State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 24, 2005

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Biggins, Bruce, Hudson, Lingo, Massoudi, Rendell)
Office of the General Counsel (Vining)

RE: Docket No. 040254-WU – Application for staff-assisted rate increase in Polk County by Keen Sales, Rentals and Utilities, Inc.

AGENDA: 04/05/05 – Regular Agenda – Proposed Agency Action, Except for Issues 12 and 16 – Interested Persons May Participate

CRITICAL DATES: 15-Month Statutory Effective Date (SARC): 08/20/05 Waived

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\040254.RCM.DOC

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Case Background

Keen Sales, Rentals and Utilities, Inc. – Lake Region Paradise Island (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 Keen, Earlene, and Ellison Park Subdivision. This rate case is for Keen's Lake Region Paradise Island system (Lake Region). Lake Region provides water service to approximately 100 customers. According to the utility's 2003 annual report for Lake Region, total gross revenue was $22,669 and total operating expenses were $27,647.

By Order No. PSC-00-0913-PAA-WU, issued May 8, 2000, in Docket No. 970201-WU, In re: Application for transfer of facilities of Lake Region Paradise Island and amendment of Certificate No. 582 held by Keen Sales, Rentals and Utilities, Inc. in Polk County, the Commission approved the transfer of the facilities of Lake Region Paradise Island to Keen. Keen's Certificate No. 582-W was amended to include the newly acquired territory. Rate base was not established in that proceeding thus there was no acquisition adjustment approved. Keen was ordered to continue to assess the rates and charges approved by Polk County for the Lake Region system. This filing is the first staff assisted rate case for the Lake Region system since the Commission obtained jurisdiction of water and wastewater systems in Polk County.

The Commission has the authority to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Is the quality of service provided by Keen's - Lake Region System considered satisfactory?

Recommendation: Yes. The quality of service provided by Keen's Lake Region System should be considered satisfactory. (Massoudi)

Staff Analysis: Rule 25-30.433(1), Florida Administrative Code, states that:

> The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of utility's product (water and wastewater); operational conditions of utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and county health departments or lack thereof over the proceeding 3-year period shall also be considered. DEP and county health departments officials' testimony concerning quality of service as well as the comments and testimony of the utility's customers shall be considered.

Staff's analysis below addresses each of these three components based on the information available.

Lake Region Paradise Island is a class C Water utility in Polk County which provides water service to 100 residential homes (estimated to be 100 ERCs) in Paradise Island subdivision.

QUALITY OF UTILITY'S PRODUCT

The water system at Paradise Island subdivision is under the jurisdiction of the Polk County Health Department (PCHD). Consumptive use in Polk County is permitted by the Southwest Florida Water Management District. According to the PCHD's records, the utility is up to date with all chemical analysis and all test results are satisfactory. The utility serves water which meets all standards for safe potable water. Therefore, the water quality is considered satisfactory.

OPERATIONAL CONDITIONS AT THE PLANT

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. The PCHD's inspector stated that the utility has had a few minor plant-in-service deficiencies over the last three years, but the utility was responsive and addressed these in a prompt manner. Currently, there are no outstanding violations, citations, or corrective orders. Maintenance at the plant-site appeared to have been given adequate attention; however, during the engineering field inspection, the plant grounds within the fenced-in area were overgrown with weeds.

Chapter 62-555.350 Florida Administrative Code requires that all necessary public drinking water components be kept in good operating condition so they can function as intended. The exterior of the hydropneumatic tank had been primed but was not painted. The tank should be painted to help prevent corrosion. The PCHD's inspector did not ask the utility to paint the tank during his recent inspection but agreed with Commission staff that the tank should be painted.

Although the operational conditions at the water treatment plant are not 100% satisfactory, PCHD's inspector believes that the utility is cooperating and trying to improve the operational conditions as much as possible. Therefore, the utility should complete any and all improvements to the system that are necessary to satisfy the standards set by PCHD.

All things considered, the operational conditions at the water plant should be considered satisfactory at this time.

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

On November 17, 2004, an informal customer meeting was held in the Lake Eva Civic Center in Haines City. The meeting was open to all customers at 6:00 p.m. There were 19 persons who attended this meeting, which included the utility's owner. There were six customers that went on record with comments and concerns about the utility. Of those customers that attended the evening meeting, five came forward with complaints and opinions concerning the quality of service. The quality of service issues raised by these customers were: water smells like rotten eggs; the water was discolored, the size of the meters; outage of water during the hurricanes; and the lack of a stand-by generator.

Staff reported the smell and color of the water to the PCHD. It was determined that the raw water from the wells at the utility contain hydrogen sulfide and iron. The level of iron does not exceed the maximum contaminant level (MCL) and has not been an issue for compliance. Both involve secondary standards which are not considered to be a health hazard. The health department is not recommending additional treatment to remove either of the two organic compounds. Hydrogen sulfide, while not considered to be a health hazard, does omit odors and has a taste that some find to be unpleasant. The utility's chlorine pump is set on a timer that injects chlorine during those times that the pump is engaged. This treatment process is a recognized treatment for both disinfection and for the removal of hydrogen sulfide.

The interaction between the chlorine and the hydrogen sulfide, by its nature, is constantly in flux. This causes treatment results to shift from moment to moment. In order to insure proper disinfection throughout the distribution system, the operator has been injecting sufficient chlorine to neutralize the hydrogen sulfide at its highest concentration. When chlorine is fed into the raw water, it first reacts with any iron, manganese, or hydrogen sulfide that may be in the water. If any residual (un-reacted) chlorine remains, it will next react with organic material (including bacteria) that is present. The goal of disinfecting the system is to kill the bacteria. By Rule 62-555.350(6), Florida Administrative Code, the utility is required to maintain a free chlorine residual of 0.2 parts per million (ppm) throughout the system.

The treatment process is further complicated by the existence of iron. While iron does not exceed the MCL, the level is sufficient to react with the free chlorine residual, causing the iron to fall out of suspension and creating sedimentation. It appears that this sedimentation has been allowed to collect in the distribution lines which can harbor additional bacteria. Additional bacteria has the potential to further compromise the free chlorine residual and yield inconsistent levels of disinfectant in the lines. Staff believes that a routine flushing program is needed to remove the sedimentation of iron, eliminate the discolored water, and normalize the free chlorine residual in the system.

Regarding the size of the meters, a customer asked about the size of the meters and the difference between the charges. Mrs. Keen, the owner of the utility, stated that just a few customers have larger size meters, but she never charged them higher rates than the other customers and would continue with that practice.

Regarding the water outage during the hurricane, a couple of customers complained that they did not have water for a few days and their sewer was backed up when the utility did not rent a generator for the water plant during the hurricane. It should be mentioned that under the current DEP rule, the utility is not required to have an auxiliary power source if the system has less than 150 connections or a population of 350. However, the utility representative stated that she requested a generator from FEMA during the water outage and FEMA promised to help out, but by that time the generator was ready for the utility, the utility's power was restored. The water outage and sewer back up were caused by a natural disaster. Therefore, the utility was not in violation of DEP rules.

Regarding the generator, staff asked the customers if they would agree to pay higher rates for the utility to purchase a generator during emergencies. Some of the customers believe that a generator should be purchased for the unexpected power outage, while some customers believe that they don't need a generator or that generator expenses shouldn't be covered in this rate proceeding. The utility's owner notified the staff that she decided not to purchase a generator at this time.

All things considered, staff believes that the owner of the utility is putting forth a sufficient good faith effort to justify a "satisfactory" concerning its attempts to resolve customer complaints. Staff recommends that the overall quality of service be considered satisfactory.

Issue 2: What portions of Keen's water system are used and useful?

Recommendation: The water treatment plant and water distribution systems should be considered 100% used and useful. (Massoudi)

Staff Analysis: The water treatment plant is a closed system with one 6" well equipped with a 25 horsepower (hp) submersible pump that pumps from resources the ground water table at a rate of 400 gallons per minute (gpm). The raw water is treated with liquid chlorine, which is injected prior to entry into the 3,000 gallon hydropneumatic tank. The fire hydrants are connected to the potable water system. Only two customers in the Paradise Island subdivision have separate wells for drinking water.

In accordance with the American Waterworks Association Manual of Water Supply Practices, the highest capacity well should be removed from the calculation to determine the plant's reliability. This water plant has just one well. Therefore, considering one well with the volume capacity of 400 gpm and no usable storage, the firm reliable capacity of the water plant is 400 gpm.

During the 12-month test year review period, the peak month of water usage occurred during May 2003. The maximum day in that maximum month was 53.82 gpm. Since the water plant is a closed system operation having one hydro-tank (no storage tank), the actual peak hours of the maximum days should be considered. Therefore, the actual peak hours {2 x (Maximum day – excessive unaccounted water)} was used in the used and useful formula. The average daily flow was 25.96 gpm. The utility provides fire protection via fire hydrants throughout the distribution system. The Polk County fire code requires a minimum of 500 gpm, sustainable for a period of 4 hours (120,000 gallons), which is considered in the calculations. A regression analysis was performed to anticipate a growth of 4 ERCs for next year. It is estimated that the increased demand for the five year statutory growth period will be 21.97 gpm. Since accurate data was not available, the excessive unaccounted for water was assumed to be zero. Therefore, it is recommended that the water treatment plant should be considered 100% used and useful (See Attachment A, Page 1 of 2).

Water Distribution System

The water distribution system has the potential of serving 112 customers (estimated to be 112 ERCs). The average number of customers served during the test year was 98 customers (estimated to be 98 ERCs). Future growth for the next five years is calculated to be 20 ERCs. By the formula approach, staff calculated the distribution system to be 100% used and useful (See Attachment A, Page 2 of 2).

Issue 3: What is the appropriate allocation of common costs from Keen to Lake Region Paradise Island?

Recommendation: The appropriate allocation of common costs from Keen to Lake Region Paradise Island is 45%. (Biggins, Hudson)

Staff Analysis: Commission practice is to allocate administrative and general expenses based on the number of customers. By Order No. 17043, issued December 31, 1986, in Docket No. 860325-WS, In re: Request by Southern States Utilities, Inc. for approval of test year ended 12/31/85 for rate increase in Seminole County, the Commission ordered that the utility's allocation of administrative and general expenses should be based on the number of customers. Keen distributes common cost based on the percentage of average customers established per Order No. 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). At that time, Keen operated four systems. The Commission has since approved the transfer of two of Keen's systems (Sunrise Water Company - Docket No. 040159-WU, and Alturas Water Works - Docket No. 040160-WU). Therefore, staff has calculated an allocation based on the average number of customers of the two remaining systems. Staff determined that by excluding Alturas and Sunrise, Keen would have 218 customers for the year ending December 31, 2003. With the information from the audit, staff determined that each system should be allocated its common operating costs based on the average number of customers representing the system:

Name of System		Average No. Customers	Percentage of Allocation
Subdivision		120	55%
Paradise Island		98	45%
	Total	218	100%

Therefore, staff recommends that Keen's reasonable and prudent common costs should be allocated to the Lake Region Paradise Island system based on the allocated portion of 45%. This equitably reflects the distribution of costs between the two systems.

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

Recommendation: The appropriate average test year rate base for Keen Sales, Rentals and Utilities is $20,742 for water. (Biggins, Hudson)

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 a working capital allowance.

Staff selected a test year ended December 31, 2003, 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, 2003. A summary of each component and the adjustments follows:

Utility Plant in Service (UPIS): The utility recorded $31,177 of UPIS for the test year ended December 31, 2003. Per Audit Exception 2, rate base could not be established by the Commission for the Paradise Island Water System per Order No. PSC-00-0913-PAA-WU, issued May 8, 2000, in Docket No. 970201-WU, In re: Application for transfer of facilities of Lake Region Paradise Island and amendment of certificate No. 582-W held by Keen Sales, Rentals and Utilities, Inc. in Polk County. The utility was able to provide documentation for plant additions acquired from January 1, 2001, through December 31, 2003, but not for plant additions made prior to that time. Staff has made an adjustment to increase UPIS by $7,830 to reflect the appropriate plant balance per the original cost study completed by staff's engineer. Staff has also made an adjustment to increase plant by $600 to reflect additions made during the test year. Finally, staff has decreased UPIS by $300 to reflect an averaging adjustment.

Staff's net adjustment to UPIS is an increase of $8,130. Staff's recommended UPIS balance is $39,307.

Contribution in Aid of Construction (CIAC): The utility recorded no CIAC on its books at the end of the test year. The audit staff could not establish CIAC because of inadequate utility records. Rule 25-30.570(1), Florida Administrative Code, states:

> If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.

Since the utility did not have adequate books to provide CIAC balances, staff imputed $16,524 for CIAC to reflect the water transmission and distribution system as calculated by the original cost study. Staff recommends CIAC of $16,524.

Accumulated Depreciation: The utility recorded a balance for accumulated depreciation of $12,480 for the test year. Staff has calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. As a result, staff has increased this account by $11,539. Staff decreased this account by $1,320 to reflect an averaging adjustment.

These adjustments result in accumulated depreciation of $22,699.

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 $13,138 to reflect the imputation of CIAC per Rule 25-30.570, Florida Administrative Code. Staff decreased this account by $213 to reflect an averaging adjustment. Staff's net adjustments to this account result in amortization of CIAC of $12,925.

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), Florida Administrative Code, staff recommends that the one-eighth of the O&M expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of $5,733 (based on O&M of $45,861). Working capital has been increased by $5,733 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate test year rate base is a positive $20,742 as shown on Schedule No. 1.

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

Recommendation: The appropriate return on equity rate is 11.40% with a range of 10.40% to 12.40%. The appropriate overall rate of return is 7.25%. (Biggins, Hudson)

Staff Analysis: According to Audit Exception 13, the utility recorded no balance in Account 235, Customer Deposits, per the general ledger for the 12-month period ended December 31, 2003. According to the utility's records, Paradise Island has retained deposits of $650 from its customers. Thirteen customers have deposits of $50 each with the utility. Therefore, staff has made an adjustment to increase customer deposits by $650 to reflect the retained deposits per the utility's general ledger.

Using the leverage formula approved by Order No. PSC-04-0587-PAA-WS issued, June 10, 2004, in Docket No. 040006-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), F.S., the appropriate rate of return on equity is 11.40%

The utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 11.40% with a range of 10.40% to 12.40% and an overall rate of return of 7.25% as shown on Schedule No. 2.

Issue 6: What is the appropriate test year revenue?

Recommendation: The appropriate test year revenue for this utility is $25,355. (Bruce, Biggins, Hudson)

Staff Analysis: The utility booked revenues during the test year of $22,669. Based on the utility's billing analysis and current tariffed rates, staff determined that test year revenue is $24,155.

The utility is leasing office space for $100 to the owner of the transferred systems. Staff has made a pro forma adjustment of $1,200 to increase revenues.

Staff recommends test year revenue of $25,355 as shown on Schedule No. 3. The related adjustments are shown on Schedule No. 3-A.

Issue 7: What is the appropriate amount of operating expense?

Recommendation: The appropriate amount of operating expense for this utility is $51,976. (Biggins, Hudson)

Staff Analysis: The utility recorded operating expense of $27,647 during the test year ending December 31, 2003. The test year O & M expenses have been reviewed and invoices, canceled checks, and other supporting documentation have been examined. Staff made several adjustments to the utility's operating expenses, as summarized below:

Operations and Maintenance Expenses (O&M)

Salaries and Wages – Employees – (601) – The utility recorded $7,894 in this account during the test year. The utility has decided to use an outside contractor for maintenance purposes instead of hiring a full-time maintenance employee. Staff has removed $3,818 for salary paid to a maintenance employee during the test year. Staff has also made the following adjustments: decrease of $20 to remove the salary associated with a clerical employee terminated during the test year, decrease of $82 for an insurance bill reclassified to Account No. 655, and increase of $79 for salary reclassified from Account No. 620. The meter reading duty is now the responsibility of the water manager. Staff has removed $153 for meter reading during the test year. The water manager is paid $26,000 per year. Staff has determined that the water manager salary attributable to Paradise Island is $11,700 ($26,000 x 45%). In the total recorded in this account, including the reclassified salary from Account No. 620, the utility has booked $3,900 for the water manager's salary. Staff has made an adjustment to increase this account by $7,800 ($11,700-$3,900) for the water manager's salary.

Staff recommends employee salaries and wages for the test year of $11,700.

Salaries and Wages – Officers – (603) – The utility recorded $1,906 in this account during the test year. The former president of the company is deceased and the vice president has assumed the responsibilities of both positions. The utility has requested that the president's salary be $600, which is the previous compensation for the position. By Order No. PSC-01-1162-PAA-WU, issued May 5, 2001, in Docket No. 001118-WU, In re: Application for a staff assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Sunrise Water Company), the president's salary was reduced from $600 to $300 because of poor quality of service and a decrease in work hours due to health reasons. The vice president's salary was established at $350. Since the responsibilities of both positions have been assumed into one position, staff believes the request of $600 per week for the president is reasonable. Staff has made an adjustment to increase this account by $12,134 (($600 x 52 x 45%)-$1,906).

Staff recommends officers salaries and wages for the test year of $14,040.

Employee Pensions and Benefits – (604) – The utility recorded $79 in this account during the test year for overtime pay. Staff has made an adjustment of $79 to remove the overtime pay. Overtime pay is not considered pension and benefits. Appropriate salary amounts are addressed in Account No. 601. Staff recommends employee pensions and benefits for the test year of $0.

Purchased Power – (615) – The utility recorded $1,662 in this account during the test year. Staff has decreased this account by $603 to reflect a repression adjustment as discussed in Issue No. 10. Staff recommends purchased power expense for the test year of $1,059.

Chemicals – (618) – The utility recorded $0 in this account during the test year. Staff has reclassified chemical expense of $763 from Account No. 620. Staff has increased this account by $171 to reflect the appropriate test year chemical expense per the engineer's report. Staff has decreased this account by $339 to reflect a repression adjustment as discussed in Issue No. 10. Staff recommends chemical expense for the test year of $595.

Materials and Supplies – (620) – The utility recorded $1,520 in this account during the test year. Staff has made the following adjustments: decrease of $79 for water manager's salary reclassified to Account No. 601; decrease of $763 for chemical expense reclassified to Account No. 618; decrease of $210 for operator expense reclassified to Account No. 636; and a decrease of $90 for testing expense reclassified to Account No. 635. Staff recommends materials and supplies expense for the test year of $378.

Contractual Services - Billing – (630) – The utility recorded $7 in this account during the test year. Keen recorded $45 for billing during the test year. Staff has made an adjustment of $13 (($45 x 45%)-$7) to reflect the reallocation of common cost. Staff recommends contractual services – billing expense of $20.

Contractual Services - Professional – (631) – The utility recorded $162 in this account during the test year. Staff has made an adjustment to remove $49 for an expense related to the Alturas system. Keen recorded $715 for professional accounting services. Staff has made an adjustment of $208 (($715 x 45%)-$114) to reflect the reallocation of common cost. Staff recommends contractual services – professional expense of $321.

Contractual Services - Testing – (635) – The utility recorded $3,529 in this account during the test year. Staff has decreased this account by $1,050 to reflect operator expense reclassified to Account No. 636. Staff has increased this account by $90 to reflect testing expense reclassified from Account No. 635. Staff has decreased this account by $50 to reflect an expense related to the Sunrise system. Staff has decreased this account by $50 to reflect an expense related to the Subdivision system.

Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by the Florida Administrative Code and enforced by DEP. The tests and the frequency at which tests must be repeated for this utility are:

Water		
Test	Frequency	Annual Amount
Microbiological	Monthly	$540
Primary Inorganics	Monthly	$83
Secondary Inorganics	Monthly	$67
Asbestos	1/9 years	$25
Nitrate & Nitrite	Yearly	$80
Volatile Organics	Annual	$110
Pesticides/PCB	36 months	$267
Radionuclides		
Group I	36 months	$22
Group II	36 months	$25
Unregulated Organics		
Group I	Qtr'ly/1st yr/9 year	$112
Group II	36 months	$18
Group III	36 months	$83
Lead & Copper	Biannual	$300
Total		$1,732

During the test year, the utility did not amortize the DEP required testing. Staff has decreased this account by $737 to reflect amortization of DEP's required testing frequency.

Staff recommends contractual services – testing expense of $1,732.

Contractual Services - Other – (636) – The utility recorded $55 to this account during the test year. Staff made the following adjustments: an increase of $210 for operator expense reclassified from Account No. 620; an increase of $1,050 for operator expense reclassified from Account No. 635; an increase of $350 for grounds keeping expense reclassified from Account No. 675; and an increase of $140 for computer-related expense reclassified from Account No. 675. Staff has made a pro forma adjustment to increase this account by $225 (($2500 x 45%) ÷ 5) for a new billing program. Also, the utility has decided not to hire a maintenance employee, but will use an outside contractor, Tri-Florida. The utility stated that Tri-Florida will flush the lines at a rate of $45 an hour. It takes two hours a month to flush the lines at a cost of $90 ($45 x 2). The utility also paid an outside contractor $158 for maintenance work. Staff has made a pro forma adjustment to increase this account by $2,976 (($90 + $158) x 12) for maintenance-related expenses. Staff believes this is reasonable, especially due to the fact this amount is less than the previous salary of the former maintenance employee of $3,818 and related expenses.

Staff recommends contractual services – other expense of $5,006.

Rents – (640) – The utility recorded $1,715 to this account during the test year. By Order No. PSC-01-1162-PAA-WU, issued May 5, 2001, in Docket No. 001118-WU, In re: Application for a staff assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Sunrise Water

Company), the utility was allowed $900 per month for rent expense which was allocated amongst its four systems. As discussed in Issue 3, the utility is in the process of transferring two of its systems. The utility is leasing a portion of its building to the owner of the transferred systems. The utility also operates a real estate business from the premises as well. Keen operates two regulated systems and one non-utility business from the building. Staff has excluded $300 from the rent expense for the non-utility operations of the real estate business. The utility is receiving rental income from the transferred systems. Staff has determined the rent expense for the utility is $7,200 ($600 x 12). Staff has made an adjustment to increase rent expense by $1,525 (($7,200 X 45%)-$1,715) to reflect the change in the common cost allocation.

Staff recommends rent expense for the test year of $3,240.

Transportation Expense – (650) – The utility recorded $761 in this account during the test year. Staff has made an adjustment of $88 to reclassify an auto insurance bill to Account No. 655. Staff recommends transportation expense for the test year of $673.

Insurance Expense – (655) – The utility recorded $2,709 in this account during the test year. Staff has made an adjustment of $82 to increase this account for an insurance bill reclassified from Account No. 601. Staff has made an adjustment of $88 to increase this account for an auto insurance bill reclassified from Account No. 650. The utility will not be rehiring a maintenance employee. Thus, staff has removed $959 for insurance related to the maintenance employee. The utility charged nine months of the health insurance premium for the water manager to non-utility operations. The utility requested that a pro forma adjustment be made for health insurance for the water manager. Staff has determined that the health insurance premium for the water manager is $5,714. Staff has increased this account by $2,348 (($5,714 x 45%)-$223). Staff has made the following adjustments for the change in common cost allocations: $322 for workman's compensation; $319 for liability insurance; and $315 for auto insurance. Staff has made an adjustment of $44 to remove an unsupported miscellaneous insurance expense.

Staff recommends insurance expense for the test year of $5,180.

Regulatory Commission Expense – (665) – The utility recorded $0 in this account during the test year. Pursuant to Section 367.0816, Florida Statutes, rate case expense is amortized over a 4-year period. The utility was required by Rule 25-22.0407(9)(b), Florida Administrative Code, to mail notices of the customer meeting in this case to its customers. For these notices, staff has estimated $37 postage expense, $10 printing expense, and $5 for envelopes. The above results in a total rate case expense for noticing of $52. Staff has increased this account by $13 ($52/4) to reflect rate case expense for noticing. The utility paid a $500 rate case filing fee for water. Staff has increased this account by $125 ($500/4).

Staff recommends regulatory commission expense for the test year of $138.

Miscellaneous Expense – (675) – The utility recorded $1,131 in this account for the test year. Staff has made an adjustment of $350 to decrease this account for grounds keeping expense reclassified to Account No. 675. Staff has made an adjustment of $140 to decrease this account for computer related expense reclassified to Account No. 636. Staff has increased this account by $1,127 (($1,724 x 12)-$597) to reflect the reallocation of common cost.

Staff recommends miscellaneous expense for the test year of $1,768.

Operation and Maintenance Expense (O&M Summary) – The total O&M adjustment is an increase of $22,720. Staff's recommended O&M expenses are $45,861 as shown on Schedule 3-B.

Depreciation Expense (Net of Amortization of CIAC) – The utility recorded $2,063 in this account during the test year. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, Florida Administrative Code. Staff's calculated test year depreciation expense is $2,750; therefore, staff has increased this account by $687 ($2,750-$2,063). In addition, amortization of CIAC has a negative impact on depreciation expense. The utility did not record any amortization of CIAC. Staff has calculated amortization of CIAC based on composite rates. Staff has decreased this account by $1,156 to reflect staff's calculated amortization of CIAC.

Therefore, staff recommends net depreciation expense of $1,594.

Taxes Other Than Income – The utility recorded taxes other than income of $2,443 in this account during the test year. Staff has decreased this account by $256 to exclude the 2002 payments and reversal. The utility's 2003 RAFs were based on taxable water operating revenues of $20,923; however, the utility's books and records reflect operating revenues of $22,669, for a difference of $1,746. This difference would result in additional RAF fees of $79. Thus, staff has made a net adjustment of $177 ($256-$79) to decrease this account for RAFs. As discussed in Issue 6, staff has increased test year revenue by $1,486. Staff has increased this account by $67 ($1,486 x 4.5%) to reflect test year RAFs. Therefore, the utility owes an additional $146 in RAFs for 2003. As stated earlier, the utility is not rehiring a maintenance employee. Also, the utility is no longer using a clerical employee. Staff has decreased this account by $294 to remove payroll taxes associated with the maintenance and clerical employee. Staff has decreased this account by $16 to remove an employee bonus. As discussed in Account Nos. 601 and 603, staff has recommended including additional salaries. Therefore, staff has increased this account by $1,247 to reflect the appropriate payroll taxes on salaries. Staff has decreased this account by $14 to remove an unsupported miscellaneous tax expense.

Staff recommends taxes other than income expense of $3,256.

Operating Revenues – Revenues have been increased by $28,125 to reflect the change in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income – The expense has increased by $1,266 to reflect regulatory assessment fees of 4.5% on the change in revenues.

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 $51,976. Operating expenses are shown on Schedule No. 3. The related adjustments are shown on Schedule 3-A.

Issue 8: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is $53,480. (Biggins, Hudson)

Staff Analysis: The utility should be allowed an annual increase of $28,125 (110.93%). This will allow the utility the opportunity to recover its expenses and earn a 7.25% return on its investment. The calculations are as follows:

		Water
Adjusted Rate Base		$20,742
Rate of Return	x	.0725
Return on Rate Base		$1,504
Adjusted O & M expense		$45,861
Depreciation expense (Net)		$1,594
Taxes Other Than Income		$4,522
Income Taxes		$0
Revenue Requirement		$53,480
Adjusted Test Year Revenues		$25,355
Percent Increase/(Decrease)		110.93%

Revenue requirements are shown on Schedule No. 3.

Issue 9: Is a continuation of the current rate structure, which includes a 5,000 gallon (5 kgal) allotment, appropriate for this utility, and, if not, what is the appropriate rate structure?

Recommendation: No, a continuation of the utility's current rate structure is not appropriate. The rate structure should be changed to a three-tier inclining block rate structure. The pre-repression base facility charge (BFC) cost recovery should be set at 25%. The usage blocks should be set for consumption at: a) 0 – 5 kgal; b) 5.001 – 10 kgals; and c) for usage in excess of 10 kgal, with appropriate usage block rate factors of 1.0, 1.25, and 1.5, respectively. (Bruce, Lingo)

Staff Analysis: Staff's analysis of both the appropriate pre-repression BFC cost recovery rate and the recommended inclining block rate structure is contained in Attachment B.

Issue 10: Is an adjustment to reflect repression of consumption appropriate in this case, and, if so, what is the adjustment and the resulting number of kgals to be used to set rates?

Recommendation: Yes, an adjustment to reflect repression of consumption is appropriate. Residential consumption should be reduced by 36.3%, resulting in a consumption reduction of approximately 5,026.9 kgals. Total water consumption for ratesetting is 8,804.7 kgals. In order to monitor the effects of both the changes in rate structures and revenues, the utility should prepare monthly reports detailing the number of bills rendered, the consumption billed, and the revenues billed. These reports should be provided to staff. In addition, the reports should be prepared, by customer class and meter size, on a quarterly basis for a period of two years, beginning the first billing period after the approved rates go into effect. (Lingo)

Staff Analysis: Staff recommends a reduction in water consumption for ratesetting of approximately 36.3%. Typically, staff's repression calculation is based on an analysis of our database of utilities receiving rate increases and decreases. However, there are two other Keen systems that received rate increases four years ago. Furthermore, each system had a gallonage allotment in the BFC that was eliminated. Therefore, in this instance, staff believes it is preferable to base its analysis in this case on the resulting consumption patterns of these other Keen systems. We believe the customer response to our recommended price and rate structure changes in this case will be similar to those exhibited by the other two Keen systems. Our analysis of this issue is contained in Attachment C.

Issue 11: What are the appropriate rates for the system?

Recommendation: The recommended rates should be designed to produce monthly service revenues of $52,280. Once approved, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (Bruce, Lingo, Biggins, Hudson)

Staff Analysis: Based on the audit, during the test year, the utility provided service to approximately 100 residential customers. The appropriate revenue from monthly service rates, excluding rent, is $52,280.

As discussed in Issue 9, staff recommends that the water system rate structure be changed to a three tier inclining block rate structure, and that the 5 kgal allotment in the BFC be eliminated. As discussed in Issue 10, staff recommends that the appropriate repression adjustment is 5,026.9 kgal for the water system. Therefore, the resulting monthly rates for service are those shown below.

Staff's recommended increase in revenue requirement is $28,125, or approximately 110.93%. The rates approved for the utility should be designed to produce revenues of $52,280 (excluding rental revenues).

Approximately 25% (or $13,264) of the revenue requirement is associated with the fixed costs of providing service. Fixed costs are recovered through the BFC based on an annualized number of factored ERCs. The remaining 75% (or $39,016) of the revenue requirement represents the consumption charge based on the estimated number of factored gallons, after repression, consumed during the test period.

Schedules of the utility's existing rates and staff's recommended rates are as follows:

Monthly Rates

Residential and General Service

Meter Sizes	Existing Rates (includes minimum 5,000 gallons)	Staff's Recommended Rates
Base Facility Charge		
Meter Sizes		
5/8" x 3/4"	$10.47	$11.03
3/4"		$16.55
1"		$27.58
1 ½"		$55.15
2"		$88.24
3"		$176.48
4"		$275.75
6"		$551.50
Gallonage Charge, per 1,000 Gallons		
In excess of 5,000 Gallons	$1.22	
Residential		
0 – 5,000 Gallons		$3.69
5,001 – 10,000 Gallons		$4.61
In excess of 10,000 Gallons		$5.54
General Service		
per 1,000 Gallons		$4.43

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

Monthly Consumption (In Gallons)	Existing Monthly Billing	Using Staff's Recommended Rates
3,000	$10.47	$22.10
5,000	$10.47	$29.48
10,000	$16.57	$52.53

The recommended rates are designed to produce revenue of $52,280 as shown in the staff analysis. Once approved, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The approved rates may not be implemented until proper notice has been received by the customers. The utility should provide the

Commission staff with proof of the date notice was given within 10 days after the date of the notice.

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.

Issue 12: 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 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, 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 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. (Biggins, Hudson)

Staff Analysis: Section 367.0816, Florida Statutes, 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 and the gross-up for regulatory assessment fees, which is $145 annually for water. Using the utility'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. The utility 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 13: What is the appropriate customer deposit for the utility?

Recommendation: The appropriate customer deposit should be the recommended charge as specified in the staff analysis. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheets. (Biggins, Hudson)

Staff Analysis: Rule 25-30.311, Florida Administrative Code, provides guidelines for collecting, administering, and refunding customer deposits. The rule also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. Staff has calculated customer deposits based on the recommended rates and an average monthly bill for a 2-month period. A schedule of staff's recommended deposits follows:

Residential

Meter Size	Recommended Deposits
5/8" x 3/4"	$92.00

General Service

Meter Size	Recommended Deposits
5/8" x 3/4"	$92.00
All over 5/8" x 3/4"	(2 x average bill)

After a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the utility should refund the customer's deposit pursuant to Rule 25-30.311(5), Florida Administrative Code. The utility should pay interest on customer deposits pursuant to Rule 25-30.311(4), Florida Administrative Code.

The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheets.

Issue 14: Should the utility be authorized to collect miscellaneous charges, and, if so, what are the appropriate charges?

Recommendation: Yes, the utility should be authorized to collect miscellaneous service charges and the appropriate charges should be the recommended charges specified in the staff analysis. The approved charges will be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. These charges may not be implemented until proper 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. (Biggins, Hudson)

Staff Analysis: The utility's existing tariff does not authorize the utility to collect miscellaneous service charges for the Lake Region Paradise Island system. Staff recommends that the utility be authorized to collect charges consistent with Commission practice. The recommended charges are designed to defray the costs associated with each service and place the responsibility of the cost on the person creating it rather than on the rate paying body as a whole. A schedule of staff's recommended charges follows:

Water	Utility's Request	Staff's Recommended Charges
Initial Connection	$25.00	$15.00
Normal Reconnection	$25.00	$15.00
Violation Reconnection	$0.00	$15.00
Premises Visit Fee (in lieu of disconnection)	$0.00	$10.00
Re-reading of meter at customer's request and utility reading is correct	$30.00	$0.00
After hours/weekend reconnect fee	$50.00	$15.00

An explanation of each charge is provided for clarification:

Initial Connection - This charge would be levied for service initiation at a location where service did not exist previously.

Normal Reconnection - This charge would be levied for transfer of service to a new customer account, a previously served location, or reconnection of service subsequent to a customer requested disconnection.

Violation Reconnection - This charge would be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.

Premises Visit Charge (in lieu of disconnection) - This charge would be levied when a service representative visits a premises for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

The utility has also requested an "after hours" charge of $50. Pursuant to Rule 25-30.460, Florida Administrative Code, a utility may request an additional charge ("after hours charge") for overtime when the customer requests that service be performed after normal hours. The after hours charge may be the same rate specified for the existing charge during normal working hours. If the utility requests a charge other than the normal working hours charge, the utility must file cost support. The utility did not file cost support; therefore, staff is recommending an after hours charge of $15.

These charges are designed to more accurately reflect the costs associated with each service and to place the burden of payment on the person who causes the cost to be incurred (the "cost causer"), rather than on the entire ratepaying body as a whole.

Staff recommends that the utility's tariff be revised to incorporate the charges discussed above. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the miscellaneous service charges should become effective for service rendered on or after the stamped approval date of the revised tariff sheets.

Issue 15: Should the utility be authorized to collect late payment fees, and if so what are the appropriate charges?

Recommendation: Yes. The utility should be authorized to collect a $5.00 late fee. The utility should file revised tariff sheets which are consistent with the Commission's vote within one month of the Commission's final vote. The revised tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the late payment fee should become effective for connections made on or after the stamped approval date of the revised tariff sheets, and provided customers have been noticed. (Biggins, Hudson)

Staff Analysis: Keen is not currently authorized to collect late payment charges for the Lake Region Paradise Island System. The utility requested to implement a late payment charge of $10.00.

Staff believes that the purpose of a late payment charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing such delinquencies solely upon those who are the cost causers.

In the past, late payment fee requests have been handled on a case-by-case basis. The Commission has approved late fees in the amount of $5 in the following Orders: Order No. PSC-98-1585- FOF-WU, issued November 25, 1998, in Docket No. 980445-WU; Order No. PSC-01-2093-TRF-WS, issued October 22, 2001, in Docket No. 011034-WS; Order No. PSC-01-2468-TRF-WU, issued December 18, 2001, in Docket No. 011482-WU; and Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS.

Presently, Commission rules provide that late payers may be required by the utility to provide an additional deposit. However, the Commission found in Order No. PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, In re: Application for transfer of Certificate No. 123-W in Lake County from Theodore S. Jansen d/b/a Ravenswood Water System to Crystal River Utilities, Inc., that there is no further incentive for either delinquent or late paying customers to pay their bills on time after the additional deposit. In that same Order, the Commission also found that the cost causer should pay the additional cost incurred to the utility by late payments, rather than the general body of the utility's rate payers. Staff believes that the goal of allowing late fees to be charged by a utility is two-fold: first, to encourage current and future customers to pay their bills on time; and second, if payment is not made on time, to insure that the cost associated with the late payments is not passed on to the customers who do pay on time.

It appears that a majority of utilities have Commission-approved late fee charges of $5.00. The utilities that have higher charges have provided adequate documentation in support of those higher fees. Staff believes that $5.00 is a reasonable fee for Lake Region Paradise Island. If the utility can document a higher fee, it should file the appropriate request with the Commission.

Therefore, staff recommends that, consistent with the orders cited above, a $5.00 late payment charge should be approved. The utility should file revised tariff sheets which are consistent with the Commission's vote within one month of the Commission's final vote. The revised tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the late payment charge should become effective on the stamped approval date of the tariff sheets, provided customers have been noticed.

Issue 16: Should the recommended rates 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?

Recommendation: Yes. Pursuant to Section 367.0814(7), Florida Statutes, 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, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility shall 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), Florida Administrative Code, 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. (Biggins, 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), Florida Statutes, in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility shall be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security may be in the form of a bond or letter of credit in the amount of $19,503. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

1) The Commission approves the rate increase; or,

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

If the utility chooses a letter of credit as 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 Director of the Division of Commission Clerk and Administrative Services must be a signatory to the escrow agreement.

This 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 the utility, 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), Florida Administrative Code.

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should file reports with the Commission 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.

Issue 17: What are the appropriate service availability charges?

Recommendation: The appropriate service availability charges for the utility are a plant capacity charge of $400 and a meter installation charge of $100. If the Commission approves these charges, the utility should file revised tariff sheets which are consistent with the Commission's vote. Staff recommends that it be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the revised service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets. (Biggins, Hudson)

Staff Analysis: The utility has no existing service availability policy. The utility requested a customer connection (tap-in fee) of $400. Staff has imputed the utility's transmission and distribution system as CIAC. Therefore, the customer connection charges should be a plant capacity charge. The total potential customer base of the certified territory is estimated to be 112 ERCs and growth is minimal. The existing CIAC contribution levels are 10.41%. Since these amounts are less than the maximum 75% amount of CIAC recommended by Rule 25-30.580(1)(a), Florida Administrative Code, and collecting the charges for all future customers will not cause the utility to exceed the 75% maximum recommended contribution level, staff is recommending the utility be allowed a plant capacity charge of $400.

The utility currently does not have an existing tariff authorizing a meter installation charge. The utility requested a meter installation charge of $100. Because the utility does not have an existing meter installation charge, staff believes that allowing a $100 meter installation charge is appropriate and will defray the cost associated with future growth. Staff believes that the meter installation charge is reasonable.

Staff is recommending that a plant capacity charge of $400 should be approved. Further, staff is recommending that a meter installation charge of $100 should be approved. If revised tariff sheets are filed and approved, the service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets. Staff should be given administrative authority to approve the revised tariff, sheets upon staff's verification that the tariffs are consistent with the Commission's decision.

Issue 18: Should this docket be closed?

Recommendation: Yes. If no timely protest is filed by a person whose interest is substantial, this docket should be closed upon the issuance of a Consummating Order. If a protest is filed within 21 days of the issuance of the Order, the tariffs should remain in effect with any increase held subject to refund pending resolution of the protest, and the docket should remain open. (Vining)

Staff Analysis: If no timely protest is filed by a person whose interest is substantial, this docket should be closed upon the issuance of a Consummating Order. If a protest is filed within 21 days of the issuance of the Order, the tariffs should remain in effect with any increase held subject to refund pending resolution of the protest, and the docket should remain open.

KEEN SALES, RENTALS AND UTILITIES (PARADISE SYSTEM)

WATER TREATMENT PLANT – USED AND USEFUL DATA				
1)		**Capacity of Plant**	400.00	gallons per min
2)		**Maximum Day From Maximum Month**	53.82	gallons per min
	2a)	**Max. day @ peak**	107.64	gallons per min
3)		**Average Daily Flow (AADF)**	25.96	gallons per min
4)		**Fire Flow Capacity (FF)** Required Fire Flow: 500 gallons per minute for 4 hours	500	gallons per min
5)		**Growth**		
	a)	Average Test Year Customers in ERCs: Historical Test Year: Jan. 2003 - Dec. 2003	98	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	4	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (5b)x(5c)x[2a\(5a)]	21.97	gallons per min
6)		**Excessive Unaccounted for Water (EUW)**	0	gallons per min
	a)	Percentage of Excessive amount	0	
	b)	Percent of Excessive	0	
	c)	Reasonable Amount (10% of average Daily Flow)	2.60	gallons per min
	d)	Excessive Amount	0	gallons per min

USED AND USEFUL FORMULA

[2 x (Max days – EUW) + FF + Growth]/Capacity of Plant

[2 x (53.82-0) + 500 + 21.97]/400 = 100% Used & Useful

KEEN SALES, RENTALS AND UTILITIES (PARADISE SYSTEM)

WATER DISTRIBUTION SYSTEM – USED AND USEFUL DATA				
1)		**Capacity of System (ERCs)**	112	ERCs
2)		**Test Year Connections** Average Test Year in ERC	98	ERCs
3)		**Growth**		
	a)	Customer growth in connections for last 5 years including test year using Regression Analysis	4	ERCs
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)x(b) Connections allowed for growth	20	ERCs

USED AND USEFUL FORMULA

[2+3] / (1) = 105% = 100% Used and Useful

KEEN SALES, RENTALS AND UTILITIES (PARADISE SYSTEM)

DETERMINATION OF APPROPRIATE RATE STRUCTURE

CURRENT RATES:	**1)**	The utility's current rate structure consists of a monthly base facility charge (BFC) / gallonage charge rate structure, in which the BFC of $10.47 includes an allotment of 5,000 gallons (5 kgal) of water, and all gallons in excess of 5 kgal used are charged $1.22 per kgal.
PRIOR ORDERS AND PRACTICES WITH WATER MANAGEMENT DISTRICTS:	**2)**	The Commission has a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts). A guideline of the five Districts, which has been adopted as a practice of the Commission, is to set the BFC charges such that they recover no more than 40% of the revenues to be generated from monthly service rates.
	3)	The Commission, in staff-assisted rate cases involving utilities related to Keen, found that gallonage allotments should be eliminated from the BFC to be consistent not only with Commission practice, but with the overall statewide goal of eliminating conservation-discouraging water rate structures. (See. Order No. PSC-01-1162-PAA-WU, issued May 22, 2001 in Docket No. 001118-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Sunrise Water Company), p. 35; Order No. 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), p. 23.)
	4)	The Commission's preferred rate structure had traditionally been the BFC / uniform gallonage charge rate structure. However, over the past several years, based in large part on requests made by the Water Management Districts, the Commission has been implementing the inclining-block rate structure as the rate structure of choice. (See. Order No. PSC-02-1733-PAA-WU, issued December 9, 2002 in Docket No. 011677-WU, In re: Application for staff-assisted rate case in Polk County by Tevalo, Inc. d/b/a McLeod Gardens Water Company, p. 19.)
	5)	The utility is located in the Southwest Florida Water Management District (SWFWMD or District). For those utilities located within a SWFWMD water use caution area, the District places a gallons-per-day usage target of 150 gallons per day per capita (gpdc).
	6)	The utility's customers consume approximately 11.5 kgal of water per month. It is Commission practice to implement an inclining block rate structure when average monthly consumption is at this level. (See. Order No. PSC-01-1162-PAA-WU, issued May 22, 2001 in Docket No. 001118-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Sunrise Water Company), p. 37; Order No. PSC-00-0807-PAA-WU, issued April 25, 2000 in Docket No. 991290-WU, In re: Application for staff-assisted rate case in Lake County by Brendenwood Water System, p. 21.)

KEEN SALES, RENTALS AND UTILITIES (PARADISE SYSTEM)

DETERMINATION OF APPROPRIATE RATE STRUCTURE

THEORY BEHIND INCLINING BLOCK RATE STRUCTURES:	**7)**	The goal of the inclining block rate structure is to reduce average demand. Under this rate structure, it is anticipated that demand in the higher usage blocks will be more elastic (responsive to price) than demand in the first usage block.
	8)	There are several factors to consider when designing inclining block rates, including, but not limited to, the selection of the appropriate: a) conservation adjustment; b) usage blocks; and, c) usage block rate factors.
PRE-REPRESSION BFC COST RECOVERY:	**9)**	As shown in the table below, without a conservation adjustment to move more cost recovery revenues to the gallonage charge, the BFC allocation is 67%. The elimination of the 5 kgal allotment in the BFC will result in those customers with monthly usage at 5 kgal receiving the greatest increase of 244.8%.
	10)	The majority of consumption at or below 5 kgal is considered highly nondiscretionary, essential consumption. Therefore, an important rate design goal is to minimize, to the extent possible, the price increases at 5 kgal or less.
	11)	Several conservation adjustments were tried in order to shift varying portions of cost recovery from the BFC to the gallonage charge. The results are shown in Table 1 below.

TABLE 1

PRE-REPRESSION PRICE INCREASES AT VARIOUS CONSERVATION ADJUSTMENTS

Conservation Adjustment (CA) Percentages and Resulting BFC Allocations

(A)	(B)	(C)	(D)	(E)
Monthly Consumption	**CA=0% BFC=67%**	**CA=41% BFC=40%**	**CA=55% BFC=30%**	**CA=63% BFC=25%**
0 kgal	184.6%	67.9%	28.1%	5.3%
1 kgal	196.7%	90.1%	53.8%	33.0%
3 kgal	220.7%	134.4%	105.2%	88.2%
5 kgal	244.8%	178.7%	156.5%	143.4%
10 kgal	155.9%	146.1%	143.3%	141.0%
15 kgal	114.8%	131.1%	137.1%	139.9%
20 kgal	91.2%	122.4%	133.6%	139.2%
33.65 kgal	58.9%	110.6%	128.8%	138.4%

KEEN SALES, RENTALS AND UTILITIES (PARADISE SYSTEM)

DETERMINATION OF APPROPRIATE RATE STRUCTURE

PRE-REPRESSION BFC COST RECOVERY (cont.):	**12)**	**As shown in Table 1, the 63% conservation adjustment compared to the other adjustments: a) minimizes the comparable percentage increases for monthly consumption at 5 kgal or less; b) maximizes the percentage increases for monthly usage greater than 10 kgal; and, c) results in a BFC allocation percentage which complies with the rate structure guidelines of the WMDs and is consistent with Commission practice.**
USAGE BLOCKS AND RATE FACTORS:	**13)**	Another rate design problem when eliminating an allotment in the BFC is that an inequity exists: Often times, customers at the maximum allotment level (in this case 5 kgal) are faced with greater percentage increases than customers at consumption levels greater than the maximum allotment. This problem, and how it is mitigated by using different usage blocks and rate factors, is illustrated in Table 2 below.

Table 2

PRE-REPRESSION PRICE INCREASES AT VARIOUS USAGE BLOCKS (UB) AND USAGE BLOCK RATE FACTORS (RF)

(A) Monthly Consumption	(B) UB = 0-10 / 10+ RF = 1.0 / 1.25	(C) UB = 0-10 / 10+ RF = 1.0 / 1.50	(D) UB = 0-10 / 10+ RF = 1.0 / 1.75	(E) UB = 0-10 / 10+ RF = 1.0 / 2.0	(F) UB = 0-5/ 5-10 / 10+ RF = 1.0 / 1.25/1.50
0 kgal	5.3%	5.3%	5.3%	5.3%	5.3%
1 kgal	30.2%	27.9%	26.0%	24.5%	26.8%
3 kgal	79.8%	73.0%	67.2%	62.7%	69.8%
5 kgal	129.5%	118.1%	108.5%	100.9%	112.8%
10 kgal	123.5%	109.0%	96.9%	87.3%	119.3%
15 kgal	135.0%	130.8%	127.3%	125.1%	134.7%
20 kgal	141.7%	143.4%	144.8%	146.9%	143.6%
33.65 kgal	150.7%	160.6%	168.6%	176.6%	155.7%

USAGE BLOCKS AND RATE FACTORS (cont):	**14)**	As shown in columns (B) through (E) of Table 2, for rate structures with two usage blocks of 0 – 10 kgal and in excess of 10 kgal, the percentage increase that would be experienced by customers using 5 kgal is **greater** than those percentage increases at consumption levels of 10 kgal.
	15)	As shown in column (F) of Table 2, the three-tier inclining block rate structure, with usage block rate factors of 1.0, 1.25 and 1.5, respectively, is the only rate structure in the table which conforms to Commission practice of customers at increasing levels of consumption paying **increasingly greater** percentage increases.
RECOMMENDATION:		Therefore, a continuation of the utility's current rate structure is not appropriate. The rate structure should be changed to a three-tier inclining block rate structure. The usage blocks should be set for consumption at: a) 0 – 5 kgal; b) 5.001 – 10 kgals; and c) for usage in excess of 10 kgal. The appropriate usage block rate factors are 1.0, 1.25 and 1.5, respectively, with the pre-repression base facility charge (BFC) cost recovery at 25%.

ATTACHMENT C, PAGE 1 OF 1
Historical Test Year 2003

KEEN SALES, RENTALS AND UTILITIES (PARADISE SYSTEM)

DETERMINATION OF APPROPRIATE REPRESSION (PRICE ELASTICITY) ADJUSTMENT

REPRESSION (PRICE ELASTICITY or PE) ANALYSIS BASED ON 2002 DATA FROM PRIOR KEEN CASES

[A] PRICE ELASTICITY KEEN (ALTURAS)

	Previous (BFC incl 3 kgal)	Current
BFC	$13.50	$11.00
Gal Chg	$1.00	$3.25

Avg Consump (kgal)		Avg Price	
Previous	7.537	Previous	$18.04
Current	5.923	Current	$35.50
Change Amt	-1.614	Change Amt	$17.46
Change Pct	-21.4%	Change Pct	96.8%

PE = % Chg Quantity Demanded / % Chg Price = **-22.1%**

[B] PRICE ELASTICITY KEEN (SUNRISE)

	Previous (BFC incl 5 kgal)	Current	Usage Blocks
BFC	$8.85	$10.10	
Gal Chg	$1.31	$1.64	0 – 5
		$2.46	5 – 10
		$4.92	10 +

Avg Consump (kgal)		Avg Price	
Previous	8.246	Previous	$13.10
Current	5.258	Current	$26.29
Change Amt	-2.988	Change Amt	$13.18
Change Pct	-36.2%	Change Pct	100.6 %

PE = % Chg Quantity Demanded / % Chg Price = **-36.0%**

THEREFORE AVG PE OF KEEN SYSTEMS = -29.1%

[C] ANTICIPATED REPRESSION FOR KEEN (PARADISE SYSTEM)

	Current (BFC incl 5 kgal)	Staff Rec	Usage Blocks
BFC	$10.47	$11.03	
Gal Chg	$1.22	$2.25	0 – 5
		$2.81	5 – 10
		$3.38	10 +

Avg Consump (kgal)		Avg Price	
Current	11.498	Current	$18.40
		Staff Rec	$41.40
		Chg Amt	$23.00
		Chg Pct	125.0%

Anticipated Repression for Keen (Paradise)➔

Avg PE of Other Keen Systems of -29.1% = % Chg Quantity Demanded / % Chg Price

SO % Change in Quantity Demanded for Keen (Paradise) = -36.3%

Old Kgals	**13,831.6**
New Kgals	**8,804.7**
Repr Kgals	**5,026.9**
Repression Pct	**-36.3%**

KEEN SALES, RENTALS AND UTILITIES **SCHEDULE NO. 1**
TEST YEAR ENDING 12/31/03 **DOCKET NO. 040254-WU**
SCHEDULE OF WATER RATE BASE

	DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1.	UTILITY PLANT IN SERVICE	$31,177	$8,130	$39,307
2.	LAND & LAND RIGHTS	$2,000	$0	$2,000
3.	NON-USED AND USEFUL COMPONENTS	$0	$0	$0
4.	CIAC	$0	($16,524)	($16,524)
5.	ACCUMULATED DEPRECIATION	($12,480)	($10,219)	($22,699)
6.	AMORTIZATION OF CIAC	$0	$12,925	$12,925
7.	WORKING CAPITAL ALLOWANCE	$0	$5,733	$5,733
8.	WATER RATE BASE	$20,697	$45	$20,742

KEEN SALES, RENTALS AND UTILITIES **SCHEDULE NO. 1-A**
TEST YEAR ENDING 12/31/03 **DOCKET NO. 040254-WU**
ADJUSTMENTS TO RATE BASE

		WATER
	UTILITY PLANT IN SERVICE	
1.	To reflect the appropriate plant balance per original cost study	$7,830
2.	To include additions during the test year	$600
3.	Averaging Adjustment	($300)
	Total	$8,130
	CIAC	
1.	To impute CIAC per Rule 25-30.570, FAC	($16,524)
	ACCUMULATED DEPRECIATION	
1.	To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	($11,539)
2.	To reflect pro forma accumulated depreciation	$0
3.	Averaging adjustment	$1,320
	Total	($10,219)
	AMORTIZATION OF CIAC	
1.	To impute amortization of CIAC per Rule 25-30.570	$13,138
2.	Averaging adjustment	($213)
		$12,925
	WORKING CAPITAL ALLOWANCE	
1.	To reflect 1/8 of test year O & M expenses.	$5,733

KEEN SALES, RENTALS AND UTILITIES
TEST YEAR ENDING 12/31/03
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 040254-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 STOCK	($28,244)	$28,244	$0					
2.	RETAINED EARNINGS		$0	$0					
3.	PAID IN CAPITAL	$0	$0	$0					
4.	OTHER COMMON EQUITY	$0	$0	$0					
5.	TOTAL COMMON EQUITY	($28,244)	$28,244	$0	$0	$0	0.00%	11.40%	0.00%
6.	LONG TERM DEBT								
	Subdivison Note	$48,787	$0	$48,787	($37,211)	$11,576	55.81%	7.00%	3.91%
	Sunrise Note	$31,000	($31,000)	$0	$0	$0	0.00%	7.00%	0.00%
	Paradise Note	$11,000	$0	$11,000	($8,390)	$2,610	12.58%	7.00%	0.88%
	Alturas Note	$6,270	($6,270)	$0	$0	$0	0.00%	7.00%	0.00%
	Auto Loan	$24,890	$0	$24,890	($18,984)	$5,906	28.47%	7.99%	2.27%
	TOTAL LONG TERM DEBT	$121,947	($37,270)	$84,677	($64,585)	$20,092	96.87%		
7.	CUSTOMER DEPOSITS	$0	$650	$650	$0	$650	3.13%	6.00%	0.19%
8.	TOTAL	$93,703	($8,376)	$85,327	($64,585)	$20,742	100.00%		7.25%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.40%	12.40%
OVERALL RATE OF RETURN	7.25%	7.25%

KEEN SALES, RENTALS AND UTILITIES
TEST YEAR ENDING 12/31/03
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3
DOCKET NO. 040254-WU

		TEST YEAR PER UTILITY	STAFF ADJ.	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$22,669	$2,686	$25,355	$28,125 110.93%	$53,480
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	$23,141	$22,720	$45,861	$0	$45,861
3.	DEPRECIATION (NET)	$2,063	($469)	$1,594	$0	$1,594
4.	AMORTIZATION	$0	$0	$0	$0	$0
5.	TAXES OTHER THAN INCOME	$2,443	$813	$3,256	$1,266	$4,522
6.	INCOME TAXES	$0	$0	$0	$0	$0
7.	**TOTAL OPERATING EXPENSES**	$27,647	$23,064	$50,711	$1,266	$51,976
8.	**OPERATING INCOME/(LOSS)**	($4,978)		($25,356)		$1,504
9.	**WATER RATE BASE**	$20,697		$20,742		$20,742
10.	**RATE OF RETURN**	-24.05%		-122.25%		7.25%

KEEN SALES, RENTALS AND UTILITIES **SCHEDULE NO. 3-A**
TEST YEAR ENDING 12/31/03 **PAGE 1 OF 3**
ADJUSTMENTS TO OPERATING INCOME

		WATER
	OPERATING REVENUES	
1.	To adjust utility revenues to test year amount.	$1,486
2.	To reflect pro forma rental revenue	$1,200
		$2,686
	OPERATION AND MAINTENANCE EXPENSES	
1.	Salaries and Wages - Employees (601)	
	a. To remove salary of maintenance employee terminated	($3,818)
	b. To remove salary for clerical employee	($20)
	c. To reclassify insurance bill to Account No. 655	($82)
	d. To reclassify salary from Account No. 620	$79
	e. To remove meter reading salary	($153)
	f. To reflect the water manager salary	$7,800
		$3,806
2.	Salaries and Wages - Officers (603)	
	a. To reflect president's salary	$12,134
3.	Employee Pensions and Benefits (604)	
	a. To remove overtime pay	($79)
4.	Purchased Power(615)	
	a. To reflect repression adjustment	($603)
5.	Chemicals (618)	
	a. To reclassify chemical expense from Account No. 620	$763
	b. To reflect the appropriate chemical expense per engineer	$171
	c. To reflect repression adjustment	($339)
		$595
6.	Materials and Supplies (620)	
	a. To reclassify salary to Account No. 601	($79)
	b. To reclassify chemical expense to Account No. 618	($763)
	c. To reclassify operator expense to Account No. 636	($210)
	d. To reclassify testing expense to Account No. 635	($90)
		($1,142)
7.	Contractual Services - Billing (630)	
	a. To reflect the change of common cost allocation to 45%	$13

(O & M EXPENSES CONTINUED ON NEXT PAGE)

KEEN SALES, RENTALS AND UTILITIES TEST YEAR ENDING 12/31/03 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-A PAGE 2 OF 3
8. Contractual Services - Professional (631)	
a. To remove an expense related to the Alturas system	($49)
b. To reflect the change of common cost allocation to 45%	$208
	$159
9. Contractual Services - Testing (635)	
a. To reclassify operator expense to Account No. 636	($1,050)
b. To reclassify testing from Account No. 620	$90
c. To remove an expense related to the Sunrise system	($50)
d. To remove an expense related to the Subdivision system	($50)
e. To reflect DEP required testing amortization	($737)
Total	($1,797)
10. Contractual Services - Other (636)	
a. To reclassify operator expense from Account No. 620	$210
b. To reclassify operator expense from Account No. 635	$1,050
c. To reclassify grounds keeping from Account No. 675	$350
d. To reclassify computer related expense from Account No. 675	$140
e. To reflect pro forma addition for new billing program ($2500*.45)/5	$225
f. To reflect pro forma expense for maintenance	$2,976
Total	$4,951
11. Rent Expense (640)	
a. To reflect the change of common cost allocation to 45%	$1,525
	$1,525
12. Transportation Expense(650)	
a. To reclassify auto insurance expense to Account No. 655	($88)
	($88)
13. Insurance Expenses (655)	
a. To reclassify insurance bill from Account No. 601	$82
b. To reclassify auto insurance bill from Account No. 650	$88
c. To remove insurance related cost for maintenance man	($959)
d. To reflect pro forma health insurance for water manager	$2,348
e. To reflect the change of common cost allocation to 45% for workman's comp	$322
f. To reflect the change of common cost allocation to 45% for liability ins.	$319
g. To reflect the change of common cost allocation to 45% for auto insurance	$315
h. To remove miscellaneous insurance expense	($44)
	$2,471
(O & M EXPENSES CONTINUED ON NEXT PAGE)	

	KEEN SALES, RENTALS AND UTILITIES TEST YEAR ENDING 12/31/03 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-A PAGE 3 OF 3
14.	Regulatory Commission Expense (665)	
	a. Notice Expense Amortized over 4 years ($52/4)	$13
	b. Amortize Rate Case Filing Fee Over 4 years ($500/4)	$125
		$138
15.	Miscellaneous Expense (675)	
	a. To reclassify grounds keeping to Account No. 636	($350)
	b. To reclassify computer related expense to Account No. 636	($140)
	c. To reflect the change of common cost allocation to 45%	$1,127
	Total	$637
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	**$22,720**
	DEPRECIATION EXPENSE	
1.	To reflect test year depreciation calculated per 25-30.140, F.A.C.	$687
2.	To reflect amortization of CIAC composite rates	($1,156)
	Total	($469)
	TAXES OTHER THAN INCOME	
1.	To reflect appropriate test year regulatory assessment fees	($177)
2.	To reflect regulatory assessment fees staff's test year revenues	$67
3.	To exclude payroll taxes on maintenance man and clerical employee	($294)
4.	To exclude employee bonus	($16)
5.	To reflect appropriate payroll taxes	$1,247
6.	To remove unsupported miscellaneous tax expense	($14)
	Total	$813

KEEN SALES, RENTALS AND UTILITIES **SCHEDULE NO. 3-B**
TEST YEAR ENDING 12/31/03 **DOCKET NO. 040254-WU**
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	STAFF PER ADJUST.		TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$7,894	$3,806	[1]	$11,700
(603) SALARIES AND WAGES - OFFICERS	$1,906	$12,134	[2]	$14,040
(604) EMPLOYEE PENSION & BENEFITS	$79	($79)	[3]	$0
(610) PURCHASED WATER	$0	$0		$0
(615) PURCHASED POWER	$1,662	($603)	[4]	$1,059
(616) FUEL FOR POWER PRODUCTION	$0	$0		$0
(618) CHEMICALS	$0	$595	[5]	$595
(620) MATERIALS AND SUPPLIES	$1,520	($1,142)	[6]	$378
(630) CONTRACTUAL SERVICES - BILLING	$7	$13	[7]	$20
(631) CONTRACTUAL SERVICES - PROFESSIONAL	$162	$159	[8]	$321
(635) CONTRACTUAL SERVICES - TESTING	$3,529	($1,797)	[9]	$1,732
(636) CONTRACTUAL SERVICES - OTHER	$55	$4,951	[10]	$5,006
(640) RENTS	$1,715	$1,525	[11]	$3,240
(650) TRANSPORTATION EXPENSE	$761	($88)	[12]	$673
(655) INSURANCE EXPENSE	$2,709	$2,471	[13]	$5,180
(665) REGULATORY COMMISSION EXPENSE	$0	$138	[14]	$138
(670) BAD DEBT EXPENSE	$11	$0		$11
(675) MISCELLANEOUS EXPENSES	$1,131	$637	[15]	$1,768
	$23,141	$22,720		$45,861

RECOMMENDED RATE REDUCTION SCHEDULE

KEEN SALES, RENTALS AND UTILITIES **SCHEDULE NO. 4**
TEST YEAR ENDING 12/31/03 **DOCKET NO. 040254-WU**

CALCULATION OF RATE REDUCTION AMOUNT
AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS

MONTHLY WATER RATES

RESIDENTIAL, MULTI-RESIDENTIAL, AND GENERAL SERVICE BASE FACILITY CHARGE:		MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
Meter Size:			
5/8"X3/4"	$	11.03	0.03
3/4"		16.55	0.04
1"		27.58	0.07
1-1/2"		55.15	0.15
2"		88.24	0.24
3"		176.48	0.48
4"		275.75	0.75
6"		551.50	1.49
RESIDENTIAL GALLONAGE CHARGE			
0 - 5,000 Gallons	$	3.69	0.01
5,001 - 10,000		4.61	0.01
Over 10,000		5.54	0.01
GENERAL SERVICE GALLONAGE CHARGE	$	4.43	0.01