559 ($21,906 X 11.68%) for the test year.

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. We reduced the amount charged to the Alturas system by ($29) based on the 11.68% allocation amount applicable to the Alturas' system. We find $135 to be the appropriate amount for salaries and wages expense for the part-time employee.

We increased the utility's test year recorded amount by $479 to reflect the employee salaries and wages expense. Therefore, we find that $5,123 is appropriate for employee salaries and wages expense.

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; ensuring required reports are completed; recording testing statements; ensuring DEP testing certificates are properly made and filed according to the law; securing bids on any needed improvements to the utility; and overseeing any construction projects. The utility stated that the president works in excess of 40 hours weekly. We find that Alturas' allocated portion of the requested president's salary is reasonable. Thus, $3,644 ($600 per week X 11.68% X 52 weeks) is an appropriate amount for officers salaries and wages expense for the president.

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 works approximately 30 hours per week. Alturas' allocated portion of the requested $350 for the vice-president's salary is reasonable. Thus, $2,126 ($350 per week X 11.68% X 52 weeks) is an appropriate amount for officers salaries and wages expense for the vice-president.

A total of $5,770 for officers salaries and wages expense is appropriate for the test year.

Purchased Power

The utility recorded a test year purchased power expense of $1,277. This Order includes a discussion of 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. We adjusted this account by ($192) to reflect repression, and find that $1,085 is appropriate for purchased power expense.

Chemicals

The utility recorded a test year chemical expense of $1,366 for the test year. We made an adjustment of ($1,209) to reclassify testing expense to Account No. 635. As noted above, this Order discusses 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 because less water will have to be chemically treated. We made a repression adjustment of ($24) to reflect the estimated decrease in chemical expense. Thus, we find that a chemical expense of $133 is appropriate for the test year.

Materials and Supplies

The utility recorded test year materials and supplies expense of $650. We adjusted this account by ($186) to reflect Alturas' allocated portion of office supplies. We find that a materials and supplies expense of $464 is appropriate 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. We allowed a reasonable and prudent amount in this rate case proceeding for this expense. Since we regulate all of Keen's water systems, we established set-up fees for all of the utility's systems. We estimate that it will

take $6,000 to set up all of the systems in conformance with the NARUC USOA. Therefore, we find that 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, are appropriate.

The utility also incurred non-recurring expenses in the amount of $1,219 associated with its computer. Pursuant to Rule 25-30.433(8), Florida Administrative Code, we amortized this amount over five years, plus the allocated amount of 11.68% applied to the Alturas system, for a total amount of $28. The utility had other computer expenses during the test year totaling $881, of which $103 was allocated to Alturas. We 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 to the utility. We reclassified $1,209 from Account No. 618 to the Contractual Services - Testing account. State and local authorities require that several analysis be submitted in accordance with Rule 62-550, Florida Administrative Code. A schedule of the required tests, frequency, and costs are as follows:

WATER

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

We adjusted Contractual Services - Testing by $665 to allow for testing expense. We find that $1,874 is appropriate for Contractual Services - Testing expense.

Contractual Services - Other

The utility recorded $2,455 in this account for the test year. Pursuant to Audit Exception No. 9, we adjusted this account by ($118) to reflect Alturas' portion of the allocation for telephone expense. We also made adjustments of $46 to reclassify cellular phone expense from the UPIS account and ($79) for parts expense to reflect the allocated amount of 11.68%. Further, we reclassified ($261) in this account to UPIS and removed ($63) which was a golf-cart expense, and ($299) which was an expense for repairs to the water tank. We made an adjustment to reclassify the meter reader expense of $16 from Account No. 675 to reflect Alturas' allocated portion of this expense. Thus, we find that $1,697 is appropriate for Contractual Services - Other expense 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, we received a facsimile from Brokers Realty of Central Florida, Inc., stating that, "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 our analysis and breakdown of this expense, we find that $1,261 is an appropriate amount for test-year rental expense, which is less than the quote from the realtor.

Transportation Expense

The utility recorded $872 of transportation expense for the test year. The utility owns a 1999 Ford Econoline van that assists its employees in performing the utility's duties. We adjusted transportation expense by ($416) to reflect Alturas' portion of the allocation for gas and maintenance expense. We find that an annual transportation expense of $456 is appropriate.

Insurance Expense

The utility recorded insurance expense of $950 for the test year. We adjusted this account by $20 to reflect auto insurance coverage, ($363) to reflect asset and liability coverage, $283 to reflect worker's compensation per the allocated portion for Alturas. We find that $890 for insurance expense is appropriate for this utility.

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. Thus, a bad debt expense of $383 is appropriate for this utility.

Miscellaneous Expense

The utility recorded $1,011 in miscellaneous expense during the test year. We adjusted this account by ($35) for reclassified meter reader expense which was moved to Account No. 636; ($540) for reclassified regulatory assessment fees which was moved to Taxes Other than Income (TOTI); ($81) for reclassified property tax which was moved to TOTI; and ($266) to reflect utility related annual expense. We find that $89 for miscellaneous expense is appropriate for the test year.

Operation and Maintenance Expenses (O & M) Summary

The adjustments to O&M expenses total $6,271. Adding this amount to the utility's figure of $13,271, we find that $19,542 is appropriate for O&M expenses. Our calculations of O&M expenses are shown on Schedule No. 3-C.

Depreciation Expense (Net of Amortization of CIAC)

We calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, Florida Administrative Code. Our calculated test year depreciation expense is $667. We also made adjustments of $934 to include depreciation on pro forma plant. As stated earlier, CIAC is fully amortized. Therefore, we find that $1,601 is appropriate for net depreciation expense for the test year.

Taxes Other Than Income Taxes

The utility recorded an amount of $2,144 in this account during the test year. We adjusted this account by ($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 payroll taxes on officer salaries; $26 to reflect test year real estate taxes; and $81 to reflect taxes paid on the well property. We find that $1,769 is appropriate for taxes other than income taxes expense.

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 rate of return on investment set forth in this Order.

Taxes Other Than Income Taxes (On Revenue Increase)

This expense has been increased by $560 to reflect the regulatory assessment fee of 4.5% for the increase in revenue set forth in this Order.

Operating Expenses Summary

The adjustments to the utility's test year operating expenses set forth above result in operating expenses of $23,472. Our calculation of operating expenses is shown on Schedule No. 3. Adjustments are shown on Schedules Nos. 3-A, 3-B, and 3-C.

REVENUE REQUIREMENT

The utility shall 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 a 7.91% return on its investment. The calculation is as follows:

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

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

RATE STRUCTURE

The utility's current water system rate structure consists of a monthly base facility charge (BFC)/gallonage charge rate structure, in which the BFC of $13.50 includes an allotment of 3 thousand gallons (kgal) of water, and all gallons in excess of 3 kgal used are charged $1.00 per 1,000 gallons.

This Commission's preferred rate structure is the traditional BFC/gallonage charge rate structure where no allotment for gallonage is allowed in the BFC charge. 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. We find that this allotment discourages conservation at and below the allotment level, and customers do not receive the appropriate price signal for each thousand gallons of water used. Therefore, we shall eliminate the 3 kgal allotment to the BFC to be consistent not only with our 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. We believe that it is an important rate

design goal 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 below.

	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 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 SWFWMD.

Due to revenue stability concerns, it is unusual to have 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.

REPRESSION ADJUSTMENT

Based on information contained in our database of utilities receiving rate increases and decreases, there were five water utilities that had 3 kgal allotments removed from a BFC/gallonage rate structure. On average, these utilities experienced an approximate 60% price increase while experiencing an approximate 13% reduction (repression) in average monthly consumption. Specifically, the consumption reductions were 35%, 15%, 14%, 9% and 6%, respectively. 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 we do 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.

We also do not 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, we find that 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 revenue increases, the utility shall prepare

monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall 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.

MONTHLY WATER RATES

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 previously discussed, the water system rate structure was changed to a traditional BFC/gallonage charge rate structure by removing the 3 kgal allotment. In addition, we implemented a 40% conservation adjustment and found that the appropriate repression adjustment is 676 kgal for the water system. Therefore, the resulting monthly rates for service are those shown below.

The increase in revenue requirement is $12,443, or approximately 92.73%, for the water system. The rates are 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 an 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, the number of gallons consumed by the customers have been adjusted to reflect the slow reading meters previously mentioned. Schedules of the utility's existing rates and approved rates are as follows:

Residential & General Service Water Rates

Base Facility Charge

Meter Size	Minimum Charge for 3,000 gallons Existing Monthly Rate	Approved Monthly Rate
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

Gallonage Charge Per 1,000 gallons over 3,000 gallons	$ 1.00	
Gallonage Charge Per 1,000 gallons		$ 3.25

The following are the estimated average residential and general service water monthly billings for the consumption shown:

Monthly Consumption (In Gallons)	Monthly Billing	Approved Rates
3,000	$13.50	$20.75
5,000	$15.50	$27.25
7,500	$18.00	$35.38

The utility shall maintain its BFC/gallonage charge rate structure. The new approved rates shall 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 shall not be implemented until proper notice has been received by the customers. The utility shall provide our staff with proof of

the date notice was given within 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate shall be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall 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 shall the rates be effective for service rendered prior to the stamped approval date.

CUSTOMER DEPOSITS

The utility's existing tariff provides for Commission approved customer deposits for residential and general service customers in 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. We have calculated customer deposits based on the rates approved in this Order and an average monthly bill for a 2-month period. A schedule of deposits follows:

Water
Residential

Meter Size	Approved Deposits
5/8" x 3/4"	$65.00

General Service

Meter Size	Approved Deposits
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 shall refund the customer's deposit pursuant to Rule 25-30.311(5), Florida Administrative Code. The utility shall pay

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

The utility shall file revised tariff sheets which are consistent with this Order. Our staff shall approve the revised tariff sheets upon verification that the tariffs are consistent with this Order. If revised tariff sheets are filed and approved, the customer deposits shall become effective for connections made on or after the stamped approval date of the revised tariff sheets.

TEMPORARY RATES IN THE EVENT OF A PROTEST

This Order 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, we hereby authorize the utility to collect the rates approved herein as temporary rates subject to refund. The rates approved herein shall be collected by the utility subject to the refund provisions discussed below.

The utility shall be authorized to collect the temporary rates upon our staff's approval of the security for potential refund and a proposed customer notice. The security shall be in the form of a bond or letter of credit in the amount of $8,581. Alternatively, the utility may establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond shall 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 shall contain the following conditions:

1) The letter of credit is irrevocable for the period it is in effect.

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

If security is provided through an escrow agreement, the following conditions shall 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 shall be an interest bearing account.

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

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

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

6) The amount of revenue subject to refund shall 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 shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall 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 shall 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 shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility shall 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 shall file reports with our Division of Economic Regulation no later than the 20th of the month. These reports shall indicate the amount of revenue collected under the increased rates.

BOOKS AND RECORDS

During our audit, it was discovered that the utility's accounting system was not maintained in conformance with the NARUC USOA. The utility keeps its general ledger on the cash basis. We 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 this Commission; however, the annual report is commingled with all the other utility companies owned by Keen. The utility shall reflect each system as an independent company rather than commingling the companies together in its annual report. As previously discussed, we have allowed monies for the set-up of the utility's books in this manner.

Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Wastewater 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 us 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, there are factors present which appear to mitigate the utility's apparent violation. By this Order, we have allowed for monies to have the utility's accounting, bookkeeping, and other general office duties set-up in conformance with Rule 25-30.115, Florida Administrative Code. We have included this cost in O&M expenses, amortizing it over five years. Therefore, we will allow the utility time and an accounting allowance to set up its books to conform with the NARUC USOA and to reconcile its books with this Order.

Based on the foregoing, we do not find that the apparent violation of Rule 25-30.115, Florida Administrative Code, in these circumstances rises to the level which warrants the initiation of a show cause proceeding. Therefore, Keen shall not be required to show cause for failing to keep its books and records in conformance with the NARUC USOA. However, the utility shall 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 this Order. Further, the utility shall reflect each of its systems as an independent company rather than commingling them in its annual report.

If no timely protest is received upon expiration of the protest period, this Order shall become final upon the issuance of a Consummating Order. However, this docket shall remain open for an additional six months from the effective date of the Order to verify that the work required by this Order has been completed. Once this information is verified, this docket shall be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Keen Sales, Rentals and Utilities, Inc.'s application for increased water rates and charges is hereby approved as set forth in the body of this Order. It is further

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

ORDERED that all matters contained in the schedules attached hereto are incorporated herein by reference. It is further

ORDERED that Keen Sales, Rentals and Utilities, Inc., is authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that Keen Sales, Rentals and Utilities, Inc.'s rates and charges shall be effective for services rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that Keen Sales, Rentals and Utilities, Inc., shall provide proof that the customers have received notice within ten days of the date of the notice. It is further

ORDERED that in the event of a protest by a substantially affected person other than the utility, Keen Sales, Rentals and Utilities, Inc., is authorized to collect the rates approved on a temporary basis, subject to refund, in accordance with Rule 25-30.360, Florida Administrative Code, provided that Keen Sales, Rentals and Utilities, Inc., first furnishes and has approved by our staff, adequate security for any potential refund and a proposed customer notice. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Keen Sales, Rentals and Utilities, Inc., shall submit and have approved revised tariff pages. The revised tariff pages shall be approved upon our staff's verification that the pages are consistent with our decision herein, that the protest period has expired, that the customer notice is adequate, and that any required security has been provided. It is further

ORDERED that in the event of a protest, prior to the implementation of the rates and charges approved herein, Keen Sales, Rentals and Utilities, Inc., shall submit and have approved a bond or letter of credit in the amount of $8,581 as a guarantee of any potential refund of revenues collected on a temporary basis. Alternatively, the utility may establish an escrow account with an independent financial institution. Further, the utility shall maintain a record of the amount of the bond, if one is used, and the amount of revenues that are subject to refund, and submit monthly reports no later than twenty days after each monthly billing which shall indicate the amount of revenue collected on a temporary basis subject to refund. It is further

ORDERED that an acquisition adjustment shall not be approved in the determination of the utility's rate base at the date of purchase. It is further

ORDERED that all pro forma plant improvements shall be completed within six months of the effective date of this Order. It is further

ORDERED that Keen Sales, Rentals and Utilities, Inc.'s rate structure is hereby changed to a traditional base facility charge/gallonage charge rate structure. The 3,000 gallon allotment is removed and a 40% conservation adjustment shall be implemented. It is further

ORDERED that Keen Sales, Rentals and Utilities, Inc., shall prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall 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. It is further

ORDERED that Keen Sales, Rentals and Utilities, Inc., is hereby authorized to charge customer deposits as set forth in the body of this Order. If revised tariff sheets are filed and approved, the customer deposits shall become effective for connections made on or after the stamped approval date of the revised tariff sheets. It is further

ORDERED that Keen Sales, Rentals and Utilities, Inc., shall maintain its books and records in conformance with the 1996 NARUC Uniform System of Accounts 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 Uniform System of Accounts and have been reconciled with this Order. Further, the utility shall reflect each of its systems as an independent company rather than commingling them in its annual report. 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 Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that if no timely protest is received upon expiration of the protest period, this Order shall become final upon the issuance of a Consummating Order. It is further

ORDERED that this docket shall remain open for an additional six months from the effective date of the Order to verify that the work required by this Order has been completed. Once this information is verified, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 5th day of February, 2001.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

RRJ/SMC

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 or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, the actions discussed herein, except for the granting of temporary rates subject to protest, are preliminary in nature. Any person whose substantial interests are affected by the actions 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 Records and Reporting, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on February 26, 2001. If such a petition is filed, 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. In the absence of such a

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

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

Any party adversely affected by the Commission's final action in this matter, may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

ATTACHMENT A PAGE 1 OF 2

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% 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

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

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	COMMISSION ADJUST. TO UTIL. BAL.	BALANCE PER COMMISSION
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.	SCHEDULE NO. 1-A
TEST YEAR ENDING MARCH 31, 2000	DOCKET NO. 000580-WU
ADJUSTMENTS TO RATE BASE	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	$55,698
LAND	
1. To reflect original cost of land.	$500
CIAC	
1. To impute CIAC as allowed by Rule 25-30.570(b), F.A.C.	($18,637)
ACCUMULATED DEPRECIATION	
1. To reflect accumulated depreciation per original cost study.	(1,055)
2. To reflect accumulated depreciation on fully depr. plant.	(29,403)
3. To reflect pro forma acc. depr. on hydro-pneumatic tank.	(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	($28,424)
AMORTIZATION OF CIAC	
1. To reflect accumulated amortization per original cost study.	$18,637
WORKING CAPITAL ALLOWANCE	
1. To reflect 1/8 of test year O & M expenses.	$2,443

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 ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER COMMISSION	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	$0	$1,000	$1,000					
2. RETAINED EARNINGS	0	18,287	18,287					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	0	0	0					
5. TOTAL COMMON EQUITY	$0	$19,287	19,287	(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	0	75,002	75,002	(65,902)	9,100	30.12%	5.50%	1 66%
LONG TERM DEBT-Roberts	0	6,471	6,471	(5,686)	785	2 60%	11.00%	0 29%
LONG TERM DEBT-Hoff	0	2,039	2,039	(1,792)	247	0.82%	10 00%	0 08%
LONG TERM DEBT-Keen	0	12,000	12,000	10,544)	1,456	4.82%	11.00%	0.53%
LONG TERM DEBT-Ford	0	13,662	13,662	(12,004)	1,658	5.49%	2.90%	0.16%
LONG TERM DEBT-Keen	0	13,700	13,700	(12,038)	1,662	5.50%	10 00%	0.55%
LONG TERM DEBT-Keen	0	1270	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			LOW	HIGH	
			RETURN ON EQUITY			8.94%	10 94%	
			OVERALL RATE OF RETURN			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	COMM. ADJ. TO AUDIT	COMM. 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)	($2,511)		($9,493)		$2,390
9. WATER RATE BASE	$0		$30,217		$30,217
10. RATE OF RETURN	0.00%		-31.42%		7.91%

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

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

		WATER
	OPERATING REVENUES	
	To adjust utility revenues to audited test year amount.	$515
	OPERATION AND MAINTENANCE EXPENSES	
1.	Salaries and Wages - Employees	
	a. To reflect Alturas allocated portion of salaries for engineer. (Audit Except. No. 6)	($2,051)
	b. To reflect the Office Manager's salary per Alturas allocated portion.	$2,559
	c. To reflect Alturas allocated portion of salaries for the office person. (A.E. No. 6)	($29)
	Subtotal	$479
2.	Salaries and Wages - Officers	
	To reflect the requested officers' salary amount per Alturas allocated portion.	$5,770
3.	Purchased Power	
	a. To reflect repression adjustment.	($192)
4.	Chemicals	
	a. To reclassify chemical expense to Account No. 635.	(1,209)
	b. To reflect repression adjustment.	(24)
	Subtotal	($1,233)
5.	Materials and Supplies	
	To reflect the annual allocated amount for office supplies.	($186)
6.	Contractual Services - Professional	
	a. To reflect Alturas portion of the allocation for set-up cost amortize over 5-years.	$140
	b. To account for non-recurring computer expense amortize over 5-years.	$28
	c. To reflect annual computer expense during the test year.	$103
	Subtotal	$271
7.	Contractual Services - Testing	
	a. To reflect reclassified expense from Account No. 618.	1,209
	b. To reflect annual testing expense.	$665
	Subtotal	$1,874
8.	Contractual Services - Other	
	a. To reflect Commission'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 allocated meter reader expense from Account No. 675.	$16
	Subtotal	($758)
9.	Rents	
	To reflect Alturas allocated portion of office expense.	$1,261
10	Transportation Expense	
	To reflect utility related transportation expenses.	($416)
11.	Insurance Expenses	
	a. To reflect auto insurance coverage.	$20
	b. To reflect liability/asset insurance coverage.	($363)
	c. To reflect worker's compensation insurances.	$283
	Subtotal	($60)

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.	$383
13. Miscellaneous Expense	
a. Reclassified meter reader expense to Account No. 636.	(35)
b. Reclassified Regulatory Assessment Fees to Taxes Other than Income.	(540)
c. Reclassified property tax to TOTI.	(81)
d. To reflect utility related annual expense.	(266)
Subtotal	($922)
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	$6,271
DEPRECIATION EXPENSE	
1. To reflect test year depreciation expense calculated per 25-30.140 F.A.C.	667
2. To reflect depreciation expense on pro forma plant.	934
Total	$1,601
TAXES OTHER THAN INCOME	
1. To reflect payroll taxes on allocated salaries for the maint. engineer & office person.	(1,118)
2. To correct error in recording taxes.	(730)
3. To remove non-utility expense.	(100)
4. To reflect reclassified RAF from Account No. 675.	540
5. To reflect RAF on annualized revenue.	$64
6. To reflect payroll taxes for approved salaries.	862
8. To reflect test year real estate taxes.	26
7 To reflect taxes paid on well property.	81
Total	($375)
OPERATING REVENUES	
1. To reflect approved increase in revenue.	$12,443
TAXES OTHER THAN INCOME	
To reflect additional regulatory assessment fee associated with approved revenue requirement.	$560

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 UTILITY	COMMISSION ADJUST.		TOTAL PER COMMISSION
(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