State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: FEBRUARY 6, 2003

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (BOUTWELL, MERCHANT, RIEGER)
OFFICE OF THE GENERAL COUNSEL (JAEGER)

RE: DOCKET NO. 020344-SU - APPLICATION FOR RATE INCREASE IN MONROE COUNTY BY KEY HAVEN UTILITY CORPORATION.

AGENDA: 02/18/03 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 5-MONTH EFFECTIVE DATE: FEBRUARY 26, 2003 (PAA RATE CASE)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\020344.RCM

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CASE BACKGROUND

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

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

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

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

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

As part of the PAA process, staff held a customer meeting on December 5, 2002, in Key West, Florida. Staff discusses the meeting in Issue 1.

This recommendation addresses the revenue requirement, service rates and charges, and rate structure that staff believes are appropriate. The Commission has jurisdiction pursuant to Sections 367.081 and 367.101 Florida Statutes.

QUALITY OF SERVICE

ISSUE 1: Is the quality of service satisfactory?

RECOMMENDATION: Yes, the overall quality of service provided by Key Haven Utility Corporation is satisfactory. (RIEGER)

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

Key Haven provides wastewater service to approximately 419 residential customers at the Key Haven subdivision in Monroe County. Water service is provided by the Florida Keys Aqueduct Authority (FKAA). Key Haven's service area is located two miles east of the city of Key West off the Overseas Highway (US 1). The utility's wastewater treatment facility has a permitted capacity of 200,000 gallons per day (gpd) three-month-average daily flow. The plant is a dual-train (parallel 100,000 gpd units), extended aeration process, field-erected (built on site), concrete installation. The filtered, chlorinated effluent is sent to six underground injection wells. The wastewater collection system is made up of clay pipe in the older sections of the development, with PVC pipe in the newer areas. There are four lift stations located throughout the utility's service area. On October 21, 2002, staff performed a field investigation of the utility's treatment facility and collection system. A customer meeting was held on December 5, 2002, to allow customers to provide input into the utility's quality of service.

Quality of Utility's Product

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

Increased solids removal could help the operating situation, but that would mean additional sludge removal costs. Increased sludge removal may be required as a specific condition when the upcoming DEP operating permit is reissued later this year. Since DEP is aware of this situation, staff believes that this situation will be appropriately addressed by DEP.

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

Quality of Plant

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

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

Given the above, staff believes that the utility is properly maintaining the wastewater plant and collection system. Therefore, staff recommends that the quality of the utility's plant is satisfactory. Infiltration is addressed in further detail in Issue 4.

Customer Satisfaction

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

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

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

Addressing the concerns listed in the petition, staff explained the basic premise of how the rate structure, both interim and proposed final, was to be implemented. This included incorporating consumption information received from the FKAA. Reassurances were given concerning review of management practices and the verification of documentation on improvements made. As far as identifying the portion of the increase related to improving vegetation screening, noise abatement, and odor problems, nothing specific could be offered. However, staff did explain that the utility was meeting treatment standards as required by the DEP, with no enforcement action pending against the utility. In addition, staff explained its review of the utility's facilities, which were found to be operating satisfactorily.

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

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

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

Staff believes that the customer satisfaction concerns discussed above have been considered properly. Therefore, staff believes that the utility satisfactorily addresses customer concerns.

Summary

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

RATE BASE

ISSUE 2: What adjustments, if any, should be made to the utility's plant in service?

RECOMMENDATION: Plant in service should be increased by a total of $2,391 to remove incorrect reconciling adjustments and other unsupported and unreported items. Corresponding adjustments should also be made to increase accumulated depreciation by $1,392, and depreciation expense by $52. (BOUTWELL)

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

As stated in Audit Exception No. 5, the utility reduced utility plant in service by $4,802 to reconcile to the prior rate case Order No. PSC-94-1557-S-SU. However, prior to making this adjustment, the ending balance for this account agreed with the ending balance in the Order. Therefore, staff believes that the utility's reconciling adjustment was unnecessary and plant should be increased by $4,802. Staff has calculated $1,574 as the increase to accumulated depreciation, and $105 as the increase to depreciation expense associated with this correction to plant in service.

The audit also reflected $2,411 in total unsupported and unreported additions to plant in service since the last rate case. For the unsupported items, the utility failed to supply documentation supporting these amounts. As such, staff does not believe these additions should be included in rate base. Further, the auditors found several unreported assets that the utility should have recorded on its books. Staff believes that these amounts, which reflect a net decrease to plant should be removed. Staff has calculated $182 as the appropriate reduction to accumulated depreciation, and $53 as the appropriate reduction to depreciation expense associated with this adjustment. Thus, staff recommends removing the $2,411 unsupported additions to plant since the last rate case. Staff further recommends corresponding reductions of $182 to accumulated depreciation, and $53 to depreciation expense.

The total plant adjustments result in a net increase of $2,391. Accumulated depreciation should be increased by a net amount of $1,392. The adjustments to test year depreciation expense, recommended above, result in a net decrease of $52.

ISSUE 3: Should the abandoned wastewater plant be retired and the associated non-used and useful adjustments to utility plant in service be reversed?

RECOMMENDATION: Yes. Plant and accumulated depreciation should both be decreased by $325,474 to retire the abandoned plant. Rate base should be increased to remove the utility's erroneous non-used and useful adjustment of $47,757 associated with this retired plant. (BOUTWELL, RIEGER)

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

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

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

ISSUE 4: What are the appropriate used and useful percentages for the wastewater treatment facility and wastewater collection system?

RECOMMENDATION: The wastewater treatment facility should be considered 79% used and useful. The wastewater collection system should be considered 100% used and useful. Accordingly, rate base should be reduced by $94,130 and depreciation expense by $5,002. Non-used and useful property tax expense should be reduced by $189. (RIEGER, BOUTWELL)

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

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

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

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

month average daily flow, and as such there has been no connection moratorium placed on this facility.

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

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

The utility's explanations concerning severe environmental conditions, inflow (and infiltration), and the choice of constructing a larger, more cost effective plant are reasonable. In addition, pursuant to Rule 25-30.432, FAC, staff has also considered other issues such as the utility's improved infiltration and inflow control, and available capacity to allow additional flows related to future connections. Regardless, staff believes that the used and useful percentage should be calculated pursuant to Rules 25-30.431 and .432, FAC.

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

Staff believes that the improvements to the collection system during the test year and earlier are reducing infiltration and inflow to the treatment plant. This is reflected by the reduced gallons per ERC of treated wastewater. Per the utility's application, total gallons treated per ERC have dropped from a six-year peak in 1998 of 361 gallons per ERC, to the test-year low of 269 gallons per ERC. This is approximately a 25% reduction. Although there may be other reasons for the decrease in the overall plant flows, staff believes that a major factor is the system improvements made by the utility over the years. This is a very positive thing, and the utility should be complimented for addressing the problem. What this does, however, is free up treatment plant that was once needed to handle excessive infiltration. While we realize that there is no guarantee that the infiltration and inflow reduction will continue to be minimized, staff believes that there is a good chance that the reductions will continue, particularly if the utility continues with the improvements. As infiltration is further reduced, additional capacity will be available for future growth.

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

Adjustments to plant used and useful percentage and operating expenses such as power and chemicals could be recommended because of the excessive infiltration determination. However, in this case consideration should be given to the age of the system, the severe conditions the facilities are exposed to with the saltwater and high ground-water environment, and the recent improvements done to the collection system to help reduce the problem. Staff sees no benefit to penalizing the utility by further reducing used and useful or expenses based on excessive infiltration when the problem is being addressed satisfactorily.

Further, staff believes that to allow the utility's request for the wastewater treatment plant to be considered 100% used and useful would be unfair to the customers in light of the infiltration situation and the potential for future growth. Staff recommends that it would be more prudent to calculate used and useful based on actual flows pursuant to Rule 25-30.432, FAC. According to the utility, the peak three-month average daily flow during the test year was 150,000 gpd. Allowing 8,280 gpd for growth pursuant to Rule 25-30.431(2)(c), FAC, staff recommends that the utility's wastewater treatment plant should be considered 79% used and useful as shown on Attachment A.

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

1) In the utility's last rate case (Docket No. 940299-SU), the Commission, OPC, and the utility stipulated that the treatment plant and collection system were 100% used and useful. No expansion of the collection system has occurred or is possible due to location and environmental restrictions.

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

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

Similar to the wastewater treatment plant analysis, staff disagrees with the utility's justification for the use of 100% used and useful based on a stipulated agreement authorized in a previous proceeding. Allowing 23 connections for growth pursuant to Rule 25-30.431(2)(c), FAC, the used and useful percentage based on connections would be 86%. However, staff agrees with the utility that recognition should be given to its efforts to reduce infiltration. The utility has made improvements to the collection system in the form of repairing and replacing existing pipes. Staff believes that the work done to the collection system has provided better sewer service to the existing customers located throughout the system. Basically, the system is the size necessary to accommodate the needs of the existing customer base and some future growth. Therefore, as reflected in Attachment A, staff recommends that the wastewater collection system be considered 100% used and useful.

Summary

In summary, staff recommends that the wastewater treatment facility should be considered 79% used and useful. The wastewater collection system should be considered 100% used and useful.

In order to reflect staff's recommended used and useful adjustment, non-used and useful plant should be reduced by $114,656 and accumulated depreciation should be reduced by $20,526. This reflects a net adjustment of $94,130 to rate base. Depreciation expense should also be reduced by $5,002.

Pursuant to Rule 25-30.433(5), FAC, property taxes associated with non-used and useful property are disallowed as an expense for ratemaking. Staff has calculated $189 as the corresponding reduction to real estate and personal property taxes.

Attachment A page 1 of 2

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

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

1)	**Permitted Capacity of Plant** (3 month average)	200,000	gallons per day
2)	**Average Daily Flow** (3 month average)	150,000	gallons per day
3)	**Growth**	8,280	gallons per day
	a) Test year Customers in ERCs:	Beginning	413
		Ending	419
		Average	416
	b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	4.6	ERCs
	c) Statutory Growth Period	5	Years
	(b)x(c) x [2\(a)]= 8,280 gallons per day for growth		
4)	Excessive Infiltration or Inflow (I&I)	0	gallons per day Note (1)
	a) Total I&I:	24,525	gallons per day
	b) Reasonable I&I (10% of average Daily Flow)	8,758	gallons per day
	c) Excessive I&I	15,767	gallons per day Note (2)

USED AND USEFUL FORMULA

[(2)+(3)-(4)]/(1) = 79% Used and Useful

Notes:
(1) Total wastewater treated (40,919,000) - 80% of total water usage (31,967,200) equals total I&I 8,951,800/365=24,525 gallons per day.
(2) See Issue 4, to not adjust u&u for excessive infiltration.

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

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

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

USED AND USEFUL FORMULA

[(2)+(3)]/(1) = 86% Used and Useful Note (1)

Notes:

(1) See Issue 4, staff recommendation to allow 100% used and useful.

ISSUE 5: What is the appropriate amount for working capital?

RECOMMENDATION: The appropriate amount for working capital using the formula method is $22,492. This is a decrease of $725 from the utility's requested working capital allowance. (BOUTWELL)

STAFF ANALYSIS: Rule 25-30.433(2), FAC, requires that Class B utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula approach. Staff has recommended several adjustments to the utility's balance of O&M expenses to reflect an adjusted amount of $179,937. Accordingly, the working capital allowance should be $22,492. This is a decrease of $725 from the utility's requested working capital allowance.

ISSUE 6: What is the appropriate amount for rate base?

RECOMMENDATION: The appropriate wastewater rate base for the test year ended January 31, 2001 is $915,189. (BOUTWELL)

STAFF ANALYSIS: Staff has calculated Key Haven's wastewater rate base as $915,189, using the utility's MFRs with adjustments as recommended in the preceding issues.

COST OF CAPITAL

ISSUE 7: What is the appropriate weighted average cost of capital including the proper components and cost rates, associated with the capital structure for the test year ended December 31, 2001?

RECOMMENDATION: The appropriate weighted average cost of capital should be 9.29%, with a range of 9.00% to 9.58%. The appropriate rate of return on equity should be 11.10%, with a range of 10.10% to 12.10%. (BOUTWELL)

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

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

Staff's recommended weighted average cost of capital is shown on Schedule No. 2.

NET OPERATING INCOME

ISSUE 8: What adjustments, if any, should be made to purchased power expenses?

RECOMMENDATION: Purchased power expenses should be reduced by $517 to correct the overstated amount in the filing. (BOUTWELL)

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

ISSUE 9: Are any adjustments necessary to miscellaneous expenses?

RECOMMENDATION: Yes. Miscellaneous expenses should be reduced by $1,500 to remove duplicate charges for overhead expenses paid to an affiliate. (BOUTWELL)

STAFF ANALYSIS: Audit Disclosure No. 5 identifies $1,500 included in miscellaneous expenses as overhead expenses paid to Southernmost Insurance Agency, Inc., a related party of the utility. The auditors stated that the utility included the utility's prorata share of common expenses (overhead) as a component of rental expense. Staff recommends reducing miscellaneous expense by $1,500 to avoid the duplication of overhead expenses.

ISSUE 10: Should proforma billing expenses be allowed for the utility to implement a measured service billing structure?

RECOMMENDATION: Yes. The appropriate proforma billing expenses of $9,538 should be allowed. Since the $1,800 expense paid to the FKAA was already included in the MFRs, the net addition to O&M Expenses should be $7,738. (BOUTWELL)

STAFF ANALYSIS: Pursuant to Rule 25-30.437(6), FAC, in filing a rate case, a utility shall propose a base facility and usage charge rate structure unless another rate structure is adequately supported. In the current filing, the utility requested $150 per month, ($1,800 annually) in additional billing expense to recover the fee charged by the Florida Keys Aqueduct Authority (FKAA) for monthly, potable water billing data. This information is necessary to facilitate moving from a flat rate billing structure to a measured service billing structure. Key Haven intends to begin billing customers monthly at the conclusion of this rate case. Prior to this filing, Key Haven has billed its customers bi-annually, with coupon booklets containing six monthly bills for the approved flat rate service fee.

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

The purpose of a test year in rate setting is to properly match all components, such as revenues, expenses, and customers. To adjust only one component will misrepresent test year revenue requirements. Staff has calculated the additional billing expense using the test year customer base, and the utility's component cost rates and our recommended total expense is $9,538. Since the $1,800 expense paid to the FKAA was already included in the MFRs, the net addition to O&M Expenses should be $7,738. Staff believes that these amounts are reasonable and should be allowed.

ISSUE 11: What is the appropriate amount of rate case expense?

RECOMMENDATION: The appropriate rate case expense for this docket is $53,915. This expense is to be recovered over four years for an annual expense of $13,479. The utility's requested rate case expense amortization should be decreased by $11,521. (BOUTWELL)

STAFF ANALYSIS: The utility included $100,000 as an estimate in the MFRs for current rate case expense. As part of its analysis, staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete. The utility submitted a revised estimate of rate case expense through completion of the PAA process of $56,684. The filing fee of $2,000 was paid by the utility's attorney and included in legal expenses. Staff has broken the $2,000 out separately for presentation purposes. The components of the estimated rate case expense are as follows:

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

Pursuant to Section 367.081(7), Florida Statutes, the Commission shall determine the reasonableness of rate case expense and shall disallow all amounts determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Staff believes that the revised estimate is prudent with the exception of $2,813 incurred to revise and refile the MFRs. Staff does not believe that this amount is reasonable.

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

The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs. See Order No. PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU. Key Haven made a management decision to make material changes to its filing. As a result, it had to resubmit a completely revised set of MFRs. Staff believes that this additional cost to completely revise and refile the MFRs, would not have been incurred if the utility had included these revisions in its original MFRs. Staff does recognize that the $2,813 cost incurred to compile the billing analysis was not duplicative, and we have not recommended removing these amounts from rate case expense.

Staff recommends that the appropriate total rate case expense is $53,915. A breakdown of the allowance of rate case expense is as follows:

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

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

ISSUE 12: What adjustments, if any, should be made to taxes other than income?

RECOMMENDATION: Taxes other than income should be reduced by $140 to reflect miscellaneous adjustments. (BOUTWELL)

STAFF ANALYSIS: Audit Exception No. 4 states that a review of real estate and personal property taxes reflected an understatement of $1,578. Also in Audit Exception No. 4, staff auditors reported that payroll taxes were overstated by $1,313. Staff auditors believe these accounts were reversed before payroll taxes were calculated. Accordingly, staff has made appropriate corrections and recommends real estate and personal property taxes of $2,230, and payroll taxes of $918.

Audit Exception No. 4 also identified $405 of intangible taxes paid by the utility as an agent for stockholders. In its audit response, the utility objected to the removal of intangible taxes from taxes other than income expense. The utility stated that they were unaware of any previous instance when intangible taxes were removed for rate making purposes. Staff recommends that intangible taxes paid on behalf of its shareholders should be disallowed for ratemaking purposes. See Order PSC-01-1274-PAA-GU, issued June 8, 2001, in Docket No. 001447-GU. Staff recommends reducing intangible taxes by $405.

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

ISSUE 13: What is the test year operating income before any revenue increase?

RECOMMENDATION: Based on the adjustments discussed in previous issues, staff recommends that the test year operating income before any provision for increased revenues should be $15,569. (BOUTWELL)

STAFF ANALYSIS: As shown on attached schedule No. 3-A, after applying staff's adjustments, net operating income for the test year is $15,569. Staff notes that, consistent with its request in the last rate case, the utility is not seeking any allowance for income tax expense. Staff's adjustments to operating income are listed on schedule No. 3-B.

REVENUE REQUIREMENT

ISSUE 14: What is the appropriate revenue requirement?

RECOMMENDATION: The following revenue requirement should be approved. (BOUTWELL)

	Test Year Revenues	$ Increase	Revenue Requirement	% Increase
Wastewater	$241,107	$72,704	$313,811	30.15%

STAFF ANALYSIS: Key Haven requested final rates designed to generate annual revenues of $330,623. These revenues exceed test year revenues by $58,688 (37.12%).

Based upon staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, we recommend approval of rates that are designed to generate a revenue requirement of $313,811. These revenues exceed staff's adjusted test year revenues by $72,704 (30.15%) as shown on attached Schedule No. 3-A. This increase will allow the utility the opportunity to recover its expenses and earn a 9.29% return on its investment in rate base.

RATES AND CHARGES

ISSUE 15: What is the appropriate rate structure for this utility?

RECOMMENDATION: The appropriate rate structure for this utility is the base facility/gallonage charge rate structure. (BOUTWELL)

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

The utility, pursuant to Rule 25-30.437(6), FAC, requested that it be allowed to implement a base facility/gallonage charge rate structure in this filing. The utility has submitted a billing analysis using potable water data obtained from the FKAA. The utility has provided documentation stating that this data will be available, for a fee, from the FKAA on a going-forward basis. Staff has previously addressed in this recommendation the reasonable level of expense associated with this change in rate structure.

Therefore, staff recommends that the utility's rate structure be changed from the current flat rate structure, to the base facility/gallonage charge rate structure.

ISSUE 16: What is the appropriate level for the residential wastewater gallonage cap?

RECOMMENDATION: The appropriate level for the residential wastewater gallonage cap is 10,000 gallons per month. (BOUTWELL)

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

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

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

ISSUE 17: What are the recommended rates for this utility?

RECOMMENDATION: The recommended rates should be designed to produce annual revenues of $313,391, excluding miscellaneous revenues. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commissions approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), FAC, provided the customers have received notice. The rates may not be implemented until proper 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. (BOUTWELL)

STAFF ANALYSIS: The staff's recommended revenue requirement is $313,811. After excluding miscellaneous service charges of $420, the revenue to be recovered through rates is $313,391. The utility's customers of record at the end of the test year included 418 residential customers with 5/8" x 3/4" meters, and one general service customer with a 1" meter.

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

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

A comparison of the utility's original rates and requested final rates, the Commission approved interim rates and staff's recommended rates is shown on Schedule No. 4.

ISSUE 18: In determining whether an interim refund is appropriate, how should the refund be calculated, and what is the amount of the refund, if any?

RECOMMENDATION: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and the proforma billing expense. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, the utility should be required to refund 6.34% of wastewater revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), FAC. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), FAC. (BOUTWELL)

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

	Interim Revenues	$ Increase	% Increase
Wastewater	$296,454	$55,347	22.96

According to Section 367.082, Florida Statutes, any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Examples of these adjustments would be an attrition allowance or rate case expense, which are recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the historical twelve months ended December 31, 2001. The approved interim rates did not include any consideration of pro forma operating expenses or increased plant. The interim increase was designed to allow recovery of actual interest costs and the floor of the last authorized range for equity earnings.

To establish the proper refund amount, we have calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because it was not an actual expense during the interim collection period. Additionally, the pro forma billing expenses to allow the utility to implement its requested measured rate structure were not actual expenses during the test year, and have been removed.

Using the principles discussed above, staff has calculated the revenue requirement for the interim collection period to be $277,645. This revenue level exceeds the interim revenues granted in Order No. PSC-02-1720-PCO-SU. As such, the utility should be required to refund 6.34% of wastewater revenues collected under interim rates.

The refund should be made with interest in accordance with Rule 25-30.360(4), FAC. The utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7). The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), FAC.

ISSUE 19: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes.

RECOMMENDATION: The wastewater rates should be reduced as shown on Schedule No. 4 to remove $14,114, which represents the annual amount of rate case expense amortization included in rates, grossed-up for regulatory assessment fees. The decrease in rates should become effective immediately following the expiration of the four-year recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate reductions. (BOUTWELL)

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

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

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

ISSUE 20: Should the utility's current service availability charge be revised?

RECOMMENDATION: Yes. The utility's existing system capacity charge of $1,200 should be cancelled, and replaced with an increased plant capacity charge of $1,800 for each new ERC. Additionally, each new ERC should be assessed $700 as a main extension charge. If there is no timely protest to the Commission's PAA by a substantially affected person, the utility should file the appropriate revised tariff sheets and a proposed notice within twenty days of the effective date of the PAA Order. The revised tariff sheets should be approved administratively upon staff's verification that the tariffs are consistent with the Commission's decision and the utility's proposed notice is adequate. If the revised tariff sheets are approved, the system capacity and main extension charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475(2), FAC, providing the appropriate notice has been made. The notice shall be mailed or hand delivered to all persons in the service area who have filed a written request for service within the past 12 calendar months or who have been provided a written estimate for service within the past 12 calendar months. The utility shall provide proof of the date the notice was given within 10 days after the date of the notice. (BOUTWELL)

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

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

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

In addition to the improvements mentioned above, staff believes it will become necessary to replace more of the clay pipe collection lines in the future. In fact, in the original MFRs Key Haven included pro forma additions to UPIS of $895,656, to replace collection lines. The pro forma additions to UPIS were removed from this filing in the revised MFRs. Staff believes that the remaining collection lines will have to be replaced in the future. The utility is properly including the cost of replacing plant, and collection lines in UPIS.

The utility serves Key Haven subdivision, a residential community which is approximately 80% built out. Key Haven has been under the jurisdiction of the Commission since 1976. Customer growth over the last five years has averaged only six ERCs per year, according to the MFRs in this filing. Staff considered the prospective increase to UPIS of replacing the collection lines, and the extended term of CIAC amortization. Staff also considered the limited number of remaining new residential ERCs, and extremely slow growth in the service area. Staff believes that a service availability charge increase necessary to comply with the rule would be impractical. However, staff believes the current system capacity charge should be increased.

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

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

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

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

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

ISSUE 21: Should the docket be closed?

RECOMMENDATION: If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff; and the refund has been completed and verified by staff. Once these actions are complete, this docket may be closed administratively and the escrow account may be released. (JAEGER, BOUTWELL)

STAFF ANALYSIS: If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff; and the refund has been completed and verified by staff. Once these actions are complete, this docket may be closed administratively and the escrow account may be released.

KEY HAVEN UTILITY CORPORATION
SCHEDULE OF WASTEWATER RATE BASE
TEST YEAR ENDED 12/31/2001

SCHEDULE NO. 1-A
DOCKET 020344-SU

	DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST-MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST-MENTS	STAFF ADJUSTED TEST YEAR
1	UTILITY PLANT IN SERVICE	$1,668,919	$0	$1,668,919	($323,083)	$1,345,836
2	LAND	$5,666	$0	$5,666	$0	$5,666
3	NON-USED & USEFUL COMPONENTS	($47,757)	$0	($47,757)	($46,373)	($94,130)
4	ACCUMULATED DEPRECIATION	($617,860)	$0	($617,860)	$324,082	($293,778)
5	CIAC	($308,379)	$0	($308,379)	$0	($308,379)
6	AMORTIZATION OF CIAC	$237,482	$0	$237,482	$0	$237,482
8	WORKING CAPITAL ALLOWANCE	$22,974	$243	$23,217	($725)	$22,492
9	RATE BASE	$961,045	$243	$961,288	($46,099)	$915,189

KEY HAVEN UTILITY CORPORATION ADJUSTMENTS TO RATE BASE TEST YEAR ENDED 12/31/2001	DOCKET 020344-SU PAGE 1 OF 1
EXPLANATION	**WASTEWATER**
PLANT IN SERVICE	
1 Remove incorrect reconciling adjustment, unsupported & unreported additions	$2,391
2 Retire treatment plant	($325,474)
3 Total	($323,083)
NON-USED AND USEFUL	
1 To reflect net non-used and useful adjustment	($94,130)
2 Retire abandoned sewer plant	$47,757
Total	($46,373)
ACCUMULATED DEPRECIATION	
1 Remove incorrect reconciling adjustment, unsupported & unreported additions	($1,392)
2 Retire treatment plant	$325,474
3 Total	$324,082
WORKING CAPITAL	
Adjusted O&M expenses.	($725)

KEY HAVEN UTILITY CORPORATION
CAPITAL STRUCTURE - SIMPLE AVERAGE
TEST YEAR ENDED 12/31/2001

SCHEDULE NO. 2
DOCKET 020344-SU

	DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUST-MENTS (EXPLAIN)	PRO RATA ADJUST-MENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY								
1	LONG TERM DEBT	$739,608	$0	($59,689)	$679,919	70.73%	8.54%	6.04%
2	SHORT-TERM DEBT	$0	$0	$0	$0	0.00%	0.00%	0.00%
3	PREFERRED STOCK	$0	$0	$0	$0	0.00%	0.00%	0.00%
4	COMMON EQUITY	$306,030	$0	($24,661)	$281,369	29.27%	11.34%	3.32%
5	CUSTOMER DEPOSITS	$0	$0	$0	$0	0.00%	6.00%	0.00%
6	DEFERRED INCOME TAXES	$0	$0	$0	$0	0.00%	0.00%	0.00%
7	**TOTAL CAPITAL**	$1,045,638	$0	($84,350)	$961,288	100.00%		9.36%
PER COMMISSION								
8	LONG TERM DEBT	$739,608	$0	($92,270)	$647,338	70.73%	8.54%	6.04%
9	SHORT-TERM DEBT	$0	$0	$-0	$0	0.00%	0.00%	0.00%
10	PREFERRED STOCK	$0	$0	$-0	$0	0.00%	0.00%	0.00%
11	COMMON EQUITY	$306,030	$0	($38,179)	$267,851	29.27%	11.10%	3.25%
12	CUSTOMER DEPOSITS	$0	$0	$-0	$0	0.00%	6.00%	0.00%
13	DEFERRED INCOME TAXES	$0	$0	$-0	$0	0.00%	0.00%	0.00%
14	**TOTAL CAPITAL**	$1,045,638	$0	($130,449)	$915,189	100.00%		9.29%

	LOW	HIGH
RETURN ON EQUITY	10.10%	12.10%
OVERALL RATE OF RETURN	9.00%	9.58%

KEY HAVEN UTILITY CORPORATION
STATEMENT OF WASTEWATER OPERATIONS
TEST YEAR ENDED 12/31/2001

SCHEDULE NO. 3-A
DOCKET 020344-SU

1

	DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST-MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST-MENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1	OPERATING REVENUES	$237,181	$93,442	$330,623	($89,516)	$241,107	$72,704 30.15%	$313,811
	OPERATING EXPENSES							
2	OPERATION & MAINTENANCE	$183,795	$1,942	$185,737	($5,800)	$179,937		$179,937
3	DEPRECIATION	$38,462	($7,997)	$30,465	($4,950)	$25,515		$25,515
4	AMORTIZATION - Other	$0	$6,532	$6,532	$0	$6,532		$6,532
5	TAXES OTHER THAN INCOME	$13,707	$4,205	$17,912	($4,357)	$13,555	$3,272	$16,826
6	INCOME TAXES	$0	$0	$0	$0	$0	$0	$0
7	TOTAL OPERATING EXPENSES	$235,964	$4,682	$240,646	($15,108)	$225,538	$3,272	$228,810
8	OPERATING INCOME	$1,217	$88,760	$89,977	($74,408)	$15,569	$69,432	$85,001
9	RATE BASE	$961,045		$961,288		$915,189		$915,189
10	RATE OF RETURN	0.13%		9.36%		1.70%		9.29%

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

DOCKET 020344-SU
PAGE 1 OF 1

	EXPLANATION	WASTEWATER
	OPERATING REVENUES	
	Remove requested final revenue increase	($89,516)
	OPERATION & MAINTENANCE EXPENSE	
1	Purchased power overstated.	(517)
2	Miscellaneous expense-duplicate overhead costs	(1,500)
3	Additional billing expenses	7,738
4	Amortization of rate case expense.	(11,521)
5	Total	($5,800)
	DEPRECIATION EXPENSE-NET	
1	Remove incorrect reconciling adjustment, unsupported & unreported additions	$52
2	Non-used and useful adjustment.	(5,002)
3	Total	($4,950)
	TAXES OTHER THAN INCOME	
1	RAFs on revenue adjustments above	($4,028)
2	Adjust to payroll, property & intangible taxes	($140)
3	Nonused & useful property taxes	($189)
4	Total	($4,357)

KEY HAVEN UTILITY CORPORATION
WASTEWATER MONTHLY SERVICE RATES
TEST YEAR ENDED 12/31/2001

SCHEDULE NO. 4
DOCKET 020344-SU
PAGE 1 OF 1

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	4-Year Reduction Rate Case Expense
Residential					
Base Facility Charge:					
Meter Size:					
5/8" x 3/4"	$48.07	$59.11	$26.96	$24.07	$1.08
Gallonage Charge, per 1,000 Gallons	$0.00	$0.00	$6.34	$6.26	$0.28
General Service					
Base Facility Charge:					
Meter Size:					
5/8" x 3/4"	$48.07	$59.11	$26.96	$24.07	$1.08
1"	$48.07	$59.11	$67.40	$60.17	$2.71
1-1/2"	$48.07	$59.11	$134.80	$120.34	$5.41
2"	$48.07	$59.11	$215.68	$192.55	$8.66
3"	$48.07	$59.11	$431.36	$385.09	$17.32
4"	$48.07	$59.11	$674.00	$601.71	$27.06
6"	$48.07	$59.11	$1,348.00	1,203.42	$54.12
8"	$48.07	$59.11	$2,156.80	1,925.47	$86.60
Gallonage Charge, per 1,000 Gallons	$0.00	$0.00	$7.45	$7.52	$0.34
Typical Residential Bills					
5/8" x 3/4" Meter Size					
3,000 Gallons	$48.07	$59.11	$45.98	$42.86	NA
5,000 Gallons	$49.07	$59.11	$58.66	$55.39	NA
10,000 Gallons	$50.07	$59.11	$90.36	$86.72	NA