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Public Service Commission

July 8, 2009

Ms. Christi McCormick
Keen Sales, Rentals and Utilities, Inc
685 Dyson Road
Haines City, FL 33844

Re: Docket No. 090072-WU - Staff Assisted Rate Case for Keen Sales, Rentals and Utilities, Inc. in Polk County

Dear Ms. McCormick:

Enclosed are two copies of the staff report. Please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407 (9)(b), F.A.C., by all interested persons at the following location:

Keen Sales, Rentals and Utilities, Inc.
685 Dyson Road
Haines City, FL 33844-8587

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-7021.

Sincerely,

Shannon J. Hudson
Shannon J. Hudson
Regulatory Analyst IV

Enclosures

/SH

cc: Division of Economic Regulation (Bulecza-Banks, Hudson, Daniel, Rieger)
Office of General Counsel (Klancke)
Office of Commission Clerk [redacted]

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State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
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-M-E-M-O-R-A-N-D-U-M-

DATE: June 26, 2009

TO: Cheryl Bulecza-Banks, Bureau Chief, Bureau of Rate Filings

FROM: Shannon J. Hudson, Regulatory Analyst IV SH
Sonica Bruce, Regulatory Analyst III
Stan Rieger, Utilities System, Engineering Specialist SDR

RE: Docket No. 090072-WU – Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc.

- STAFF REPORT -

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

Table of Contents

Case Background

This Staff Report is a **preliminary** analysis of the Utility prepared by the Florida Public Service Commission (PSC) staff to give utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed September 2, 2009 for the September 15, 2009, Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

Keen Sales, Rentals and Utilities, Inc. – Subdivisions (Keen or Utility) is a Class C water utility operating in Polk County. Keen currently owns and operates two water systems in Polk County: Lake Region Paradise Island and Ray and Earlene Keen and Ellison Park Subdivisions (Subdivisions). This rate case is for Keen's Subdivisions. The Subdivisions provides water service to approximately 114 customers. According to the Utility's 2008 annual report for Subdivisions, total gross revenue was $39,039 and total operating expenses were $44,850.

The Commission granted a grandfather certificate for the Subdivisions in 1997.[1] Rate base was not established in that proceeding. However, to determine the appropriate rates to be charged prospectively, the Commission used The Subdivisions' existing rates approved by Polk County and increased the rates for the difference between the Commission's and Polk County's regulatory assessment fees. This filing is the first staff-assisted rate case for the Subdivisions' system since the Commission obtained jurisdiction of Keen's water systems in Polk County.

The Utility has requested pro forma plant additions. Staff believes the additions are reasonable and prudent. However, staff believes the pro forma additions should not be included in plant until completion. Therefore, staff is recommending a two-phase rate approach, whereby Phase II rates could only be implemented once the pro forma plant additions are complete.

[1] See Order No. PSC-97-0152-FOF-WU, issued February 11, 1997, in Docket No. 961007-WU, In Re: Application of Keen Sales and Rentals, Inc. for Certificate Under Grandfather Rights to Provide Water Service in Polk County.

Discussion of Issues

Issue 1: Is the quality of service provided by Keen Sales, Rentals and Utilities, Inc., satisfactory?

Preliminary Recommendation: The overall quality of service will not be finalized until after the July 23, 2009 customer meeting. (Rieger)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service provided by a Utility by evaluating three separate components of water operations, including the quality of the Utility's product, the operating condition of the Utility's plants and facilities, and the Utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are reviewed. The Utility's current compliance with the Polk County Health Department (PCHD) is also considered.

In Polk County, the water programs are regulated by the PCHD. Keen is current in all of the required chemical analyses, and the Utility has met all required standards. The quality of drinking water delivered to the customers is considered to be satisfactory by the PCHD. Currently there are no enforcement activities for non-compliance with PCHD rules and regulations. A staff field investigation of Keen was conducted on April 23, 2009. One of the two wells at the water treatment plant was found to be out of service. The Utility intends to reactivate the well. The cost to do this is considered as a pro forma improvement in this case. With one of the wells out of service, staff is concerned about system reliability. Because of that, staff believes that the operating condition of the Utility's water plant is unsatisfactory. With the potential reactivation of the well considered, no adjustments are recommended at this time.

There are no outstanding complaints on the Commission's Complaint Tracking System. The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the July 23, 2009 customer meeting.

Issue 2: What are the used and useful percentages of the Utility's water system?

Preliminary Recommendation: The treatment plant and distribution system should be considered 100 percent used and useful. (Rieger)

Staff Analysis: The Utility serves 114 customers. The water treatment system has two wells rated at 250 gpm and 85 gpm. Raw water is treated with liquid chlorine for disinfection purposes. This facility has no storage capacity. There are three fire hydrants located throughout the service area. There has been no prior rate case for this Utility; therefore, used and useful has been not been previously established by the Commission. Pursuant to Rule 25-30.4325, F.A.C., with the service area essentially built out and no apparent potential for expansion, staff believes that the service territory the treatment plant and distribution system is designed to serve is built out. Therefore, it is recommended that the treatment plant and distribution system be considered 100 percent used and useful.

Issue 3: What is the appropriate allocation of common costs from Keen to the Subdivisions?

Recommendation: The appropriate allocation of common costs from Keen to the Subdivisions is 55 percent. (Hudson)

Staff Analysis: Commission practice is to allocate administrative and general expenses based on the number of customers.[2] Keen distributes common costs based on the percentage of average customers. In the most recent rate case for the Utility's related party system, Lake Region Paradise Island (Paradise Island), administrative and general expenses were approved for an allocation of 55 percent and 45 percent for the Subdivisions and Paradise Island, respectively.[3] The Utility's average customers have consistently remained the same. Therefore, staff recommends that Keen's reasonable and prudent common expenses should be allocated to the Subdivisions system based on the allocated portion of 55 percent. This equitably reflects the distribution of costs between the two systems.

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[2] See Order Nos. 17043, issued December 31, 1986, in Docket No. 860325-WS, In re: Request by Southern States Utilities, Inc. for approval of test year ended 12/31/85 for rate increase in Seminole County; and PSC-01-0323-PAA-WU, issued February 5, 2001, in Docket No. 000580-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Alturas Water Works)

[3] See Order No. PSC-05-0442-PAA-WU, issued April 25, 2005, in Docket No. 040254-WU, In re: Application for staff-assisted rate increase in Polk County by Keen Sales, Rentals and Utilities, Inc.

Issue 4: What is the appropriate average test year rate base for Keen?

Preliminary Recommendation: The appropriate average test year rate base for Keen should be $53,991. (Hudson, Rieger)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service (UPIS), contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital.

Staff selected a test year ended December 31, 2008, for this rate case. Rate base for this Utility has never been established. Sufficient records of the original construction were not available and are considered lost. Absent these records, the auditor requested that an original cost study be performed by the staff engineer. The original cost study was derived by the use of an available map, county health department records, and physical inspection of the facilities during the engineer's investigation. Adjustments have been made to match rate base component balances with the engineer's original cost study and to update rate base through December 31, 2008. A summary of each component and the adjustments follows:

Utility Plant in Service (UPIS): The Utility recorded $86,217 of UPIS for the test year ended December 31, 2008 for water. Staff has made an adjustment to increase UPIS by $77,688 to reflect the appropriate plant balances per the original cost study completed by staff's engineer. Keen was able to provide documentation for some plant additions. Staff has made an adjustment to increase UPIS by $16,808 for plant additions for the follow years: $11,604 for 2002; $1,333 for 2005; $3,659 for 2006; and $212 for 2008. Also, staff has decreased UPIS by $106 to reflect an averaging adjustment. Staff's net adjustment to UPIS is an increase of $94,390 for water. Staff's recommended UPIS balance is $180,607.

Land: The Utility has $4,000 for land as of December 31, 2008. Pursuant to Audit Finding No. 3, Keen determined the cost of the land by prorating the site. The Utility stated that each lot on Ray Keen Road sells for $20,000 and the well site is one-fifth of the lot. Thus, Keen arrived at $4,000 for the cost of the land for the well site.

Per the NARUC USOA for Class C Water Utilities, all utility plant shall be recorded at original cost of such property of the person first devoting it to public service. Keen was first dedicated to public service in June of 1990. The Utility purchased the land for $58,400. The Keen Subdivision consists of 9.73 acres including the Utility. The Subdivision systems facilities are located on .0963 acres. Therefore, the original cost of the land should be $578 (($58,400/9.73)x.0963). Staff has decreased land by $3,422 ($4,000-$578). Staff's recommended land is $578.

Non-used and Useful Plant: As discussed in Issue No. 2 of this staff report, the Utility's water treatment plant and water distribution system should be considered 100 percent used and useful.

Contribution in Aid of Construction (CIAC): Keen recorded no CIAC on its books at the end of the test year. Rule 25-30.570(1), F.A.C, 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.

Since the Utility did not have adequate books to provide CIAC balances, staff imputed $54,078 for CIAC to reflect the water transmission and distribution system as calculated by the original cost study. Staff recommends CIAC of $54,078.

Accumulated Depreciation: Keen recorded a balance for accumulated depreciation of $61,832 for the test year. Staff has calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, F.A.C. As a result, staff has increased this account by $58,775. Staff decreased this account by $2,736 to reflect an averaging adjustment. These adjustments result in accumulated depreciation of $117,871.

Amortization of CIAC: The Utility recorded no amortization of CIAC at the end of the test year. Staff made an adjustment to increase this account by $38,330 to reflect the imputation of CIAC per Rule 25-30.570, F.A.C. Staff decreased this account by $820 to reflect an averaging adjustment. Staff's net adjustments to this account result in amortization of CIAC of $37,510.

Working Capital Allowance: Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of $7,245 (based on O&M of $57,956). Working capital has been increased by $7,245 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year average rate base is $53,991. Rate base is shown on Schedule No. 1-A, and staff's adjustments are shown on Schedule No. 1-B.

Issue 5: What is the appropriate return on equity and overall rate of return for this utility?

Preliminary Recommendation: The appropriate return on equity is 11.30 percent with a range of 10.30 percent–12.30 percent. The appropriate overall rate of return is 7.39 percent. (Hudson)

Staff Analysis: The Utility recorded the following items in its capital structure for the test year: common stock of $4,634 and long term debt of $46,497. The appropriate rate of return on equity is 11.30 percent using the most recent Commission-approved leverage formula.[4] The Utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 11.30 percent with a range of 10.30 percent–12.30 percent resulting in an overall rate of return of 7.39 percent. The return on equity and overall rate of return are shown on Schedule No. 2.

[4] See Order No. PSC-09-0430-PAA-WS, issued June 19, 2009, in Docket No. 090006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Issue 6: What are the appropriate amount of test year revenues?

Preliminary Recommendation: The appropriate test year revenue for this Utility is $41,536. (Bruce, Hudson)

Staff Analysis: Keen recorded total revenues of $39,038 for the 12-month period ended December 31, 2008. Staff has calculated revenues based on test year bills and consumption and determined test year revenues are $41,536. Therefore, staff has increased test year revenues by $2,498 ($41,536-$39,038). Test year revenues are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

Issue 7: What are the appropriate operating expenses?

Preliminary Recommendation: The appropriate amount of operating expenses for Keen is $65,721. (Hudson)

Staff Analysis: The Utility recorded operating expenses of $44,850 during the test year ending December 31, 2008. The test year O&M expenses have been reviewed, and invoices, canceled checks and other supporting documentation have been examined. Staff made several adjustments to Keen's operating expenses as summarized below:

Salaries and Wages – Employees (601) – The Utility recorded $9,341 in this account during the test year. The water manager is paid $29,900 per year. The water manager duties are allocated based on the percentages discussed in Issue 3. Staff believes this salary is reasonable and has determined that the water manager salary attributable to the Subdivision is $16,445 ($29,900x 55 percent). Staff has made an adjustment to increase this account by $7,104 ($16,445-$9,341) for the water manager's salary. Staff recommends employee salaries and wages for the test year of $16,445.

Salaries and Wages – Officers (603) – Keen recorded $7,920 in this account during the test year. The president is paid $26,400 per year. Staff believes this salary is reasonable and has determined that the president's salary attributable to the Subdivision is $14,520 ($26,400x55 percent). Staff has made an adjustment to increase this account by $6,600 ($14,520-$7,920) for the president's salary. Staff recommends employee salaries and wages for the test year of $14,520.

Employee Pension and Benefits – (604) – The Utility recorded $899 in this account during the test year. The total employee pension and benefits for Keen is $5,942. Based on the appropriate allocation of costs, the Subdivision's allocation of the employee pension and benefits should be $3,268 ($5,942 x 55 percent). Staff has increased this account by $2,369 ($3,268-$899). Staff recommends employee pension and benefits for the test year of $3,268.

Purchased Power – (615) – The Utility recorded $1,969 in this account during the test year. Pursuant to Audit Finding No. 5, staff decreased purchased power by $51 to remove a related party expense. Staff recommends purchased power expense for the test year of $1,918.

Chemicals – (618) – Keen recorded $892 in this account during the test year. Pursuant to Audit Finding No. 5, staff decreased chemicals by $95 to remove an unsupported expense. Staff recommends chemical expense for the test year of $797.

Material and Supplies – (620) – The Utility recorded $410 in this account during the test year. Pursuant to Audit Finding No. 5, staff decreased material and supplies by $91 to remove an unsupported expense. Staff recommends material and supplies expense for the test year of $319.

Contractual Services – Professional – (631) – Keen recorded $505 in this account during the test year. The Utility's total professional accounting services was $1,079. Subdivision's allocated portion is $593. Staff has made an adjustment of $88 (($1,079x55 percent)-$505) to reflect the appropriate allocation of common cost. Staff recommends contractual services – professional expense of $593.

Contractual Services – Testing – (635) – Keen recorded $3,078 in this account during the test year. Pursuant to Audit Finding No. 5, staff decreased this account by $225 for an unsupported expense. State and local authorities require several analyses be submitted in accordance with Chapter 62-550, F.A.C. Testing costs incurred during the test year did not include non-annual testing costs. These tests are required by DEP every three or more years. Projected estimated costs include:

Primary Inorganics	$298
Volatile Organics	176
Synthetic Organic Contaminants	995
Secondaries	298
Radiologicals	220
Lead and Copper	278
Total 3 year cost	$2,265
3 year annualized cost	$755
Disinfection ByProducts	100
Total Annualized costs	$855

For additional testing costs not incurred during the test year, staff recommends that an additional annualized expense of $855 be included in this account. Staff recommends contractual services - testing for the test year of $3,708 ($3,078-$225+$855).

Rents – (640) – The Utility recorded $3,240 in this account during the test year. Keen operates two regulated systems and one non-utility business from the building. The Commission approved rent of $600 a month for the regulated systems in the last rate case for the related system, Lake Region Paradise Island. Staff has used the amount approved in the related system's rate case and indexed the amount to arrive at a current expense level. This resulted in rent of $718 a month. Staff has determined the rent expense for the related systems is $8,616 ($718x12). The Subdivisions allocated portion is $4,739 ($8,616x55 percent). Staff has made an adjustment to increase rent expense by $1,499 ($4,739-$3,240). Staff recommends rent expense for the test year of $4,739.

Transportation – (650) – Keen recorded $772 in this account during the test year. Pursuant to Audit Finding No. 5, staff decreased transportation by $39 to remove an unsupported expense. Staff recommends transportation expense for the test year of $733.

<u>Insurance – (655)</u> – The Utility recorded $2,706 in this account during the test year. The total insurance for Keen is $10,628. Based on the appropriate allocation of costs, the Subdivisions' allocation of insurance should be $5,845 ($10,628x55 percent). Staff has increased this account by $3,948 ($5,845-$2,706). Staff has included the insurance expense for the preliminary recommendation. However, staff will request additional support documentation for the insurance expense for the final recommendation. Based on the above, staff recommends insurance expense for the test year of $5,845.

<u>Regulatory Commission Expense – (665)</u> – Keen recorded $0 in this account during the test year. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. The Utility paid a $500 rate case filing fee for water. Keen is required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting to its customers. Staff has estimated noticing expense for water of $100 postage expense, $80 printing expense, and $11 for envelopes. The above results in a total rate case expense for the filing fee and noticing of $692 and a four year amortization of $173. Staff recommends regulatory commission expense for the test year of $173.

<u>Miscellaneous Expense – (675)</u> – The Utility recorded $5,095 in this account for the test year. Staff has decreased this account by $1,711 to remove postage for a related party. Pursuant to Audit Finding No. 5, staff decreased miscellaneous expense by $71 to remove an unsupported expense. Staff recommends miscellaneous expense for the test year of $3,313.

<u>Operation and Maintenance Expense (O&M Summary)</u> – Based on the above adjustments, O&M should be increased by $19,544. Staff's recommended O&M expenses of $57,956 are shown on Schedule 3-C.

<u>Depreciation Expense (Net of Amortization of CIAC)</u> – The Utility recorded depreciation expense of $4,350 during the test year. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. and determined depreciation expense to be $4,709. Therefore, staff has increased this account by $359 ($4,709 – $4,350) to reflect test year depreciation expense. Keen did not record amortization of CIAC. Staff calculated amortization of CIAC based on composite rates. Staff has increased amortization of CIAC by $1,412. Staff recommends net depreciation expense of $3,297 ($4,709 - $1,412).

<u>Taxes Other Than Income (TOTI)</u> – The Utility recorded taxes other than income of $2,088 for water. Based on staff's calculated test year revenue, Keen's regulatory assessment fees (RAFs) should be $1,869. The Utility included $1,774 in this account for RAFs. Staff has increased this account by $95 to reflect the appropriate RAFs. Based on staff's recommended salaries, Keen's payroll taxes should be $2,369. The Utility included $669 in this account for payroll taxes. Staff has increased this account by $1,700 ($2,369-$1,700) to reflect payroll taxes on staff's recommended salary. Also, staff has increased this account by $585 to reverse a journal entry incorrectly recorded by the Utility. Staff's net adjustment to this account is an increase of $2,380.

Income Tax – Keen did not record any income tax expense for the test year. The Utility is an 1120 S corporation. The tax liability is passed on to the owner's personal tax returns. Therefore, staff did not make an adjustments to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of $65,721. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

Issue 8: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is $71,039 for water. (Hudson)

Staff Analysis: The Utility should be allowed an annual increase of $29,503 (71.03 percent) for water. This will allow Keen the opportunity to recover its expenses and earn a 7.39 percent return on its investment. The calculation is as follows:

	Water
Adjusted Rate Base	$53,991
Rate of Return	x .0739
Return on Rate Base	$ 3,990
Adjusted O & M expense	57,956
Depreciation expense (Net)	3,297
Amortization	0
Taxes Other Than Income	5,796
Income Taxes	0
Revenue Requirement	$71,039
Less Test Year Revenues	41,536
Annual Increase	$29,503
Percent Increase/(Decrease)	71.03%

The recommended revenue requirement is shown on Schedule No. 3-A.

Issue 9: Should the Utility's current water system rate structure be changed, and, if so, what is the appropriate adjustment?

Preliminary Recommendation: Yes. The Utility's current water system rate structure, which includes a 1,000 (1 kgal) allotment should be changed to a three-tier inclining block rate structure. The usage blocks should be set for consumption at: a) 0-6 kgals; b) 6-12 kgals; c) usage in excess of 12 kgals, with appropriate usage block rate factors of 1.00; 1.50; and 2.00, respectively. The BFC cost recovery should be set at 40 percent. (Bruce)

Staff Analysis: The Utility's current rate structure consists of a monthly base facility charge (BFC)/gallonage charge rate structure, in which the BFC of $15.71 includes a 1 kgal allotment, and all gallons in excess of 1 kgal used are charged $1.78 per kgal. This type of rate structure is not considered conservation-oriented because it contains a gallonage allotment in the BFC.

Staff performed a detailed analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select rate design parameters that: 1) allow the Utility to recover its revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) implement, where appropriate, water conservation rate structures consistent with the Commission's Memorandum of Understanding with the state's five Water Management Districts.

Keen Sales, Rentals & Utilities, Inc. is located in a southern water use caution area (WUCA) in the Southwest Florida Water Management District (SWFWMD). Based on the SWFWMD's declared severe water shortage, and consistent with the results of the statewide Water Conservation Initiative and Water Management District's desire to eliminate non-conserving water rate structure, staff does not believe it is appropriate to continue the kgal allotment in the BFC.

Over the past few years, the District has requested, whenever possible that an inclining block rate structure be implemented. An inclining block rate structure is effective in reducing average demand. Demand in the higher usage block should be more responsive to price than demand in the first usage block. Based on staff's analysis of the billing data, the customers' monthly overall average consumption is 6.879 kgals. However, the billing analysis also shows that there is a small portion of the customers who consume over 12 kgals a month. For this reason, staff believes that implementing an inclining block rate structure is appropriate for this customer base.

The service area is a mobile home park comprised of some retirees and working families that consists of at least four people per household. Due to the diversity of the customer base coupled with the District's declared severe water shortage, staff believes that a three-tier inclining block rate structure is appropriate. This recommended rate structure will accomplish the goals of minimizing the price increases for customers with low monthly consumption, as well as targeting the customers who use higher volumes of water. Staff's analysis indicates that a three-tier inclining block rate structure with usage blocks set at: 1) 0-6 kgals; 2) 6-12 kgals; and

3) usage in excess of 12 kgals are appropriate. The appropriate usage rate factors are 1.0; 1.50; and 2.0, respectively.

Staff's recommended rate design for the water system is shown on Table 9-1 on the following page. Staff also presented two alternative rate structures to illustrate other recovery methodologies. The current rate and Alternatives 1 and 2 result in price increases at all levels of consumption.

KEEN SALES, RENTALS & UTILITIES, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES			
Current Rate Structure and Rates		**Recommended Rate Structure and Rates**	
BFC/uniform kgal charge For water service, with 1 kgal allotment in BFC		3-Tier inclining block rate structure Rate factors 1.0; 1.50; 2.0 BFC = 40%	
BFC (incl 1 kgal)	$15.71	BFC	$17.93
1+ kgal	$1.78	0-6 kgals	$4.23
		6-12 kgals	$6.34
		12 + kgals	$8.46
Typical Monthly Bills)		**Typical Monthly Bills**	
Cons (kgal)		**Cons (kgal)**	
0	$15.71	0	$17.93
1	$15.71	1	$22.16
3	$19.27	3	$30.62
5	$22.83	5	$39.08
10	$31.73	10	$68.67
20	$49.53	20	$149.03
Alternative 1		**Alternative 2**	
BFC/uniform kgal charge BFC = 40%		3-Tier inclining block rate structure Rate factors 1.0; 1.50; 2.0 BFC = 30%	
BFC	$18.00	BFC	$13.44
All kgals	$4.38	0-7 kgals	$5.30
		7-14 kgals	$7.96
		14 + kgals	$10.61
Typical Monthly Bills		**Typical Monthly Bills**	
Cons (kgal)		**Cons (kgal)**	
0	$18.00	0	$13.44
1	$22.38	1	$18.74
3	$31.14	3	$29.34
5	$39.90	5	$39.94
10	$61.80	10	$74.42
20	$105.60	20	$169.92

Staff recommends that the initial BFC cost recovery allocation of 73 percent be reduced to 40 percent. Staff's analysis indicates that this recommended BFC cost recovery allocation allows staff to design a more effective conserving rate structure that will target usage above 6 kgal without lowering the BFC. Also, this BFC allocation is consistent with the District's request to recover no more than 40 percent in the base charge.

Based on the foregoing, staff recommends changing the current rate structure which includes a 1,000 (1 kgal) allotment to a three-tier inclining block rate structure. The usage blocks should be set for consumption at: a) 0-6 kgals; b) 6-12 kgals; c) usage in excess of 12 kgals, with appropriate usage block rate factors of 1.00; 1.50; and 2.00, respectively. The BFC cost recovery should be set at 40 percent.

Issue 10: Is a repression adjustment appropriate in this case, and if so, what are the appropriate adjustments to make for this Utility, what are the appropriate corresponding expense adjustments to make, and what are the final revenue requirements?

Preliminary Recommendation: Yes, a repression adjustment is appropriate for this Utility. Test year consumption should be reduced by 18.7 percent, resulting in a consumption reduction of approximately 2,028 kgals. Purchased power expense should be reduced by $369, chemical expense should be reduced by $167, and regulatory assessment fees (RAFS) should be reduced by $25. The final post-repression revenue requirement for the water system should be $70,477.

In order to monitor the effect of the changes to rate structure and revenue, the Utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared, by customer class and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility should be ordered to file a revised monthly report for that month within 30 days of any revision. (Bruce)

Staff Analysis: The price elasticity of demand is defined as the anticipated change in quantity demanded resulting from a change in price. All other things equal, as price increases, the quantity demand decreases.

Staff conducted a detailed analysis of the consumption patterns of the Utility's residential customers as well as the effect of increased revenue requirements on the amount paid by residential customers at varying levels of consumption. As discussed in Issue 9, the customer's monthly overall consumption is 6.879 kgals. For this case, staff believes it is appropriate to set the threshold for the customers' essential usage to 6.0 kgals per month. Therefore, staff's recommended repression adjustment only applies to water consumption above 6 kgals per month. However, staff's billing data indicates that there is a small portion of customers who consume over 12 kgals a month. This is an indication that there is some level of discretionary or non-essential consumption, such as outdoor irrigation. Non-essential consumption is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this Utility based upon the recommended increase in revenues from monthly service in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases. Based on this methodology, staff's calculated test year residential water sold should be reduced by 2,028 kgals. Purchased power expense should be reduced by $369, chemical expense should be reduced by $167, and regulatory assessment fees (RAFS) should be reduced by $25. The final post-repression revenue requirement for the water system should be $70,477.

In order to monitor the effect of the changes to rate structure and revenue, the Utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared by customer class and meter size. The reports should be filed with the Commission, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

Issue 11: What are the appropriate rates for this Utility?

Preliminary Recommendation: The appropriate monthly water rates are shown on Schedule No. 4. The recommended rates are designed to produce revenue $70,477 for water, excluding miscellaneous service charges. 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 on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved 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. (Bruce, Hudson)

Staff Analysis: Excluding miscellaneous service revenues, the recommended rates have been designed to produce revenues of $70,477.

Staff recommends changing the current rate structure which includes a 1,000 (1 kgal) allotment to a three-tier inclining block rate structure. The usage blocks should be set for consumption at: a) 0-6 kgals; b) 6-12 kgals; c) usage in excess of 12 kgals, with appropriate usage block rate factors of 1.00; 1.50; and 2.00, respectively. The BFC cost recovery should be set at 40 percent.

The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved 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 effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may 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 and 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.

Based on the foregoing, the appropriate rates for monthly service for the water is shown on Schedule 4.

Issue 12: Should the Commission approve pro forma plant and expenses for the Utility, and if so, what is the appropriate return on equity, overall rate of return, revenue requirement and when should the resulting rates be implemented?

Preliminary Recommendation: Yes. The Commission should approve a Phase II revenue requirement associated with pro forma plant additions. With the pro forma items, Keen's appropriate return on equity should be 11.30 percent with a range of 10.30–12.30 percent. The appropriate overall rate of return is 7.39 percent. The Utility's revenue requirement should be $71,769. Keen should complete the pro forma additions within 12 months of the issuance of the consummating order. The Utility should be allowed to implement the resulting rates once the pro forma additions have been completed and verified by staff. Once verified, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. Keen should provide proof of the date notice was given within 10 days after the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma additions, the Utility should immediately notify the Commission. (Hudson, Bruce)

Staff Analysis: The Utility requested additional pro forma plant that it intends to complete. The following is a chart summarizing the pro forma plant, the cost, and staff's recommended treatment:

	Pro forma Plant	**Utility Requested**	**Staff Recommended**
1.	Service Up Grade	$4,500	$4,500
2.	4" Well Site 5hp motor	3,600	3,600
3.	Lighting and Control Panels	6,000	6,000
	Total Plant	$14,100	$14,100

Staff believes Keen's proposed pro forma plant items are reasonable and prudent because it would allow the Utility to provide satisfactory quality of service. With the pro forma items, Keen's appropriate return on equity should be 11.30 percent with a range of 10.30 percent–12.30 percent. The appropriate overall rate of return is 7.39 percent. The Utility's revenue requirement should be $71,769 Keen should complete the pro forma additions within 12 months of the issuance of the consummating order. Phase II rate base is shown on Schedules 5 and 5-A. The capital structure for Phase II is shown on Schedule 6. Finally, the revenue requirement is shown on Schedules 7-A and 7-B. The resulting rates are shown below:

MONTHLY WATER RATES (PHASE II)

RESIDENTIAL AND GENERAL SERVICE WATER RATES

	UTILITY'S EXISTING RATES	STAFF PRELIMINARY RECOMMENDED RATES
Residential and General Service		
Base Facility Charge by Meter Size:		
5/8"X3/4"	$15.71	$0.00
Gallonage Charge		
Per 1,000 gallons over the first 1,000 gallons	$1.78	$0.00
Residential and General Service		
Base Facility Charge by Meter Size:		
5/8"X3/4"	$0.00	$18.26
3/4"	$0.00	$27.39
1"	$0.00	$45.65
1-1/2"	$0.00	$91.30
2"	$0.00	$146.08
3"	$0.00	$292.16
4"	$0.00	$456.50
6"	$0.00	$913.00
Residential Gallonage Charge		
0 - 6,000 Gallons		$4.41
6,001 - 12,000 Gallons		$6.61
Over 12, 000 Gallons		$8.81
General Service Gallonage Charge		
Per 1,000 Gallons		$2.18
Typical Residential 5/8" x 3/4" Meter Bill Comparison		
3,000 Gallons	$19.27	$31.49
5,000 Gallons	$22.83	$40.31
10,000 Gallons	$31.73	$71.16

Based on staff's recommended rates, the Utility would recover approximately 40 percent of the Phase II revenue requirement from the base facility charge, with the remaining 60 percent of the revenue requirement from Phase II being recovered from the gallonage charge. Therefore, for Phase II, Keen would recover $28,708 from the BFC and $43,061 from the gallonage charge.

The Utility should be allowed to implement the above rates once all pro forma plant items and expense have been completed and verified by staff. Once verified, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. Keen should provide proof of the date notice was given within ten days after the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma additions, the Utility should immediately notify the Commission.

Issue 13: 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, F.S.?

Preliminary Recommendation: The water rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Keen should be required to 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. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Hudson)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return on working capital, and the gross-up for RAFs which is $181 for water. Using Keen's current revenues, expenses, capital structure, and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

The Utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Keen also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

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

Issue 14: Should the recommended rates by approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than Keen?

Preliminary Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. Prior to implementation of any temporary rates, Keen should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., Keen should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund (Hudson)

Staff Analysis: This recommendation proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than Keen, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

Keen should be authorized to collect the temporary rates upon the staff's approval of the appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of $19,708. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If Keen chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:

1) The Commission approves the rate increase; or

2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If the Utility chooses a letter of credit as a security, it should contain the following conditions:

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

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 should be part of the agreement:

1) No refunds 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(s) 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; and

8) The Commission Clerk must be a signatory to the escrow agreement.

9) The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by Keen, an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

Keen should maintain a record of the amount of the bond and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

KEEN SALES, RENTALS AND UTILITIES - SUBDIVISION
TEST YEAR ENDING 12/31/2008
SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1-A
DOCKET NO. 090072-WU

	DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1.	UTILITY PLANT IN SERVICE	$86,217	$94,390	$180,607
2.	LAND & LAND RIGHTS	4,000	(3,422)	578
3.	NON-USED AND USEFUL COMPONENTS	0	0	0
4.	CIAC	0	(54,078)	(54,078)
5.	ACCUMULATED DEPRECIATION	(61,832)	(56,039)	(117,871)
6.	AMORTIZATION OF CIAC	0	37,510	37,510
7.	WORKING CAPITAL ALLOWANCE	0	7,245	7,245
8.	WATER RATE BASE	$28,385	$25,606	$53,991

KEEN SALES, RENTALS AND UTILITIES - SUBDIVISION
TEST YEAR ENDING 12/31/2008
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-B
DOCKET NO. 090072-WU

		WATER
	UTILITY PLANT IN SERVICE	
1.	To reflect the original cost study per staff engineer	$77,688
2.	To reflect 2002 plant additions	11,604
3.	To reflect 2005 plant additions	1,333
4.	To reflect 2006 plant additions	3,659
5.	To reflect 2008 plant additions	212
6.	To reflect an averaging adjustment	(106)
	Total	$94,390
	LAND AND LAND RIGHTS	
	Include land rights unrecorded by utility.	($3,422)
	CIAC	
1.	To impute CIAC	($53,581)
2.	To reflect 2005 CIAC additions	(349)
3.	To reflect 2006 CIAC additions	(87)
4.	To reflect 2008 CIAC additions	(122)
5.	To reflect an averaging adjustment	61
	Total	($54,078)
	ACCUMULATED DEPRECIATION	
1.	To reflect test year depreciation calculated per 25-30.140 FAC.	($58,775)
2.	To reflect an averaging adjustment	2,736
	Total	($56,039)
	AMORTIZATION OF CIAC	
1.	To reflect accumulated amortization per 25-30.140 F.A.C.	$38,330
2.	To reflect an averaging adjustment	(820)
	Total	$37,510
	WORKING CAPITAL ALLOWANCE	
	To reflect 1/8 of test year O & M expenses.	$7,245

KEEN SALES, RENTALS AND UTILITIES - SUBDIVISION
TEST YEAR ENDING 12/31/2008
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 090072-WU

	CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1.	COMMON EQUITY	$4,634	$0	$4,634	$259	$4,893	9.06%	11.30%	1.02%
2.	LONG TERM DEBT	$46,497	$0	$46,497	$2,600	$49,097	90.94%	7.00%	6.37%
	TOTAL	$51,131	$0	$51,131	$2,860	$53,991	100.00%		7.39%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.30%	12.30%
OVERALL RATE OF RETURN	7.30%	7.48%

KEEN SALES, RENTALS AND UTILITIES - SUBDIVISION
TEST YEAR ENDING 12/31/2008
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3-A
DOCKET NO. 090072-WU

		TEST YEAR PER UTILITY	STAFF ADJ. PER UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$39,038	$2,498	$41,536	$29,503 71.03%	$71,039
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	$38,412	$19,544	$57,956	$0	$57,956
3.	DEPRECIATION (NET)	4,350	(1,053)	3,297	0	3,297
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	2,088	2,380	4,468	1,328	5,796
6.	INCOME TAXES	0	0	0	0	0
7.	**TOTAL OPERATING EXPENSES**	$44,850	$20,871	$65,721	$1,328	$67,049
8.	**OPERATING INCOME/(LOSS)**	($5,812)		($24,185)		$3,990
9.	**WATER RATE BASE**	$28,385		$53,991		$53,991
10.	**RATE OF RETURN**	-20.48%		-44.80%		7.39%

KEEN SALES, RENTALS AND UTILITIES - SUBDIVISION		SCHEDULE NO. 3-B
TEST YEAR ENDING 12/31/2008		DOCKET NO. 070177-WU
ADJUSTMENTS TO OPERATING INCOME		PAGE 1 OF 2
		WATER
	OPERATING REVENUES	
	To reflect test year revenues per the billing analysis	$2,498
	OPERATION AND MAINTENANCE EXPENSES	
1.	Salaries and Wages - Employees (601)	
	a.) Adjustment to increase water manager's salary	$7,104
2.	Salaries and Wages - Officers (603)	
	a.) To reflect the utility's allocated share of the manager's salary	$6,600
3.	Employee Pension & Benefits	
	a.) To reflect utility's appropriate allocation of health insurance	$2,369
4.	Purchased Power (615)	
	a.) To remove related party expense	($51)
5.	Chemicals (618)	
	a.) To remove an unsupported expense per AF No. 5	($95)
6.	Materials and Supplies (620)	
	a.) To remove an unsupported expense per AF No. 5	($91)
7.	Contractual Services - Professional (631)	
	a.) To reflect utility's appropriate allocation of professional services	$88
8.	Contractual Services - Testing (635)	
	a.) To reflect the appropriate invoiced amount per AF No. 5	($225)
	b.) To reflect DEP required testing	855
	Total	$630

(Continued on Next Page)

KEEN SALES, RENTALS AND UTILITIES – SUBDIVISION TEST YEAR ENDING 12/31/2008 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-B DOCKET NO. 090072-WU PAGE 2 OF 2
		WATER
9.	Rents (640)	
	a.) To reflect the utility's allocation of office rent	$1,499
10.	Transportation Expense (650)	
	a.) To remove an unsupported expense per AF No. 5	($39)
11.	Insurance Expense (655)	
	a.) To reflect the utility's allocation of insurance	$3,139
12.	Regulatory Commission Expense (665)	
	To reflect the 4 year amortization of rate case expense ($2,908/4)	$173
13.	Miscellaneous Expense (675)	
	To remove a related party expense	($1,711)
	To remove a unsupported repair expense	(71)
	Total	($1,782)
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	$19,544
	DEPRECIATION EXPENSE	
1.	To reflect test year depreciation calculated per 25-30.140, F.A.C.	$359
2.	To reflect test year amortization of CIAC	(1,412)
	Total	($1,053)
	TAXES OTHER THAN INCOME	
1.	To include regulatory assessment fees on test year revenue.	$95
2.	To adjust payroll tax for recommended salaries.	1,700
3.	To reverse a journal entry recorded by the utility	585
	Total	$2,380

KEEN SALES, RENTALS AND UTILITIES – SUBDIVISION — **SCHEDULE NO. 3-C**
TEST YEAR ENDING 12/31/2008 — **DOCKET NO. 090072-WU**
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$9,341	$7,104	$16,445
(603) SALARIES AND WAGES - OFFICERS	7,920	6,600	14,520
(604) EMPLOYEE PENSION & BENEFITS	899	2,369	3,268
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	1,969	(51)	1,918
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	892	(95)	797
(620) MATERIALS AND SUPPLIES	410	(91)	319
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	505	88	593
(635) CONTRACTUAL SERVICES - TESTING	3,078	630	3,708
(636) CONTRACTUAL SERVICES - OTHER	1,319	0	1,319
(640) RENTS	3,240	1,499	4,739
(650) TRANSPORTATION EXPENSE	772	(39)	733
(655) INSURANCE EXPENSE	2,706	3,139	5,845
(665) REGULATORY COMMISSION EXPENSE	0	173	173
(670) BAD DEBT EXPENSE	266	0	266
(675) MISCELLANEOUS EXPENSES	5,095	(1,782)	3,313
	$38,412	$19,544	$57,956

KEEN SALES, RENTALS AND UTILITIES - SUBDIVISION — **SCHEDULE NO. 4**
TEST YEAR ENDING 12/31/2008 — **DOCKET NO. 090072-WU**
MONTHLY WATER RATES

	UTILITY'S EXISTING RATES	STAFF PRELIMINARY RECOMMENDED RATES	4 YEAR RATE REDUCTION
Residential and General Service			
Base Facility Charge by Meter Size:			
5/8"X3/4"	$15.71	$0.00	$0.00
Gallonage Charge			
Per 1,000 gallons over the first 1,000 gallons	$1.78	$0.00	$0.00
Residential and General Service			
Base Facility Charge by Meter Size:			
5/8"X3/4"	$0.00	$17.93	$0.05
3/4"	$0.00	$26.90	$0.07
1"	$0.00	$44.83	$0.11
1-1/2"	$0.00	$89.65	$0.23
2"	$0.00	$143.44	$0.37
3"	$0.00	$286.88	$0.73
4"	$0.00	$448.25	$1.14
6"	$0.00	$896.50	$2.29
Residential Gallonage Charge			
0 - 6,000 Gallons	$0.00	$4.23	$0.01
6,001 - 12,000 Gallons	$0.00	$6.34	$0.02
Over 12, 000 Gallons	$0.00	$8.46	$0.02
General Service Gallonage Charge			
Per 1,000 Gallons	$0.00	$4.81	$0.01
Typical Residential 5/8" x 3/4" Meter Bill Comparison			
3,000 Gallons	$19.27	$30.62	
5,000 Gallons	$22.83	$39.08	
10,000 Gallons	$31.73	$68.67	

KEEN SALES, RENTALS AND UTILITIES – SUBDIVISION (Pro Forma) **SCHEDULE NO. 5-A**
TEST YEAR ENDING 12/31/2008 **DOCKET NO. 090072-WU**
SCHEDULE OF WATER RATE BASE

	DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1.	UTILITY PLANT IN SERVICE	$86,217	$101,440	$187,657
2.	LAND & LAND RIGHTS	4,000	(3,422)	578
3.	NON-USED AND USEFUL COMPONENTS	0	0	0
4.	CIAC	0	(54,078)	(54,078)
5.	ACCUMULATED DEPRECIATION	(61,832)	(56,509)	(118,341)
6.	AMORTIZATION OF CIAC	0	37,510	37,510
7.	WORKING CAPITAL ALLOWANCE	0	7,245	7,245
8.	WATER RATE BASE	$28,385	$32,186	$60,571

KEEN SALES, RENTALS AND UTILITIES – SUBDIVISION (Pro Forma) **SCHEDULE NO. 5-B**
TEST YEAR ENDING 12/31/2008 **DOCKET NO. 090072-WU**
ADJUSTMENTS TO RATE BASE

		WATER
	UTILITY PLANT IN SERVICE	
1.	To reflect the original cost study per staff engineer	$77,688
2.	To reflect 2002 plant additions	11,604
3.	To reflect 2005 plant additions	1,333
4.	To reflect 2006 plant additions	3,659
5.	To reflect 2008 plant additions	212
6.	To reflect an averaging adjustment	(106)
7.	To reflect pro forma plant additions	14,100
8.	To reflect pro forma averaging adjustment	(7,050)
	Total	$101,440
	LAND AND LAND RIGHTS	
	Include land rights unrecorded by utility.	($3,422)
	CIAC	
1.	To impute CIAC	($53,581)
2.	To reflect 2005 CIAC additions	(349)
3.	To reflect 2006 CIAC additions	(87)
4.	To reflect 2008 CIAC additions	(122)
5.	To reflect an averaging adjustment	61
	Total	($54,078)
	ACCUMULATED DEPRECIATION	
1.	To reflect test year depreciation calculated per 25-30.140 FAC.	($58,775)
2.	To reflect an averaging adjustment	2,736
3.	To reflect pro forma accumulated depreciation	(470)
	Total	($56,509)
	AMORTIZATION OF CIAC	
1.	To reflect accumulated amortization per 25-30.140 F.A.C.	$38,330
2.	To reflect an averaging adjustment	(820)
	Total	$37,510
	WORKING CAPITAL ALLOWANCE	
	To reflect 1/8 of test year O & M expenses.	$7,245

KEEN SALES, RENTALS AND UTILITIES – SUBDIVISION (Pro Forma)
TEST YEAR ENDING 12/31/2008
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 6
DOCKET NO. 090072-WU

	CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1.	COMMON EQUITY	$4,634	$0	$4,634	$856	$5,490	9.06%	11.30%	1.02%
2.	LONG TERM DEBT	$46,497	$0	$46,497	$8,584	$55,081	90.94%	7.00%	6.37%
	TOTAL	$51,131	$0	$51,131	$9,440	$60,571	100.00%		7.39%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.30%	12.30%
OVERALL RATE OF RETURN	7.30%	7.48%

	KEEN SALES, RENTALS AND UTILITIES – SUBDIVISION (Pro Forma) TEST YEAR ENDING 12/31/2008 SCHEDULE OF WATER OPERATING INCOME					SCHEDULE NO. 7-A DOCKET NO. 090072-WU
		TEST YEAR PER UTILITY	STAFF ADJ. PER UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$39,038	$2,498	$41,536	$30,831 74.23%	$72,367
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	$38,412	$19,544	$57,956	$0	$57,956
3.	DEPRECIATION (NET)	4,350	(271)	4,079	0	4,079
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	2,088	2,380	4,468	1,387	5,856
6.	INCOME TAXES	0	0	0	0	0
7.	**TOTAL OPERATING EXPENSES**	$44,850	$21,653	$66,503	$1,387	$67,891
8.	**OPERATING INCOME/(LOSS)**	($5,812)		($24,967)		$4,476
9.	**WATER RATE BASE**	$28,385		$60,571		$60,571
10.	**RATE OF RETURN**	-20.48%		-41.22%		7.39%

KEEN SALES, RENTALS AND UTILITIES – SUBDIVISION (Pro Forma)	SCHEDULE NO. 7-B
TEST YEAR ENDING 12/31/2008	DOCKET NO. 090072-WU
ADJUSTMENTS TO OPERATING INCOME	PAGE 1 OF 2
	WATER
OPERATING REVENUES	
To reflect test year revenues per the billing analysis	$2,498
OPERATION AND MAINTENANCE EXPENSES	
1. Salaries and Wages - Employees (601)	
a.) Adjustment to increase water manager's salary	$7,104
2. Salaries and Wages - Officers (603)	
a.) To reflect the utility's allocated share of managers salary	$6,600
3. Employee Pension & Benefits	
a.) To reflect utility's appropriate allocation of health insurance	$2,369
4. Purchased Power (615)	
a.) To remove related party expense	($51)
5. Chemicals (618)	
a.) To remove an unsupported expense per AF No. 5	($95)
6. Materials and Supplies (620)	
a.) To remove an unsupported expense per AF No. 5	($91)
7. Contractual Services - Professional (631)	
a.) To reflect utility's appropriate allocation of professional services	$88
8. Contractual Services - Testing (635)	
a.) To reflect the appropriate invoiced amount per AF No. 5	($225)
b.) To reflect DEP required testing	855
Total	$630

(Continued on Next Page)

	KEEN SALES, RENTALS AND UTILITIES - SUBDIVISION **TEST YEAR ENDING 12/31/2008** **ADJUSTMENTS TO OPERATING INCOME**	**SCHEDULE NO. 7-B** **DOCKET NO. 090072-WU** **PAGE 2 OF 2**
		WATER
9.	Rents (640)	
	a.) To reflect the utility's allocation of office rent	$1,499
10.	Transportation Expense (650)	
	a.) To remove an unsupported expense per AF No. 5	($39)
11.	Insurance Expense (655)	
	a.) To reflect the utility's allocation of insurance	$3,139
12.	Regulatory Commission Expense (665)	
	To reflect the 4 year amortization of rate case expense ($2,908/4)	$173
13.	Miscellaneous Expense (675)	
	To remove a related party expense	($1,711)
	To remove a unsupported repair expense	(71)
	Total	($1,782)
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	$19,544
	DEPRECIATION EXPENSE	
1.	To reflect test year depreciation calculated per 25-30.140, F.A.C.	$1,300
2.	To reflect test year amortization of CIAC	(1,571)
	Total	($271)
	TAXES OTHER THAN INCOME	
1.	To include regulatory assessment fees on test year revenue.	$95
2.	To adjust payroll tax for recommended salaries.	1,700
3.	To reverse a journal entry recorded by the utility	585
	Total	$2,380