

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for limited proceeding rate increase in Monroe County by Key Haven Utility Corporation. | DOCKET NO. 070041-SU  
ORDER NO. PSC-07-0568-PAA-WU  
ISSUED: July 9, 2007

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman  
MATTHEW M. CARTER II  
KATRINA J. McMURRIAN  
NANCY ARGENZIANO  
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING INCREASED WASTEWATER RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the four-year rate reduction, 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

Key Haven Utility Corporation (Key Haven or utility) is a Class B wastewater utility providing service to 445 residential customers and one general service customer in Monroe County, Florida. On January 11, 2007, the utility filed an application for a limited proceeding rate increase pursuant to Section 367.0822, Florida Statutes, and Rule 25-30.445, Florida Administrative Code. Key Haven's last rate proceeding was in Docket No. 020344-SU, which resulted in Order No. PSC-03-0621-FOF-SU, issued on May 22, 2003. The utility has filed for a limited proceeding in order to recover costs related to the reduction of saltwater infiltration of the collection system which has been identified by the Florida Department of Environmental Protection as the cause of the wastewater treatment plant's malfunctions. The utility met the filing requirements of Rule 25-30.445, Florida Administrative Code, and established an official filing date of January 11, 2007.

A customer meeting was held on April 5, 2007 at the Old City Hall in Key West. No customers attended the meeting. We have jurisdiction over these matters pursuant to Section 367.0822, Florida Statutes.

In its limited proceeding application, the utility requested a \$99,287 (27.49%) increase to its wastewater rates. The utility's proposed increase is made up of additions to rate base for slip lining and main replacement in order to reduce saltwater infiltration of the collection system. In

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addition, the utility added a new master wetwell and pumps at the wastewater treatment plant. The adjustments to operating expenses include amortization of Contributions in Aid of Construction (CIAC), hurricane costs, rate case expense, and taxes other than income taxes. The utility's revenue increase is comprised of return on rate base items plus the increase in operating expenses and gross-up for taxes. Based on the review of the utility's application and supporting documentation, we approve the revenue increase of \$99,287 (27.49%) as requested by the utility. Items included in the determination of the revenue increase are discussed below.

#### Plant Increases

In its filing, Key Haven included an increase in plant of \$1,131,614 to reduce infiltration and inflow for the wastewater plant. The \$1,131,614 amount was based on bids or estimated construction amounts received by the company from various vendors.

The total increase in plant shall be reduced by \$9,973, which as explained by the utility, represents items that should not have been included as an increase in plant for this filing. Also, for many of the plant improvements, the actual invoice amounts were either higher or lower than the construction bid or estimated amounts. Certain construction projects totaling \$133,930 included in the utility's scheduled plant increases have not yet been completed. For these construction projects, the associated costs shall be included in determining the revenue request, but the utility shall be required to provide all outstanding support for these amounts by December 31, 2007. After including the \$9,973 adjustment described above and actual invoice amounts, the amount of plant increases to be considered in the revenue increase calculation shall be \$1,074,047.

#### Rate Case Expense

Key Haven did not include rate case expense in its filing. However, the utility subsequently provided documentation in support of \$36,650 in rate case expense in response to a data request. The \$36,650 in rate case expense, amortized over four years, translates to an annual rate case adjustment of \$9,163 per year. As discussed below, the approved revenue increase is limited to the \$99,287 that the utility has requested, rather than the calculated revenue increase of \$106,969 if all the rate case expense was considered in the revenue increase calculation. By limiting the utility's revenue increase to \$99,287 rather than the \$106,969 as calculated, it has the net effect of limiting rate case expense considered in the revenue increase to \$7,652, rather than the total rate case expense of \$36,650. Rate case expense of \$7,652 amortized over four years results in \$1,913 being included in the utility's revenue increase.

#### Operating Expenses

Key Haven included an adjustment to operating expenses of \$4,737, which represents \$14,211 in hurricane costs amortized over a three-year period. The utility provided additional documentation which supported actual hurricane losses of \$24,809. Consistent with past Commission practice, hurricane costs are amortized over four years, which results in a yearly

amortization amount of \$6,202.<sup>1</sup> Additional adjustments to operating expenses have been made to depreciation expense, CIAC, and taxes other than income taxes.

#### Revenue Increase

Based on the adjustments discussed above, a revenue increase of \$106,969 (Schedule 1) would result, which is greater than \$99,287, which is the amount included in the utility's petition. In such circumstances, it is our practice to limit the revenue increase to the level requested.<sup>2</sup> Accordingly, we hereby approve a revenue increase of \$99,287.

#### Wastewater Rates

The rates requested by the utility are designed to allow the utility to generate additional revenues of \$99,287 for wastewater. The requested revenues represent an increase of 27.49% for wastewater service. The final rates approved for the utility shall be the rates filed by the company as shown in Schedule 2.

The utility shall file revised wastewater tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The approved rates shall not be implemented until after the proposed customer notice has been approved. The utility shall provide proof of the date notice was given within 10 days after the date of the notice.

#### Four-Year Amortization

Section 367.0816, Florida Statutes, requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. As discussed above, the reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees in the amount of \$1,913. The decreased wastewater revenues will result in the rate reduction shown on Schedule No. 2.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The utility shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), Florida

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<sup>1</sup> See Order No. PSC-06-0378-PAA-WU, issued May 8, 2006, in Docket No. 050449-WU, In re: Application for staff-assisted rate case in Pasco County by Dixie Groves Utility Company, and Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145-WU, In re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.

<sup>2</sup> See Order No. PSC-05-0287-PAA-SU, issued March 17, 2005, in Docket No. 040972-SU, In re: Application for rate increase in Pinellas County by Ranch Mobile WWTP, Inc., and Order No. PSC-95-0191-FOF-WS, issued February 9, 1995, in Docket No. 940917-WS. In re: Application for rate increase for increased water and wastewater rates in Seminole, Orange, and Pasco Counties by Utilities, Inc. of Florida.

Administrative Code. The rates shall not be implemented until the proposed customer notice has been approved. The utility shall provide proof of the date notice was given no less than ten 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.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Key Haven Utility Corporation's application for increased wastewater rates is granted to the extent set forth in the body of this Order. It is further

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

ORDERED that all matters contained herein, whether set forth in the body of this Order, or in the attachments and schedules attached hereto, are incorporated herein by reference. It is further

ORDERED that Key Haven Utility Corporation shall file revised wastewater tariff sheets and a proposed customer notice to reflect the approved wastewater rates shown on Schedule 2. It is further

ORDERED that the tariffs shall be approved upon our staff's verification that the tariffs are consistent with our decision herein. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. It is further

ORDERED that the approved water and wastewater rates shall not be implemented until the proposed customer notice has been approved by Commission staff. It is further

ORDERED that Key Haven Utility Corporation shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

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

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. It is further

ORDERED that the rates shall not be implemented until Commission staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that Key Haven Utility Corporation shall provide all outstanding support for the costs associated with its construction projects as described herein by December 31, 2007.

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 Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed upon the approval by Commission staff of the utility's revised tariff sheets.

By ORDER of the Florida Public Service Commission this 9th day of July, 2007.



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ANN COLE  
Commission Clerk

( S E A L )

LAH

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, our action herein, except for the four-year rate reduction, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 30, 2007. 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 Office of Commission Clerk, 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 Office of Commission Clerk 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.

## Key Haven Utility Corporation

## Revenue Increase

## Schedule No. 1

<u>Increase in Rate Base and Rate of Return</u>	<u>Company Requested</u>	<u>Commission Calculated</u>
Increase in plant to reduce I&I	\$1,131,614	\$1,074,047
Retirement of old equipment	(799,702)	(755,468)
Accumulated Depreciation	715,674	670,208
CIAC	(102,053)	(102,053)
Accumulated Amortization of CIAC	<u>15,577</u>	<u>15,577</u>
Total increase in rate base	\$961,110	902,312
Weighted Cost of Capital	8.30%	8.30%
Rate of Return Required	\$79,772	\$74,892
<u>Increase in Operating Expenses and Other Taxes</u>		
Increase in depreciation expense – plant improvements	\$31,278	\$30,261
Decrease in depreciation expense – retirements	(23,782)	(21,534)
Increase in CIAC amortization	(2,340)	(2,340)
Increase amortization of hurricane costs	4,737	6,202
Amortization of rate case expense		9,163
Increase in taxes other than income taxes	<u>5,154</u>	<u>5,511</u>
Total increase in operating expenses and other taxes	\$15,047	\$27,263
<u>Revenue Increase</u>		
Total revenue increase before Regulatory Assessment Fees	\$94,819	\$102,155
Divide by factor for Regulatory Assessment Fees	0.955	0.955
Total Revenue increase	\$99,287	\$106,969
Approved revenue increase		\$99,287

Key Haven Utility Corporation  
Wastewater Monthly Service Rates

Schedule No. 2

	<u>Present Rates</u>	<u>Approved Increase</u>	<u>Approved Rates</u>	<u>Four-Year Rate Reduction</u>
<u>Base Facility Charges</u>				
5/8 x 3/4"	\$26.10	\$7.17	\$33.27	\$0.64
<u>Gallonge Charges per 1000</u>				
Maximum of 10,000 gallons	\$6.87	\$1.89	\$8.76	\$0.17
<u>General Service</u>				
Base Facility Charges				
5/8 x 3/4"	\$26.10	\$7.17	\$33.27	\$0.64
1"	\$65.27	\$17.94	\$83.21	\$1.60
1-1/2"	\$130.55	\$35.89	\$166.44	\$3.21
2"	\$208.88	\$57.42	\$266.30	\$5.13
3"	\$417.75	\$114.84	\$532.60	\$10.26
4"	\$652.74	\$179.44	\$832.18	\$16.03
6"	\$1,305.50	\$358.88	\$1,664.38	\$32.07
8"	\$2,088.81	\$574.21	\$2,663.02	\$51.31
Gallonge charge per 1,000 gallons	\$8.24	\$2.27	\$10.51	\$0.20