State of Florida

Public Service Commission

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DATE: APRIL 19, 2001

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (RENDELL, WALKER, WILLIS, LINGO, MUNROE)
DIVISION OF LEGAL SERVICES (JAEGER)

RE: DOCKET NO. 001118-WU - APPLICATION FOR STAFF-ASSISTED RATE CASE IN POLK COUNTY BY KEEN SALES, RENTALS AND UTILITIES, INC. (SUNRISE WATER COMPANY).
COUNTY: POLK

AGENDA: 05/1/01 - REGULAR AGENDA - PROPOSED AGENCY ACTION, EXCEPT ISSUES NOS. 16, 17, and 18 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: 01/10/02 (SARC)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\001118.RCM

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CASE BACKGROUND

Keen Sales, Rentals and Utilities, Inc. (Keen or utility) is a Class C water utility operating in Polk County. Keen currently owns and operates the following water systems in Polk County: Alturas Water Works; Sunrise Water Company; Lake Region Paradise Island; and Ray Keen, Earlene, and Ellison Park subdivision. These four water systems provide service to approximately 548 customers in the utility's certificated territory. This recommendation addresses the Sunrise Water Company system (Sunrise). Sunrise provides water service to approximately 267 residential customers and 1 general service customer. On August 11, 2000, the utility applied for a staff assisted rate case (SARC). The utility's service area is not located in a water use caution area in the Southwest Florida Water Management District (SWFWMD).

Staff audited the utility's records for compliance with Commission rules and orders and examined all components necessary for rate setting. The staff engineer has also conducted a field investigation, which included a visual inspection of the water facilities along with the service area. The utility's operating expenses, maps, files, and SARC application were also reviewed to determine reasonable maintenance expenses, regulatory compliance, utility plant in service, and quality of service. Staff has selected a historical test year ended March 31, 2000.

A customer meeting was conducted on February 12, 2001 at the Auburndale Civic Center in Auburndale, Florida. Thirty customers attended the meeting and nineteen customers addressed concerns about quality of service, the proposed rate increase, and other issues related to the case. The office manager of the utility was present at the meeting. In addition to the comments received by staff at the meeting, several written statements were mailed to the Commission by customers who did not attend the meeting. Water quality, customer satisfaction, and quality of service were the primary concerns of the customers attending the meeting. Staff will address each of these concerns in Issues 1, 10, and 17.

Based on staff's analysis, the utility's adjusted revenue was \$35,353 for the test year. The adjusted operating expenses were \$79,647 during the test year; this resulted in an operating loss of \$44,294.

Through Proposed Agency Action (PAA) Order No. PSC-00-1388-PAA-WU, issued July 31, 2000, in Docket No. 990731-WU, the Commission established rate base for this utility for transfer purposes only and denied the utility a positive acquisition adjustment. That PAA Order was consummated by Order No. PSC-00-1566-CO-WU, which was issued August 31, 2000, and made Order No. PSC-00-1388-PAA-WU effective and final and closed the docket.

However, subsequent to closing the transfer docket, the utility, by telephone and letters, expressed its concerns regarding the rate base, positive acquisition adjustment and imputation of Contributions-in-Aid-of-Construction (CIAC); therefore, Docket No. 990731-WU, was reopened to address these concerns.

The utility stated that it first became aware of Order No. PSC-00-1388-PAA-WU being issued from a Commission auditor in the utility's current SARC. On September 20, 2000, the utility called the Division of Records and Reporting (Records) and stated that it had not received the notice of the agenda conference or the previous Orders. Records indicated that the notice of the time and place of the agenda conference was mailed to Keen on July 31, 2000. Further, staff stated that it had no records of either item being returned to the Commission as undeliverable.

In a letter dated September 22, 2000, Keen requested an opportunity to respond to the information in the Order and to the audit report. Further, in a letter dated October 10, 2000, the utility submitted its rebuttal to Order No. PSC-00-1388-PAA-WU. In this rebuttal, the utility requested recognition of the positive acquisition adjustment and reconsideration of the amount of CIAC.

In Order No. PSC-00-2100-FOF-WU, issued November 6, 2000, in Docket No. 990731-WU, the Commission denied the request of the utility to reopen the protest period of Order No. PSC-00-1388-PAA-WU to revisit or address the following issues: rate base with a positive acquisition adjustment and CIAC. In doing so, the Commission directed staff to address the utility's concerns regarding rate base, a positive acquisition adjustment, and the imputation of CIAC in this rate proceeding.

The Commission has the authority and jurisdiction to consider this application pursuant to Sections 367.0814 and 367.011(2), Florida Statutes.

QUALITY OF SERVICE

ISSUE 1: Should the quality of service provided by Sunrise Water Company be considered satisfactory?

PRIMARY RECOMMENDATION: No. The utility's overall quality of service is not satisfactory based upon the utility's attempt to address customer satisfaction. Until such time as the utility makes certain changes within its personnel, and attempts to provide satisfactory service to all of its customers, staff is recommending that this utility's overall quality of service is unsatisfactory. (RENDELL)

ALTERNATIVE RECOMMENDATION: Yes. Staff recommends that the quality of service be considered satisfactory and that staff monitor the utility for 90 days to insure that problems with the maintenance man are corrected. (MUNROE)

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 the utility's product (water and wastewater); operational conditions of the utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and county health departments (HRS) or lack thereof over the preceding 3-year period shall also be considered. DEP and HRS officials' testimony concerning quality of service as well as the testimony of utility's customers shall be considered.

Staff's primary and alternative analysis below addresses each of these three components.

As stated in the Case Background, Sunrise is a Class C utility with a service area located in Auburndale, Florida, which is in Polk County. The utility provides water service to 267 residential customers and 1 general service customer. The utility obtains its raw water from 2 wells (a 6-inch well at 350 feet and a 4-inch well at 150 feet), in the area surrounding the water plant. The water treatment plant includes two hydropneumatic tanks (6,000 gallons and 3,000 gallons), a chlorine injection system and a WinCo generator for emergency power.

As stated in the case background thirty customers attended the customer meeting conducted on February 12, 2001, and nineteen customers addressed concerns about quality of service, the proposed rate increase, and other issues related to the case. In addition to the comments received by staff at the meeting, twelve written statements were mailed to the Commission by customers who did not attend the meeting.

PRIMARY STAFF ANALYSIS:

QUALITY OF UTILITY'S PRODUCT

In Polk County, the potable water program is regulated by the Polk County Health Department (PCHD). According to the PCHD, the utility is currently up-to-date with all chemical analysis and all test results have been satisfactory for the past three years. The utility's testing program indicates that it serves water which meets or exceeds all standards for safe drinking water and the water quality is considered satisfactory.

At the customer meeting, customers brought pictures of the utility's plant, and samples of water. The pictures depicted large holes dug in and around the well and treatment plant of the utility. Customers complained about murky water, discoloration of clothing, sediment, and low pressure. There were also complaints about the water taste and odor. Customers attending the meeting expressed concerns to staff explicitly in the following areas:

(1) chlorine spikes,
(2) rust and minerals in the water,
(3) the emergency generator was inoperative.
(4) frequent water outages during peak hours without proper noticing,

The staff engineer conducted an investigation of these complaints on the day following the customer meeting. The staff engineer visited the service area the next day and took samples of water from customers' homes. According to the engineer, there was no discoloration in any of the samples that were taken. Concerning the chlorine spikes, the company has contracted with a new company for operation of the plant. This new operating company is responsible for the operation of the chlorine system. The utility requested that the new operating company check the system thoroughly, including the injection level.

Concerning the rust and minerals in the water, the company has added flushing outlets and flushes the distribution system regularly to minimize rust and other minerals in the lines. The county health representative, Mr. Lewis Taylor, indicated the rust and minerals were due to the age and type of pipes used in the distribution system. He also stated that minerals were present in the majority of the area wells. Mr. Taylor said the water meets standards, and the flushing will improve the aesthetics of the water. Mr. Taylor also indicated annual flushing of hot water heaters is recommended with water of this type. The company has indicated that it will give notice of this recommended hot water heater maintenance to the customers.

Concerning the emergency generator being inoperative, the generator was verified to be in working order by the staff engineer.

<u>Frequent outages without proper noticing and reporting:</u>

At the meeting on February 12, 2001, seven of the customers made comments about the utility having frequent water outages without any notice from the utility. It was stated that the water would be off anywhere from four to five hours and the only way the customers would know, would be to either inquire or drive by the water treatment plant and notice a "flag" on a pole and a sign stating that the water was off. Staff received additional comments that it was not out of the ordinary for customers in this utility's certificated territory to be without water for four to six hours on regular intervals. For example, one of the customers stated that her water was off consistently for three days. This customer's son-in-law finally fixed the water problem after the utility had not responded to her repeated telephone calls. In addition, comments were made that the outages were always during the worst times of the day. For example, most of these outages occurred between Monday and Friday between 4:00 and 6:00 p.m., when customers were getting home from their jobs to use water for showering, cooking, etc. One of the customers stated, "at least the previous owner would notice the customers when there was going to be a shut-off of the water." Another customer at the afternoon meeting, discussed what it would take for the City of Auburndale to interconnect with Sunrise and replace the current utility.

Concerning the water outages, the company indicated there had been a number of water outages due to failures in the distribution system. However, many outages occurred when the utility shut down the system to make repairs. Pursuant to Rule 25-30.250, Florida Administrative Code,

> (1) Each utility shall make all reasonable efforts to provide continuous service. Should interruption in service occur, however, each utility shall reestablish service with the shortest delay consistent with the safety of its customers and the general public.
> (2) Each utility shall schedule any necessary interruptions in service at a time anticipated to cause the least inconvenience to its customers. Each utility shall notify its customers prior to scheduled interruptions.

The utility further stated that it was unaware of the notification procedures for water outages. Pursuant to Rule 25-30.251, Florida Administrative Code,

> (1) Each utility shall maintain a record of all interruptions in service which affect ten percent (10%) or more of its customers. The record shall show the cause of the interruption, its date, time, duration, remedy, and steps taken to prevent recurrence.
> (2) The utility shall notify the Commission of any interruptions in service which affect ten percent (10%) or more of its customers. Notification to the Commission shall be made within one work day of notification to the utility that such an interruption has occurred, and within one work week after service has been restored. The utility shall file a complete report of the record to the Commission regarding the interruption.

The utility has not complied with either Rules 25-30.250(1) or (2) or with Rules 25-30.251(1) or (2), Florida Administrative Codes. This will be further addressed in Issue 17. The utility has indicated that Mr. Taylor and the Commission will be notified in the future and that the proper procedures will be followed for all future outages.

<u>OPERATIONAL CONDITIONS OF THE UTILITY'S PLANT AND FACILITIES</u>

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. Maintenance of the building which houses the chlorine system at the water treatment plant is satisfactory. The PCHD has 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. The operational conditions at the water treatment plant are considered satisfactory.

UTILITY's ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

This section will address the inability of the utility to improve or maintain good customer relations. It is apparent from the customer comments made at the customer meeting and the written comments, which were received by this Commission and placed in the docket file, that a significant portion of this utility's customers are dissatisfied with the overall quality of service.

Specifically, numerous customers commented on the following:

- lack of after hours emergency contacts;
- rudeness/non-business like manner from the utility's employees;
- improper noticing prior to shutting off the water;
- utility's maintenance personnel needs replacing for various reasons;
- improper billing practices by the utility.

After hours emergency contacts:

Three customers made comments concerning after hours emergency contact numbers for this utility. Several comments were made concerning the utility response time when customers called the utility's emergency number. For example, one customer complained that a call was made to the utility concerning an emergency, and the utility never returned the call. A second customer stated that she had an emergency and tried to reach the utility and there was no answer. In addition, she tried to reach the utility's owner at his home telephone number; however, his home telephone number was unlisted. Many of the customers commented that no page would be answered or responded to after several hours. This will be discussed further in staff's analysis.

Rudeness/non-business like manner from the utility's employees:

Seven customers added comments about the utility's employees. Comments were made concerning the office personnel, as well as the maintenance man. Staff will address the maintenance man later in this recommendation. However, comments were made by customers that if any of them had questions or concerns involving this utility and made calls to the utility's office, the office personnel would be rude and obnoxious. Many of these calls were answered by the wife of the utility's president. In many cases, customers would be involved in a discussion with utility personnel about a water related issue, and the utility person would simply hang up the telephone. Some of the statements made by customers concerning the utility's personnel are as follows: one customer stated that he called inquiring about the cut off procedure of an unpaid bill and he was told to pay the bill by 2:00 p.m. that afternoon. The conversation ended when the customer was hung up on. Another incident regarding a customer's bill involved an overpayment for services. The utility's personnel told the customer to bring a copy of the returned check from the bank as proof that the bill was overpaid, and the conversation ended with this individual being hung up on. In a related incident, the utility sent the maintenance man out to disconnect water service for non-payment. However, the customer, who happened to be a CPA, retained all records and had a copy of her canceled check. When this customer called the utility, she was called a "liar" and was also hung up on.

Another incident involved the utility's maintenance man. One customer was not satisfied with a response she received from a utility person, so she telephoned the utility's president at home. The president of the utility stated that he had no knowledge of this customer's situation and to call the office the next day. The maintenance man went to the customer's resident and commented that the more she called Mr. Keen (the president), the longer it would take for him to get her water problem fixed. This will be addressed further in staff's analysis. In yet another incident, a customer, whose water was turned off twice with a credit balance on her bill, indicated that when her husband contacted the president of the utility, he was told that he (the president) couldn't discuss the situation with the customer. This incident is further discussed below.

<u>Improper noticing prior to shutting off the water:</u>

Rule 25-30.320(2), Florida Administrative Code, states in pertinent part:

> As applicable, the utility may refuse or discontinue service under the following conditions provided that, unless otherwise stated, the customer shall be given written notice and allowed a reasonable time to comply with any rule or remedy any deficiency: ...
>
> (g) For nonpayment of bills, ... only after there has been a diligent attempt to have the customer comply, including

at least 5 working days' written notice to the customers.
. . .

At the customer meeting, seven customers provided staff with comments regarding the utility's improper noticing practices before disconnecting water services. Customers complained that the utility disconnected water services even after the bill was paid in full simply because the utility records were not kept current to date. Another disconnection incident occurred when a customer's water was shut off when that customer actually had a credit balance which was in excess of the current month's bill. Further, the same customer stated that the next month the water was disconnected again, when she was in the shower. This customer still had a credit balance the second month in excess of the current bill. This is the customer whose husband tried to discuss the situation with the president, who refused.

The utility provided copies of the utility's bills for all of its service areas. The utility's bills specifically state: "SERVICE DISCONNECTED WITHOUT NOTICE IF BILL IS NOT PAID WITHIN 20 DAYS." This is in violation of Commission rules; however, the bills have been changed at staff's request on March 26, 2001. This will be further addressed in Issue 17.

Maintenance personnel needs replacing for various reasons:

The majority of the customers who attended the meeting had serious comments concerning the utility's maintenance personnel. As stated before, the customers at the meeting commented that the utility's personnel were extremely rude, obnoxious, and unprofessional when dealing with the customers. During the meeting, the most consistent statements and remarks were concerning the utility's maintenance man. Staff will address this individual and the related problems later in this recommendation. Some of the comments against the maintenance man were as follows:

- he consistently sleeps in the utility's well house;
- the question was asked if "he sleeps in the well house, where is he using the restroom since the well house has no restroom facilities;"
- he commented to one customer who called the utility's president about a water problem, "the more you call the president, the longer it will take to fix your problem;"

- the maintenance man used WD-40 lubrication on the well components;
- the maintenance man used weed killer around the utility's water well
- several customers indicated that the maintenance man often smells like alcohol
- several customers commented about his inability to make repairs and making repairs in a slipshod manner

All of the customers who made statements at the meeting stated that the maintenance man is rude, obnoxious, and very arrogant. In one incident, the staff engineer observed a verbal exchange between the maintenance man and a customer. Staff engineer interfered on behalf of the customer and informed the maintenance man to leave the residence.

Improper billing practices by the utility:

Rule 25-30.335, Florida Administrative Code, provides guidelines for customer billing. Rule 25-30.335 (4), Florida Administrative Code, states that "a utility may not consider a customer delinquent in paying his or her bill until the 21st day after the utility has mailed or presented the bill for payment."

Some of the customers expressed concerns that the utility was billing improperly. Customers were receiving bills within fifteen days, where others were receiving bills considered to be delinquent, after the 20 days allotted.

Staff evaluated the comments of the customers after the meeting, and determined that this utility is not in compliance with several of the Commission's rules. This is addressed in Issue 17.

Therefore, staff recommends that this utility's attempt to address customer satisfaction, as prescribed in Rule 25-30.433(1), Florida Administrative Code, should be considered unsatisfactory. In addition, to finding the quality of service unsatisfactory, staff also determined that the utility's procedure in dealing with customer complaints is unsatisfactory.

This situation is further exacerbated by the fact that in Docket No. 000580-WU, staff conducted a customer meeting on November 30, 2000 for the second of four water systems for this utility, the Alturas Water Works system (Alturas). At that meeting, the Alturas' customers complained of poor response time to calls for maintenance; inconsistent quality of the water; irregular water outages and air in the lines. After that meeting, staff advised the utility how to address and improve on its current way of handling the following issues: poor response times, lack of communication by maintenance personnel, and lack of prioritizing calls. In fact, staff assisted the utility in organizing a more effective system in that docket.

After instructing the utility to implement its new improved system for addressing the concerns in the Alturas docket, staff suggested that this system would work for the other three existing service areas owned by this utility including Sunrise. Staff later determined that, in fact, the utility did implement this procedure for addressing customer satisfaction and complaints, but it was not followed through by the utility's maintenance personnel.

It was later determined that the maintenance man had intentionally ignored the new procedure put into place by staff after the Alturas meeting. Staff believes, and it has been confirmed by the utility, that the maintenance man had problems accepting orders and answering to the new chain of command at the utility pertaining to the newly adopted procedures. According to the utility, the maintenance man was accustomed to taking orders and answering to the president, Mr. Keen. When the utility implemented the new system, he was scheduled to answer to the office manager, Ms. Chambers. As a result, the maintenance man deliberately ignored the new procedures initiated by staff on handling calls from irate customers.

Staff and the utility have addressed the current situation concerning the maintenance man. Although there are definite problems with the maintenance man, staff notes that this utility is located in Polk County and the means of finding independent and reliable employees is limited. Currently, the utility is placing advertisements in the local newspaper for a replacement. Although staff is aware of the on-going process with the maintenance man and that the utility is in the process of seeking a replacement, staff believes that under the unique circumstances, the utility is better off with the current maintenance man until a replacement can be found. The utility currently serves approximately 548 customers with four different water systems and a great deal of work is required. Therefore, it is better to have the current maintenance man, who can provide some service to the utility's customers, than to risk the possibility of not having any maintenance man nor anyone who could provide any service at all. Therefore, the utility should insure that the current maintenance man is trained in the proper procedures to follow and impress upon him the importance of following those procedures. Also, the utility should continue to search for a replacement.

In conclusion, based on the customer meetings in both dockets, the above complaints against the maintenance man, along with other confirmed information concerning this individual, and comments about the service provided by the utility, staff believes that the quality of service is a direct result of mismanagement. With the information gathered from the Alturas and Sunrise customer meetings, the management practices by this utility concern staff and will be further addressed in Issue No. 10. In Issue No. 10, staff is recommending a reduction in the president's salary since staff believes that the problems arising from the maintenance man are a direct responsibility of the utility's management. Staff will also address other issues concerning the utility's president in staff's recommendation to reduce the salaries.

Based on the customer meeting and written comments by customers to this Commission, this utility is in apparent violation of several Commission rules. In addition, a significant portion of the utility's customers are clearly dissatisfied with Sunrise's overall quality of service. Therefore, considering the concerns addressed in its analysis, staff recommends that Sunrise's overall quality of service be considered unsatisfactory.

ALTERNATIVE STAFF ANALYSIS:

QUALITY OF UTILITY'S PRODUCT

In Polk County, the potable water program is regulated by the Polk County Health Department (PCHD). According to the PCHD, the utility is currently up-to-date with all chemical analysis and all test results have been satisfactory for the past three years. The utility's testing program indicates that they serve water which meets or exceeds all standards for safe drinking water and the water quality is considered satisfactory.

At the customer meeting held 2/12/2001, the customers complained of (1) chlorine spikes, (2) rust and minerals in the water, (3) water outages for maintenance during peak hours as well as unscheduled outages and (4) the emergency generator was inoperative.

The staff engineer conducted an investigation of these complaints on the day following the customer meeting. (1) The company has contracted with a new firm for operation of the plant.

They are responsible for operation of the chlorine system and were requested to check the system thoroughly including the injection level. (2) The company has added flushing outlets and flushes the distribution system regularly to minimize rust and other minerals in the lines. The PCHD representative, Mr. Lewis Taylor, indicated the rust and minerals were due to the age and type of pipes used in the distribution system. He also stated that minerals were present in the majority of the area wells. Mr. Taylor said the water meets standards, and the flushing will improve the aesthetics of the water. Mr. Taylor also indicated annual flushing of hot water heaters is recommended with water of this type. The company will give notice of this recommended hot water heater maintenance to the customers. (3) The company indicated there had been a number of water outages due failures in the distribution system. They were unaware of the notification procedures for water outages. Mr. Taylor and the Commission will be notified and procedures followed for all future outages. (4) The generator was verified to be in working order.

OPERATIONAL CONDITIONS OF THE UTILITY'S PLANT AND FACILITIES

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. Maintenance of the building which houses the chlorine system at the water treatment plant is satisfactory. The PCHD has 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. The operational conditions at the water treatment plant are considered satisfactory. PCHD indicated that the distribution system is old and undersized making it subject to pressure problems and line breaks. The utility has dealt with these problems in a satisfactory manner.

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

As stated in the case background, a customer meeting was conducted on February 12, 2001 at the Auburndale Civic Center in Auburndale, Florida. Twenty-nine of the 267 customers attended the meeting and nineteen customers addressed concerns about quality of service, the proposed rate increase, and other issues related to the case. There were eleven letters received by staff after the meeting. Six of these were concerned with the proposed rate only, and five concerned service and water related problems.

The following were customer concerns which were addressed in the meeting:

(1) After hours emergency contacts;

(2) rudeness/non-business like manner from the utility's employees;

(3) inadequate noticing prior to shutting off water for maintenance;

(4) maintenance person's performance;

(5) improper noticing prior to shutting off water for past due bills.

After hours emergency contacts:

After problems were found in the prior rate case involving a Keen utility (Alturas Water Works), a new response system was put in place. Keen Sales, Inc. owns four small water systems which are spread over a 50 mile radius. To service these the utility has one maintenance person, whose performance has been marginal. To compensate until he can be replaced, the utility has an office person who controls the emergency beeper, and the taking and logging of all calls.

Rudeness/non-business like manner from the utility's employees:

Several customers made complaints about the utility's employees. Customers stated that they were dealt with rudely by office personnel. The staff engineer and accountant were in the utility office for approximately two months. During that time period we witnessed two incidents in which a utility office employee's actions could be said to be rude/non-business like. In both cases customers were angry before the situation escalated. These were the only exceptions to business like treatment of customers that were observed .

The field maintenance man has been a problem. The utility has been searching for a replacement. However, due to the lack of qualified applicants in the area, this is an on going search.

Improper noticing prior to shutting off water/Improper billing practices by the utility:

There was only one confirmed incident which related to an improper shutoff. The utility made an error in issuing a turnoff order to the maintenance man. When the customer showed proof of payment of the account, the maintenance man was still insistent about the shutoff. A confrontation occurred, the customer contacted her mother, and the police were called. Heated communications ensued between the customer's mother and the maintenance man. The office was not called. The police arrived and the water was not shut off. The utility was notified by the customer's mother the next day and made aware of the incident. The maintenance man was confronted by Mr. Keen, and told not to communicate with the customers in the future.

Customers also indicated the utility was not allowing the required time period before shut-off orders. The staff engineer's investigation found that the actual time period used by the utility was one (1) day less than specified by Commission Rule. The incorrect notice was corrected as soon as the utility was made aware that the period stated should be 21 days, not 20 days.

Maintenance personnel needs to be replaced:

The utility's maintenance man needs to be replaced with a more competent person with better people skills. Mr. Keen was not aware of the full extent of the problem until his first rate case (Docket No. 000580-WU) in the summer of last year. The company first attempted to rectify the situation by assigning an office employee to take all calls for service and to monitor responses. When it was apparent that there were still problems, Mr. Keen began to seek a replacement for this position. The search was hampered by health problems suffered by Mr. Keen. While in North Carolina last November, Mr. Keen broke his hip and suffered a heart attack while undergoing hip surgery. He was in the hospital three weeks and required rehabilitation following the hospital stay. During this period, Mr. Keen was unaware of the problems customers were having with the maintenance man.

During the customer meeting, several customers had complaints concerning the maintenance man, some valid, others not. While he did have an inappropriate contact with the customer's mother mentioned in the previous section, she notified Mr. Keen of her daughter's problem and the maintenance man was reprimanded by Mr. Keen. The staff engineer could find no support for customers' claims that: the maintenance man sleeps in the pump house; or that WD-40 is **improperly** used on well components; or Round-up is **improperly** used on weeds in the vicinity of the wells.

This Utility meets or exceeds all DEP and PCHD standards. Staff recognizes that problems exist with the current maintenance man and Mr. Keen, the owner, is trying to hire a replacement. When all factors are considered, the staff engineer recommends that the quality of service is satisfactory. Staff should continue to monitor this utility for 90 days, however, to insure the maintenance personnel problems are resolved.

ISSUE 2: Are any pro forma adjustments needed for the Sunrise Water Company?

RECOMMENDATION: Yes, a pro forma adjustment of $17,500 is needed for continuation of the meter replacement program, which results in approximately 145 meters due to be replaced by the utility. Pro forma plant should be completed within six months of the effective date of the Commission's Consummating Order. (MUNROE)

STAFF ANALYSIS: Numerous meters (54%) have exceeded their expected life and have been found to be inaccurate. Therefore, a replacement is necessary. Staff recommends that a proforma adjustment for continuation of the meter replacement program in the amount of $17,500 is reasonable and prudent. This replacement program will result in 145 meters being replaced by the utility. The meter replacements should be completed within six months of the Commission's Consummating Order.

ISSUE 3: Should any excessive unaccounted for water be recognized in the used and useful calculation?

RECOMMENDATION: No. (MUNROE)

STAFF ANALYSIS: Generally, staff does not closely scrutinize a utility's unaccounted for water unless it exceeds 10% of finished water. Allowances are also made for flushing, maintenance operations, known leaks that the company identifies and repairs in a timely manner and meters that are suspect due to age.

The company uses an outside firm for plant operation and recording the plant Monthly Operating Reports. They did not include flushing, which is done by company employees. The distribution system had a number of leaks in the test year that could be attributed to the age and condition of the pipes. In addition 54% of the meters are being replaced due to age. Taking into account these factors there appears to be no excessive unaccounted for water. Therefore, staff recommends that there should be no unaccounted for water recognition in the used and useful calculation.

ISSUE 4: What portions of the water plant and distribution system are used and useful?

RECOMMENDATION: The water treatment plant should be considered 100% used and useful. The water distribution system should also be considered 100% used and useful. (MUNROE)

STAFF ANALYSIS:

Water Treatment Plant - The water treatment plant draws raw water from two wells at rates of 350 gallons per minute (gpm) and 100 gpm. The wells are equipped with 25 and 7 horsepower pumps. The plant also has two hydropneumatic tanks (6,000 and 3,000 gallons). Well-point draw down and groundwater recovery time limits the well to a reliable extraction time equal to a 12-hour day. Sunrise's firm reliable capacity with the larger well not considered (100 gpm X 60 m/hr X 12 hour day) is 72,000 gpd. Adding 8,100 gpd for the hydropneumatic tanks (9,000 gal less 10% air space), yields a firm reliable capacity of 80,100 gpd.

Section 367.081(2)(a)2.b., Florida Statutes, requires that the Commission consider utility property needed to serve customers five years after the end of the test year used and useful in the Commission's final order on a rate request. This growth rate for equivalent residential connections should not exceed 5 percent per year. In accordance with Section 367.081(2)(a)2.b., Florida Statutes, a five year period has been used in staff's calculations.

Staff's normal method of projecting growth is a regression analysis where the historical growth for the past five years is projected into the future to estimate the number of Equivalent Residential Connections (ERCs) expected for a given year. For Sunrise, only three years of accurate data was available. The data indicated the service area is built out. This was confirmed by observations in the service area.

By the formula, using an average daily flow derived from the five maximum days of the maximum month approach, it is recommended that the water treatment plant be considered 100% used and useful. The calculation is summarized in Attachment A, page 1 of 2, to this issue.

Water Distribution System - The water distribution system is estimated to have the potential to serve 268 ERCs. Year-end data showed that the utility is serving 268 ERCs, which indicates a used and useful of 100%. See attachment A, page 2 of 2 for calculations.

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 001118-WU - Sunrise Water Company

1)	Firm Reliable Capacity of Plant	80,100	gpd
2)	Average Day Flow (5 Max. Days of Max. Month)	129,171	gpd
3)	Average Daily Flow	73,372	gpd
4)	Fire Flow Capacity	0	gpd
5)	Growth 0 ERCs	0	gpd
6)	Excessive Unaccounted for Water	0	gpd

USED AND USEFUL FORMULA

[(2)+(4)+(5)-(6)]/(1) = 100% Used and Useful

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 001118-WU - Sunrise Water Company

1)	Capacity of System (Number of Potential ERCs)	268	ERCs
2)	Test year connections		
	a) Beginning of Test Year	268	ERCs
	b) End of Test Year	268	ERCs
	c) Average Test Year	268	ERCs
3)	Growth	0	ERCs
	a) customer growth in ERCs	0	ERCs
	b) Statutory Growth Period	5	Years
	(a)x(b) = 0 ERCs allowed for growth		

USED AND USEFUL FORMULA

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

ISSUE 5: What is the appropriate allocation of common costs from Keen to the Sunrise water system?

RECOMMENDATION: The appropriate allocation from Keen to the Sunrise water system is 48.90%. (RENDELL, WALKER)

STAFF ANALYSIS: It is Commission practice to allocate administrative and general expenses based on the number of customers. By Order No. 17043, issued December 31, 1986, in Docket No. 860325-WS, Southern States Utilities, Inc, the Commission ordered that the utility's allocation of administrative and general expenses should be based on the number of customers. In this rate proceeding, staff determined that Keen had 548 customers or meters during the 12 months ending March 31, 2000. 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 that system.

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

Therefore, staff recommends that in this rate proceeding the reasonable and prudent common costs should be allocated to the Sunrise water system based on the allocated portion of 48.90%. This would most equitably reflect the distribution of costs among the four water systems. During the audit, staff informed the representatives of Keen about its decision to allocate the cost to this system based on the number of meters, and the representatives agreed with staff.

Further in PAA Order No. PSC-01-0323-PAA-WU, issued February 5, 2001, in Docket No. 000580-WU, the Commission approved the above allocations for Keen. That docket was for the Alturas Water Works system. No protests were filed and Order No. PSC-01-0502-CO-WU, was issued March 2, 2001, making the PAA order final.

ISSUE 6: Should an acquisition adjustment be approved in the determination of the utility's rate base at the date of purchase?

RECOMMENDATION: No, an acquisition adjustment should not be approved in the determination of the utility's rate base at the date of purchase. (RENDELL, WALKER)

STAFF ANALYSIS: An acquisition adjustment occurs when the purchase price differs from the original cost. Commission Order No. PSC-00-1388-PAA-WU, issued July 31, 2000, in Docket No. 990731-WU, on page 7, states as follows:

> In the absence of extraordinary circumstances, it has been Commission practice that the purchase of a utility system at a premium or discount, shall not affect the rate base calculation. The circumstances in this exchange do not appear to be extraordinary. In addition, Keen has not requested an acquisition adjustment. Therefore, an acquisition adjustment has not been included in the calculation of rate base.

Based on the auditor's work papers from the transfer docket, staff was not provided with contributions-in-aid-of-construction (CIAC) balances. Since CIAC is a component of rate base, it was imputed by the Commission during the transfer docket. Rule 25-30.570, Florida Administrative Code, states:

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

Using the data from Order No. PSC-00-1388-PAA-WU, the transfer Order, staff has calculated the net book value of the plant at March 31, 1999 to be $41,707. The purchase price of Sunrise was $100,000. The calculation of the acquisition adjustment is as follows:

Plant in Service at 3/31/99	$ 84,346
Accum. Depre. at 3/31/99	(36,209)
Net Plant at 3/31/99	$ 48,137
CIAC at 3/31/99	$ (12,393)
Amortization of CIAC at 3/31/99	5,410
	$ 41,154
Land	553
Rate Base at 3/31/99	$ 41,707
Purchase Price:	($100,000)
Positive Acquisition Adjustment:	$ 58,293

The evaluation of positive acquisition adjustments is based upon several factors. Specifically, in Order No. 23858, issued December 11, 1990, in Docket No. 891353-GU, the Commission enumerated five potential benefits to customers which should be considered:

1) increased quality of service;
2) lowered operating costs;
3) increased ability to attract capital for improvements;
4) a lower overall cost of capital; and
5) more professional and experienced managerial, financial, technical and operational resources.

In a letter dated October 10, 2000, the utility stated the following comments in justifying why it should be given an opportunity to have a positive acquisition adjustment:

> The PSC's Auditor that established the Sunrise Water Company rate base was informed that I (Mr. Keen) purchased the system for $100,000. The auditor gave no indication during the examination of the utility records, nor in the September 8, 1999 Commission report, that my investment would be reduced by $58,293, applicable to an Acquisition Adjustment.

The utility requested that the lump sum amount paid for the Sunrise Water Company system of $100,000 be deemed as an extraordinary expenditure due to the following reasons:

1. The owner conveyed his thoughts to the auditor that he expected to earn on the full investment;

2. The transmission and distribution system, which is approximately 25 years old, requires an abnormal and extraordinary amount of care to maintain as evidenced by the time the utility's maintenance operator expends repairing leaks and replacing sections of service lines;

3. The disallowance of the $58,293 acquisition adjustment would not be in the best interest of the utility nor it's customers as Sunrise would not be accorded a depreciation reserve sufficient to offset projected capital expenditures necessary to maintain the system in compliance with FPSC and DEP standards. The absence of the acquisition adjustment for obvious reasons could also uniformly compromise the expeditious disposition of customer related service matters;

4. Allow the utility to earn on the positive acquisition adjustment based on the extraordinary circumstances alluded to in order to insure the preservation of the utility's financial integrity and the customer's high quality of service.

Staff believes the circumstances in this case do not appear to be extraordinary. Further, it is Commission practice to disallow positive acquisition adjustments unless the acquisition provides certain benefits for the customers of the utility. By Order No. 22371, issued January 8, 1990, in Docket No. 890045-SU, the Commission ordered that the utility, BFF Corporation, did not document any financial benefits which would accrue to its customers, nor did it provide any extraordinary circumstances justifying an acquisition adjustment. If the inclusion of a positive acquisition adjustment is directly related to cost reductions, the inclusion in rate base is not considered a double recovery of the utility's investment. A review of Sunrise's 1998 Annual Report, under the previous owners, indicates Operation Expenses of $23,218. In the current SARC, staff is recommending Operation expense of $62,887 (Schedule 3-C). Staff notes that the unaudited information from the 1998 Annual Report only includes the following categories of operation expense: Purchased Power, Materials and Supplies, Contractual Services, Insurance, Bad Debt, and Miscellaneous Expense. No other expenses were reported.

Staff believes that there has not been an increased ability to attract capital or lower the overall cost of capital. Further, as discussed in Issues 1, 10, and 17, Sunrise has not experienced an increase in professional or managerial resources. Staff believes that Sunrise has not experienced more financial, technical or operational resources. Staff's analysis of the owner's request is that the cost of the improvements (pro forma) to the Sunrise water system will be borne by the existing and future customers through the rates that staff is recommending. Therefore, based upon the analysis, and as set forth in Commission practice, staff recommends that the utility's request for the approval of a positive acquisition adjustment should be denied.

ISSUE 7: What is the utility's appropriate average amount of rate base?

RECOMMENDATION: The appropriate average amount of rate base should be $83,192 for the test year. (RENDELL, WALKER)

STAFF ANALYSIS: Sunrise was granted grandfather Certificate No. 584-W by Order No. PSC-97-0832-FOF-WU, issued July 11, 1997, in Docket No. 961249-WU. However, by Order No. PSC-00-1388-PAA-WU, issued July 31, 2000, in Docket No. 990731-WU, Sunrise was transferred to Keen Sales, Rentals and Utilities, Inc., the holder of water Certificate No. 582-W.

As stated earlier, Order No. PSC-00-1388-PAA-WU, established rate base for this utility for transfer purposes only and denied the utility a positive acquisition adjustment. Further, as stated earlier, in a letter dated October 10, 2000, the utility submitted its rebuttal to Order No. PSC-00-1388-PAA-WU. In this rebuttal, the utility requested recognition of the positive acquisition adjustment and reconsideration of the amount of CIAC.

In Order No. PSC-00-2100-FOF-WU, issued November 6, 2000, in Docket No. 990731-WU, the Commission denied the request of the utility to reopen the protest period of Order No. PSC-00-1388-PAA-WU to revisit or address the following issues: rate base, a positive acquisition adjustment, and CIAC. In that Order, the Commission directed staff to address the utility's concerns regarding rate base, a positive acquisition adjustment, and the imputation of CIAC in this rate proceeding.

Staff selected a test year ended March 31, 2000 for this rate case. The utility's rate base was last established by Order No. PSC-00-1388-PAA-WU, using a test year ended March 31, 1999 for transfer purposes only.

According to the audit for the SARC, Sunrise's Annual Report is commingled with all of the other utility companies owned by Keen; therefore, for the purposes of this report, the utility's beginning balances for rate base components are $0. Adjustments have been made to adjust rate base component balances with the prior Commission Order and to update rate base through March 31, 2000. A summary of each component and the adjustments follows:

Utility Plant In Service (UPIS): The utility books reflected a water utility plant in service balance of $0 at the beginning of the test year. Staff made an adjustment of $84,346 to reconcile the utility's books with Order No. PSC-00-1388-PAA-WU. Staff increased UPIS Account No. 341 to reflect $9,504 for Sunrise's allocated portion of a purchased vehicle since the transfer docket. Staff also increased UPIS by $2,114 to reflect additions that were made to plant during the test year.

Further, staff made an adjustment of $750 to reflect organization cost incurred during the transfer docket. Staff made a pro forma adjustment of $17,500 to reflect the replacement of meters. Staff also made an adjustment of ($1,432) for an averaging adjustment. Therefore, staff recommends a water UPIS balance of $112,782.

Land: Pursuant to Order No. PSC-00-1388-PAA-WU, this account was valued at $553 and no additional land has been acquired since that time. Staff recommends that the land value is $553.

Non-Used and Useful Plant: As discussed in Issue No. 4, the water treatment plant should be considered 100% used and useful, and the water distribution system should also be considered 100% used and useful.

Contributions-in-Aid-of-Construction (CIAC): Pursuant to Order No. PSC-00-1388-PAA-WU, CIAC was established at a balance of $12,393. The utility recorded no CIAC on its books at the end of the test year. In the Order previously mention, the audit stated at the time of the transfer docket that CIAC reflected a zero balance, and the work papers from a prior Polk County rate case did not include any CIAC amounts. Staff later concluded that there had been no additional collections of CIAC documented by the utility since this Commission received jurisdiction in Polk County.

As stated earlier, subsequent to closing the above mentioned docket, the utility, by phone and letters, expressed it concerns regarding imputation of CIAC by staff. In a letter dated October 10, 2000, the utility requested consideration of the following information on its transmission and distribution system:

1. The $12,393 imputation of CIAC was the balance in the transmission and distribution mains account established by Polk County in the utility's 1993 rate case.

2. The Polk County Board of County Commissioners (PCBCC) maintained jurisdiction of Sunrise at the time of the rate case and up through July 1, 1996.

3. The PCBCC's Rules and Regulations applicable to CIAC are similar if not identical to those of the Florida Public Service Commission (FPSC).

4. The PCBCC established the Sunrise rate base at December 31, 1993. The Florida Public Service Commission accepted the balances in all the rate base component accounts, with the exception of CIAC.

5. The PCBCC's determined the non-existence of contributions at December 31, 1993.

6. The regulating body of Sunrise (PCBCC) determined that their was no CIAC during the same period that the FPSC imputed such.

7. The utility is of the opinion that PCBCC's determination as to the absence of CIAC should satisfy the "explanation" provision of Rule 25-30.570. Sunrise believes that the Commission's assumption of CIAC collections prior to the jurisdictional date to be valid had the ruling body, of the utility, at the time, not determined otherwise.

In Order No. PSC-00-2100-FOF-WU, the Commission declined the request of the utility to reopen the protest period of Order No. PSC-00-1388-PAA-WU to address the utility's concerns of CIAC. The Order stated that the matter would be addressed in Docket No. 001118-WU, this SARC.

Staff proceeded with the transfer docket and imputed CIAC based on past Commission practice and pursuant to Rule 25-30.570, Florida Administrative Code. The staff auditor could not establish water CIAC because of inadequate utility records. Rule 25-30.570, Florida Administrative Code, states:

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

In the transfer rate proceeding, CIAC was imputed in the calculation of rate base on the portions of the cost of the facilities and plant attributable to the water transmission and distribution system (Account No. 331).

In Docket No. 961249-WU, the following information was obtained from Polk County records during the grandfather certificate docket: the grandfather application; annual reports for 1996, 1997, and 1998; and the transfer application. From those records, staff determined the following facts:

1. Sunrise was established in 1977;

2. Sunrise requested an increase in rates and charges in 1988 due to a DEP order to develop a backup water system;

3. According to May 24, 1988 Polk County meeting minutes, the utility had 260 residential customers and 1 commercial customer;

4. At that time (1988), the existing connection fee was $350, and PCBCC approved increasing the rates and increasing the connection fee to $450;

5. In June, 1990, Sunrise was sold to Whiting Water Works, Inc.;

6. In February, 1999, Sunrise was sold to Keen.

The utility is of the opinion that PCBCC's determination as to the absence of CIAC should satisfy the "explanation" provision of Rule 25-30.570. Sunrise believes that the Commission's assumption of CIAC collections, prior to the jurisdictional date, would have been valid had the ruling body of the utility at the time, PCBCC, not determined otherwise.

However, staff does not agree. Based upon the minutes of the PCBCC, the utility had an existing connection charge of $350, as of 1988. Further, the PCBCC increased this connection charge to $450 in May, 1988. Therefore, the utility should have been collecting this connection charge from all of its customers when they connected. This amount should have been recorded as CIAC and transferred to all subsequent owners to benefit the body of ratepayers. If staff based its computation on the number of connections since Sunrise was established in 1977, multiplied times the connection charges in effect during those times, CIAC would reflect a total of ($101,250), resulting in a negative rate base of ($771).

The utility has stated that it believes staff did not impute CIAC to its advantage. However, by imputing CIAC pursuant to Rule 25-30.570, Florida Administrative Code instead of based upon the existing charge, staff is actually benefitting the utility. Therefore, staff recommends CIAC in the amount of $12,393.

Accumulated Depreciation: Staff has calculated the appropriate balances based on depreciation rates in conformity with Rule 25-30.140, Florida Administrative Code, through the test year.

Staff made an adjustment of ($36,210) to reflect the amount of accumulated depreciation at March 31, 1999. Staff also adjusted accumulated depreciation in Order No. PSC-00-1388-PAA-WU to reflect the correct amount by $13,535. Staff made adjustments of ($2,944) and ($5,090) to reflect accumulated depreciation through the beginning of the test year and through the test year, respectively. Staff made an adjustment of ($515) to reflect accumulated depreciation on pro forma meters, and a averaging adjustment of $2,545. Staff recommends accumulated depreciation for the test year of ($28,679).

Accumulated Amortization of CIAC: Amortization of CIAC has been calculated consistent with staff's calculation of accumulated depreciation. The resulting amortization of CIAC at the end of the test year March 31, 2000 is $3,261. Staff also made an averaging adjustment of ($193). Staff recommends accumulated amortization of CIAC $3,068 for the test year.

Working Capital Allowance: Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Pursuant to Rule 25-30.433(2), Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of $7,861 for water (based on water operation and maintenance of $62,887).

Rate Base Summary: Based on the foregoing, the appropriate rate base balance for rate setting purposes is $83,192 during the test year. Rate base is shown on Schedule No. 1-A, and adjustments are shown on Schedule No. 1-B.

COST OF CAPITAL

ISSUE 8: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate rate of return on equity should be 9.94% with a range of 8.94% to 10.94% and the appropriate overall rate of return should be 7.58% with a range of 7.49% to 7.66%. (RENDELL, WALKER)

STAFF ANALYSIS: Keen is a certificated utility with several different operating water systems. It is Commission practice that in cases where a consolidated capital structure exists, the Commission will evaluate and utilize the capital structure of the parent company for all of its water systems. The Commission has determined in the past that the first level that attracts funding from outside sources is the appropriate capital structure even if the utility would probably be able to attract capital. For example, by Order No. 12191, issued July 1, 1983, in Docket No. 820014-WS, Avatar Utilities, Inc. its Barefoot Bay Division, the Commission found that Avatar Utilities, Inc. was the parent company, and its consolidated capital structure was appropriate in representing the only source of capital funds used by the utility to finance and support its rate base.

Based on the staff audit, the capital structure for this system consists of the following: $1,000 of common stock, $18,287 of retained earnings, and $227,895 of long term debt.

The rate of return on equity, using the most recent leverage formula approved by Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, in Docket No. 000006-WS, is 9.94% with a range of 8.94% - 10.94% and the overall rate of return is 7.58% with a range of 7.49% to 7.66%. Staff made pro rata adjustments to reconcile the capital structure to the recommended rate base.

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

NET OPERATING INCOME

ISSUE 9: What is the appropriate test year revenue for this utility?

RECOMMENDATION: The appropriate test year revenue should be $35,353. (RENDELL, WALKER)

STAFF ANALYSIS: During the test year the utility provided water services to approximately 267 residential customers and 1 general service customer. The utility reported revenues for the test year ended March 31, 2000 in the amount of $35,353.

The selected test year for this rate case includes the 12-month period from April 1, 1999 through March 31, 2000. Annualized revenues have been calculated using test year number of bills and gallons billed times the existing rates, and staff agrees with the amount reported by the utility.

Test year revenues are shown on Schedule No. 3-A, the adjustment is shown on Schedule No. 3-B.

ISSUE 10: What is the appropriate amount of operating expenses for rate setting purposes?

RECOMMENDATION: The appropriate amount of operating expenses for rate making purposes should be $82,031. (RENDELL, WALKER, MUNROE)

STAFF ANALYSIS: The utility's recorded operating expense includes operation and maintenance (O&M) expense, depreciation expense, and taxes other than income.

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. A summary of adjustments to operating expenses is as follows:

OPERATION AND MAINTENANCE EXPENSE

Salaries and Wages-Employees: The maintenance engineer is a full-time employee. He acts as the person to perform general system repairs, acts as a liaison between the customers and the utility, picks up parts, investigates complaints, and performs regular maintenance checks of the water plant and distribution system. The utility recorded the maintenance engineer's salary and wages to be $20,800 for the test year, of which $6,143 was charged to the Sunrise water system. Staff increased the amount charged to the Sunrise system by $4,028 based on the 48.90% of the allocation amount referenced in Issue No. 5. ($20,800 X 48.90%) Staff recommends that the salaries and wages expense for the maintenance engineer should be $10,171. Although staff is recommending that the utility replace the maintenance man in Issue 1, staff does not believe it would be appropriate to reduce the salary at this time.

The utility employs an office person to answer phone calls, do the general filing, maintain computer records of all the utility's water systems, attend the Class C workshop held by the Commission, handle complaints, and maintain the complaint log. The utility recorded employee salaries and wages for this employee of $0 for the test year. Based on the Sunrise allocation amount, staff made an adjustment for the employee salaries and wages in the amount of $10,712 for the test year. ($21,906 X 48.90%)

The utility has a part-time employee who reads the meters for all of its systems. This employee received salaries and wages during the test year in the amount of $1,983, of which $1,148 was allocated to the Sunrise system. Staff reduced the amount charged to the Sunrise system by ($178) based on the 48.90% of the allocation amount applicable to the Sunrise system. ($1,983 X 48.90%) Staff recommends that the salaries and wages expense for the part-time employee should be $970.

Staff increased the utility's test year recorded amount by $14,562 to reflect the employee salaries and wages expense. Staff recommends employee salaries and wages expense for the test year of $21,853.

Salaries and Wages-Officers: According to the audit and the minutes of Keen, the president and vice president would charge the utility weekly salaries of $600 and $350, respectively. The amount was conditioned on the profitability of the utility. The utility recorded officers salaries and wages of $0 for the test year.

However, staff believes it is appropriate to reduce the salary of Keen's president based upon our concerns with the utility's ability to put forth a good faith effort to provide overall quality of service and the performance of its management in the Sunrise service area. Staff believes that Keen's problems, which are discussed in various sections of this recommendation, cannot all be blamed on the maintenance man and the utility's personnel. Staff believes that the person ultimately responsible for the conduct of the utility's personnel is the president, and he should be held accountable. Based upon documentation provided in Docket No. 000580-WU, the utility indicates that the president's duties consist of: chief maintenance supervisor; ensuring required reports are completed; recording testing statements; ensuring DEP testing certificates are properly made and filed according to the law; securing bids on any needed improvements to the utility; and overseeing any construction projects. Staff does not believe the president has been effective in his duties as chief maintenance supervisor and has failed to ensure that required reports concerning water outages have been filed in accordance with Commission's rules.

Further, in Docket No. 000580-WU, the utility provided staff with documentation that contends that the president works more than 40 hours a week at the utility. In that docket, staff allowed the amount of salaries and wages expense requested by the utility based on the Alturas allocated portion of the requested $600 a month. However, it has been brought to staff's attention that since the conclusion of the Alturas docket, the president's working hours at the utility have been reduced considerably. Due to health reasons, Mr. Keen cannot perform the same duties that were submitted to staff in the Alturas rate proceeding.

Past Commission practice has found that overall poor quality of service and the performance by management may justify a reduction in the president's salary. Specifically, in Order No. PSC-93-0295-FOF-WS, issued February 24, 1993, in Docket No. 910637-WS, the Commission found that it was appropriate to reduce the salary of Mad Hatter Utility Inc.'s (MHU) president because of the concerns with MHU's overall quality of service and the performance of its management. The Commission stated in Order No. PSC-93-0295-FOF-WS that reducing the salary of the utility's president will have a direct and immediate impact equal to or greater than a reduction to the return on equity. The Commission further stated that it believed that it sends the proper signal to management to make improvements. The Commission found that the person ultimately responsible for the conduct of the corporate entity, its president, should be held accountable.

Therefore, staff recommends that the president's salary for this utility be reduced based on the concerns that are mentioned throughout this recommendation. According to the audit work papers, the president requested a salary of $600. Staff believes that the problems which are discussed in this recommendation are more than adequate support to reduce the president's requested salary by one-half. Therefore, staff recommends that the presidents' salaries and wages expense should be $7,629 for the test year. ($300 per week X 52 weeks X 48.90%)

The duties of the vice president, Mrs. Keen, consist of: maintaining the accounts receivable account, preparing the utility's employee payroll, and reporting the minutes of the utility's monthly meetings. The utility reported that the vice president spends approximately 30 hours a week on utility business. Therefore, staff recommends that the Sunrise allocated portion of the requested $350 for the vice president's salary is reasonable. Staff recommends that the officers salaries and wages for the vice president should be $8,900 for the test year. ($350 per week X 48.90% X 52 wks) However, the vice president should be placed on notice that the accounts receivable records should be maintained properly in the future.

Staff recommends officers salaries and wages expense during the test year of $16,529.

<u>Purchased Power</u>: The utility recorded a test year purchased power expense of $2,382. Issue No. 13 includes a repression adjustment of 8% to recognize that consumption levels will decrease once new rates are effective. With a decrease in consumption, there will be a decrease in purchased power expense due to having to pump less

water. Staff made an adjustment of ($172) to reflect repression. Staff recommends test year purchased power expense of $2,210.

Chemicals: The utility recorded a test year chemical expense of $2,604 for the test year. Staff made an adjustment of ($720) to reclassify expense in this account to Account No. 636 for water system maintenance. Staff made another adjustment and reclassified ($538) of expense to testing expense Account No. 635. As stated earlier, Issue No. 13 includes an 8% repression adjustment to recognize that consumption levels will decrease once new rates are effective. With a decrease in consumption, there will be a decrease in chemical expense due to having to chemically treat less water. Staff recommends a repression adjustment of ($114) to reflect the estimated decrease in chemical expense. Staff increased this account by $370 to bring chemicals to the engineer's recommended amount. Staff recommends chemical expense of $1,602 for the test year.

Materials and Supplies: The utility recorded test year materials and supplies expense of $859. Staff made an adjustment of $567 and $349 to this account which reflected Sunrise's annual postage expense and the utility's allocated portion of office supplies, respectively. Staff's total adjustment for this expense is $916; therefore, staff recommends a materials and supplies expense of $1,775 for the test year.

Contractual Services - Professional: The utility recorded test year contractual services-professional expense of $1,014. The utility is now required to follow the NARUC Uniform System of Accounts (USOA) as outlined in Rule 25-30.115, Florida Administrative Code. Staff has allowed a reasonable and prudent amount in this rate case proceeding for this expense. Because the Commission regulates all of Keen's water systems, staff is recommending set-up fees for all systems. Staff estimates that it will take $6,000 to set-up all the systems in conformity with the NARUC USOA. Therefore, staff is recommending set-up fees for the Sunrise system based on its allocated portion of 48.90%, amortized over five years for a total of $587 per year. (($6,000 X 48.90%) divided by 5 years) This allowance was previously approved in Order No. PSC-01-0323-PAA-WU, issued February 5, 2001, in Docket No. 000580-WU.

The utility incurred a non-recurring expense associated with its computer for the amount of $305. Staff amortized this amount over 5 years pursuant to Rule 25-30.433(8), Florida Administrative Code, and reduced it by ($186). The utility recorded computer test year expense of $183. Staff increased this amount by $174 to reflect the allocated amount of 48.90% applied to Sunrise for a total amount of $357. The utility had attorney fees associated with it during the test year in the amount of $228. Staff amortized this expense over 5 years and reduced the amount incurred during the test year by ($182). Staff increased the utility's test year recorded amount by $393 to allow for the contractual services professional expense.

Contractual Services - Testing: Tri-Florida Water Treatment, Inc. provides testing services for the utility. Staff reclassified $538 from Account No. 618 to this account. State and local authorities require that several analysis be submitted in accordance with Rule 62-550, Florida Administrative Code. A schedule of the required tests, frequency, and costs are as follows:

---WATER---

Description	Frequency	Annual Cost
Microbiological	Annually	$528
Primary Inorganics	36 Months	1,200
Secondary Inorganics	36 Months	
Asbestos	1/ 9 Years	
Nitrate & Nitrite	Annually	34
Pesticides & PCB	36 Months	
Volatile Organics	36 Months	
Lead & Copper	Annually	$400
Radionuclides	36 Months	
Unregulated Organics	36 Months	
	Total Amount	$2,162

Staff made adjustments of $1,624 to the contractual services-testing to allow for the recommended testing expense. Staff recommends contractual services-testing expense of $2,162 for the test year.

Contractual Services - Other: The utility recorded $4,665 in this account for the test year. According to Audit Exception No. 6, staff made an adjustment of $200 to reflect Sunrise's portion of the allocation for telephone expense. Staff made an adjustment of $444 to reflect the utility's parts expense for the test year based on the allocated amount of 48.90%. Staff reclassified ($758) in this account to UPIS, made an adjustment of $105 to reflect labor expense on the allocated portion of 48.90%. Staff reclassified ($808) to UPIS. Per Audit Exception No. 7, staff reclassified $720 to this account for nine months of system maintenance. Further, staff included an additional three months at $240 for system maintenance to reflect a full year for this expense. Staff increased this account by $143. Therefore, staff recommends contractual services-other expense of $4,808 for the test year.

Rents: The utility did not record any rent expense for the test year. On September 27, 1996, per the minutes of Keen, the officers of this utility decided that the utility would be charged $900 monthly for rent. However, the officers made a determination that the utility would not have to pay this rent until the utility could afford to pay it. On September 21, 2000, staff received a fax from Brokers Realty of Central Florida, Inc. stating the following: " in my professional opinion the property located at 685 Dyson Road, Haines City, Fl, could easily be rented for $1,000 to $1,200 due to the size of the building, the large parking lot and the tranquil setting."

As stated before, the officers have requested $900 for rental expense. This allowance was previously approved in Order No. PSC-01-0323-PAA-WU. Based on staff's analysis and breakdown of this expense, staff recommends test year rental expense of $5,281, which is less than the quote from the Realtor. (($900 X 48.90%) X 12 months)

Transportation Expense: The utility recorded $2,853 of transportation expense for the test year. In the performance of utility duties, the utility owns a 1999 Ford Econoline Van that assists its employees in performing the utility duties. Staff made an adjustment to reflect the gas expense in this account of $587. Staff removed the auto payments for the Ford Van that were recorded incorrectly in this account for ($1,601). Staff recommends an annual transportation expense of $1,839.

Insurance Expense: The utility recorded insurance expense of $1,930 for the test year. Staff made the following adjustments per the allocated portion for Sunrise: $104 to reflect auto insurance coverage, $596 to reflect commercial and worker's compensation insurance. Staff recommends insurance expense of $2,630 for this utility during the test year.

Bad Debt Expense: The utility did not record any bad debt expense for the test year. Audit Exception No. 9 states that the utility had $134 of bad debt. Staff recommends bad debt expense of $134 for this utility during the test year.

Miscellaneous Expense: The utility recorded $2,678 in this account during the test year. Staff made the following adjustments:

($1,732) to reflect non-utility related expenses; an adjustment to increase this account by $461 to correct an entry recorded by the utility in the UPIS account. The utility recorded $750 of organization cost in this account incurred during the transfer of Sunrise to Keen. Staff has removed this amount. Purchase costs of utility systems should be charged as acquisition adjustments. See Order No. 25821, issued February 27, 1992. Therefore, staff has reduced this account by ($750). Staff recommends a miscellaneous expense of $657 for the test year.

Operation and Maintenance Expenses (O & M) Summary: The O&M adjustments are $36,611. Staff recommends O&M expenses of $62,887. O&M expenses are shown on Schedule No. 3-C.

Depreciation Expense (Net of Amortization of CIAC): 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 $5,081; therefore, staff increased this account by this amount. Staff also made adjustments of $1,029 to include depreciation on pro forma plant. In addition, amortization of CIAC has a negative impact on depreciation expense. Staff calculation of test year amortization of CIAC expense is ($326). Therefore, staff recommends net depreciation expense of $5,784 for the test year.

Taxes Other Than Income Taxes: The utility recorded an amount of $3,059 in this account during the test year. Staff made adjustments of $1,202 to reflect regulatory assessment fees (RAFs) actually paid by the utility, $7,494 to reflect for payroll taxes on staff's recommended salaries, ($1,326) to correct payroll taxes on test year salaries, ($681) to correct an error in recording taxes, $839 to reflect taxes paid to the Polk County tax collector on property, $389 to include additional RAFs not reported or paid to the Commission during the test year. Staff recommends taxes other than income expense of $10,976 for the test year.

Operating Revenues: Revenues have been increased by $52,982 to $88,335 to reflect the increase in revenue required to cover expenses and allow the utility the opportunity to earn the recommended rate of return on investment.

Taxes Other Than Income Taxes: This expense has been increased by $2,384 to reflect the regulatory assessment fee of 4.5% on staff's recommended increase in revenue.

Income Tax - According to its 1999 annual report, Keen is a Subchapter S Corporation. Therefore, the utility pays no income taxes.

Operating Expenses Summary: The application of staff's recommended adjustments to the utility's test year operating expenses results in staff's recommended operating expenses of $82,031.

Operating expenses are shown on Schedule No. 3A. Adjustments are shown on Schedule No. 3-B.

REVENUE REQUIREMENT

ISSUE 11: What is the appropriate revenue requirement for this system?

RECOMMENDATION: The appropriate revenue requirement should be $88,335 for the test year. (RENDELL, WALKER)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of $52,982 (149.87%). This will allow the utility the opportunity to recover its expenses and earn the recommended 7.58% return on its investment. The calculation is as follows:

	Water
Adjusted Rate Base	$ 83,192
Rate of Return	x .0758
Return on Investment	$ 6,305
Adjusted O & M Expenses	62,887
Depreciation Expense (Net)	5,784
Taxes Other Than Income Taxes	13,360
Revenue Requirement	$ 88,335
Annual Revenue Increase	$ 52,982
Percentage Increase/(Decrease)	149.87%

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

RATES AND CHARGES

ISSUE 12: Is a continuation of the utility's current rate structure appropriate in this case, and, if not, what is the appropriate rate structure?

RECOMMENDATION: No, a continuation of the utility's current rate structure, which includes a 5,000 gallon per month allotment, is not appropriate in this case. The rate structure should be changed to a three-tier inclining block rate structure, with recommended usage blocks per month of 0-5,000 gallons, 5,001-10,000 gallons and over 10,000 gallons. The recommended usage block rate factors are 1.0, 1.5 and 3.0, respectively, and a 50% conservation adjustment should also be implemented. (LINGO)

STAFF ANALYSIS: The utility's current water system rate structure consists of a monthly BFC/gallonage charge rate structure, in which the BFC of $8.85 includes an allotment of 5,000 gallons (5 kgal) of water, and all gallons in excess of 5 kgal used are charged $1.31 per 1 kgal. This rate structure is considered nonusage sensitive because the 5 kgal allotment in the BFC discourages conservation at and below the 5 kgal allotment level. Staff recommends that this allotment 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.

The Commission's preferred rate structure has traditionally been the BFC/gallonage charge rate structure. This usage sensitive rate structure allows customers to reduce their total bill by reducing their water consumption. However, in light of the drought conditions and water shortages throughout the state, the Commission, at the request of the various Water Management Districts (WMDs), have been implementing, whenever possible, inclining-block rate structures as the rate structure of choice.

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 block(s) will be more elastic (responsive to price) than demand in the first block. Water users with low monthly usage will benefit, while water users with higher monthly use will pay increasingly higher rates, thereby creating a greater incentive to conserve. Several factors to consider when designing inclining-block rates include, but are not limited to, the selection of the appropriate: a) conservation adjustment; b) usage blocks; and c) usage block rate factors. Consideration of other rate structure issues, such as a target usage established by environmental regulators, elasticity of demand and revenue stability will also have an impact on how each of the components in the inclining-block rate structure should be designed.

Conservation Adjustment

In this case, absent a conservation adjustment, the elimination of the 5 kgal allotment in the BFC will result in those customers with monthly usage at 5 kgal receiving the greatest percentage price increase. Because a high percentage of consumption at (or below) 5 kgal is considered nondiscretionary, essential consumption, staff believes an important rate design goal is to minimize, to the extent possible, the price increase at monthly consumption of 5 kgal or less. We believe another important rate design goal, consistent with the rate structure guidelines established by the Southwest Florida Water Management District (SWFWMD or District), is to recover no more than 40% of the overall revenue requirement through the BFC. To accomplish these goals, different conservation adjustments were used to shift varying portions of cost recovery from the BFC to the gallonage charge. The results of this analysis are shown in the table below.

PRELIMINARY PRICE INCREASES BASED ON UNIFORM GALLONAGE CHARGES AT VARIOUS CONSERVATION ADJUSTMENTS (RATES BEFORE REPRESSION ADJUSTMENT)					
	Conservation Adjustments				
Monthly Consumption	**0%**	**35%**	**40%**	**45%**	**50%**
1 kgal	140.6%	70.5%	60.6%	50.5%	**40.5%**
2 kgal	153.0%	92.7%	84.2%	75.5%	**66.8%**
3 kgal	165.4%	114.8%	107.8%	100.5%	**93.1%**
4 kgal	177.9%	136.9%	131.4%	125.4%	**119.4%**
5 kgal	**190.3%**	159.1%	155.0%	150.4%	**145.8%**
10 kgal	102.5%	112.5%	114.4%	115.6%	116.9%
15 kgal	67.2%	93.8%	98.0%	101.6%	105.2%
20 kgal	48.0%	83.6%	89.2%	94.1%	98.9%
30 kgal	27.9%	72.9%	79.9%	86.1%	92.3%
40 kgal	17.3%	67.3%	75.0%	81.9%	88.8%

As shown above, the 50% conservation adjustment (relative to the other adjustments) accomplishes several rate design goals: a) it minimizes the comparable price increases for monthly consumption at 5 kgal or less; b) the preliminary price increase at 5 kgal is approximately equal to the overall revenue requirement percentage increase; c) it maximizes the price increases for monthly usage greater than the system-wide average monthly consumption of 8.2 kgal; and d) it results in a 34% BFC and 66% gallonage charge revenue recovery allocation, which conforms to the rate structure guidelines of the SWFWMD.

Usage Blocks

It is Commission practice to consider revenue stability as the primary criteria when designing the first usage block. Based on Commission practice, the first usage block should capture approximately 50 percent of total gallons sold, thereby mitigating the revenue stability concerns. Based on consumption patterns of other utilities which have been subject to an inclining-block rate structure, this has resulted in the first usage block typically being set at the 10 kgal consumption level. However, due to the severity of the drought in the SWFWMD, the District has asked the Commission to consider designing the first usage block at some level lower than 10 kgal. In fact, the District suggested that if the design of the first usage block were dependent solely on subsistence usage, 5 kgal might be an appropriate first usage block in this case. [67 gallons per day per capita (gpdpc) x 2.5 persons x 30 days = 5 kgal]

Based upon staff's analysis of the consumption patterns of the utility's customers, the overall average residential usage per month is approximately 8.2 kgal. **However, approximately 48 percent of customers have bills at monthly usage of 5 kgal or below, representing 52 percent of all gallons sold. Therefore, based on our revenue stability criteria, selecting the first usage block at 5 kgal in this case would not be contrary to Commission practice. Based on the foregoing, and in light of the extraordinary drought conditions in the SWFWMD, staff recommends that the first usage block be capped at 5 kgal per month.**

When designing the second and third usage blocks, staff considered the following consumption patterns of the utility's customers:

Kgal per Month	% Cum Bills	% Consol Factor
10	84%	79%
15	94%	90%
20	97%	95%

Staff believes that it is reasonable to cap the second usage block at monthly usage of 10 kgal, or twice the recommended subsistence level. This allows for the maximum percentage of gallons (100% - 79% = 21%) to be subject to the highest inclining-block rate, in hopes of achieving the greatest consumption reductions possible.

Usage Block Rate Factors

Once the conservation adjustment and usage blocks were selected, staff analyzed possible combinations of usage block rate factors. The results of this analysis are shown below.

PRELIMINARY PRICE INCREASES BASED ON A 50% CONSERVATION ADJUSTMENT AND USAGE BLOCKS OF 0-5 KGAL, 5-10 KGAL AND OVER 10 KGAL (RATES BEFORE REPRESSION ADJUSTMENT)

	Usage Block Rate Factor Combinations				
Monthly Consumption	**1.0/1.0 /1.0**	**1.0/1.25 /1.5**	**1.0/1.25 /2.0**	**1.0/1.5/ 2.25**	**1.0/1.5/ 3.0**
1 kgal	40.5%	36.6%	34.7%	33.0%	**31.0%**
2 kgal	66.8%	59.1%	55.3%	51.9%	**47.8%**
3 kgal	93.1%	81.6%	75.8%	70.7%	**64.6%**
4 kgal	119.4%	104.1%	96.4%	89.6%	**81.5%**
5 kgal	145.8%	126.6%	116.9%	108.5%	**98.3%**
8 kgal	124.9%	115.3%	103.8%	103.3%	**89.9%**
10 kgal	116.9%	111.0%	98.7%	101.3%	**86.7%**
15 kgal	105.2%	116.2%	122.3%	126.9%	132.8%
20 kgal	98.9%	118.9%	135.1%	140.7%	157.7%
30 kgal	92.3%	121.9%	148.6%	155.3%	184.0%
40 kgal	88.8%	123.4%	155.6%	162.9%	197.7%

As shown above, the usage block rate factor combination of 1.0/1.5/3.0 (relative to the other combinations): a) minimizes the percentage increase for customers at the approximate residential average monthly usage of 8.2 kgal; while b) maximizing the percentage increase to customers with monthly usage at least three times greater than the 5 kgal subsistence level usage established for the first usage block.

Based on the foregoing, a continuation of the utility's current rate structure, which includes a 5,000 gallon per month allotment, is not appropriate in this case. The rate structure should be changed to a three-tier inclining block rate structure, with recommended usage blocks of 0-5,000 gallons per month, 5,001-10,000 gallons per month, and over 10,000 gallons per month. The recommended usage block rate factors are 1.0, 1.5 and 3.0, respectively, and a 50% conservation adjustment should also be implemented.

ISSUE 13: Is an adjustment to reflect repression of residential consumption appropriate due to the change in rate structure and price increase in this case, and, if so, what is the appropriate repression adjustment?

RECOMMENDATION: Yes, a repression adjustment of 1,907 kgal is appropriate. In order to monitor the effects of both the change in rate structure and the recommended revenue increase, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. (LINGO)

STAFF ANALYSIS: Based on information contained in our database of utilities receiving rate increases and decreases, there were three water utilities that had 5 kgal allotments removed from a BFC/gallonage rate structure. On average, these utilities experienced an approximate 109% price increase while experiencing an approximate 9% reduction (repression) in average monthly consumption. Specifically, the consumption changes were reductions of 18% and 12%, while one utility experienced an increase in consumption of 7%.

The utility that experienced an increase in consumption had a corresponding price increase of 52%. Staff removed this utility from consideration, because we believe it is anomalous that a price increase would result in an increase in consumption, contrary to the first law of demand. We also removed the utility that experienced the 12% reduction from consideration because of an incomparable rate structure (in addition to the elimination of the 5 kgal allotment from its rate structure, the remaining kgals had been subject to a declining block rate structure).

The lone remaining utility in our sample experienced an average price increase of 169%, resulting in an 18% reduction in consumption. Staff notes that this utility had a concomitant wastewater rate increase, which, we believe, often increases the level of water consumption reduction.

Staff believes it is appropriate to examine the range of preliminary percentage increases within each usage block to determine an overall recommended repression adjustment. In staff's recommended usage block of 0-5 kgal, average monthly usage is 3.5 kgal, with preliminary percentage increases in price ranging from 14 percent to 98 percent. We do not believe there will be significant consumption reductions in this block because its cap is based on subsistence consumption. However, due to the magnitude of the preliminary increases, we believe a 5 percent reduction in this block is warranted.

In staff's recommended usage block of 5-10 kgal, the preliminary percentage increases in price are fairly uniform, ranging from 87 percent to 95 percent. The usage in this block contains a greater percentage of discretionary usage; therefore, we believe a 7 percent reduction in this block is reasonable. Finally, in staff's recommended usage block of over 10 kgal, the preliminary percentage increases in price range from 99 percent to greater than 200%. Due to the significant percentage price increases in this usage block, coupled with the greater degree of discretionary usage, we believe a 15 percent reduction is reasonable.

Therefore, the resulting residential repression adjustment, based on an overall anticipated consumption reduction of 8%, is approximately 1,907 kgal, and the resulting total residential consumption for rate setting is 22,963 kgal. In order to monitor the effects of both the changes in rate structure and the recommended revenue increases, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect.

ISSUE 14: What are the appropriate rates for this utility?

RECOMMENDATION: The recommended rates should be designed to produce revenue of $88,335. If the approved revenue requirement is significantly different from $88,335, staff should be given the authority to approve administratively the recalculated rates that generate the final approved revenue requirement, based on the rate structure recommendations and fallout repression adjustments discussed in Issues Nos. 12 and 13. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (LINGO, RENDELL)

STAFF ANALYSIS: As discussed in Issue 11, the appropriate revenue requirement, excluding miscellaneous service charges, is $88,335. As discussed in Issue 12, staff recommends that the rate structure be changed by removing the 5 kgal allotment. Staff also recommends implementing an inclining-block rate structure with usage blocks of 0-5 kgal, 5-10 kgal and over 10 kgal, with usage block rate factors of 1.0, 1.5 and 3.0, respectively. Staff also recommends implementing a 50% conservation adjustment. As discussed in Issue 13, staff recommends that the appropriate repression adjustment is 1,907 kgal. Therefore, the resulting monthly rates for service are those shown below.

Rates should be designed to recover the approved revenue requirement. If rates are not adjusted to reflect changes in revenue requirements, the result will be either an over- or under-recovery of revenues. If the approved revenue requirement is significantly different from $88,335, staff should be given the authority to approve administratively the recalculated rates that generate the final approved revenue requirement, based on the rate structure recommendations and fallout repression adjustments discussed in Issues 12 and 13.

Approximately 35% of the revenue requirement is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 65% of the revenue requirement represents revenues collected through the consumption charge based on the number of gallons.

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

Residential Service Water Rates

Base Facility Charge

Meter Size	Minimum Charge for 5,000 gallons Existing Monthly Rate	Staff's Recommended Monthly Rate
5/8" x 3/4"	$ 8.85	$ 10.10
3/4"	8.85	15.15
1"	8.85	25.25
1-1/2"	8.85	50.50
2"	8.85	80.80
3"	N/A	161.60
4"	N/A	252.50
6"	N/A	505.00

Gallonage Charge

Per 1,000 gallons over 5,000 gallons	$ 1.31	
0 - 5,000		$ 1.64
5,000 - 10,000		2.46
Over 10,000		4.92

General Service Water Rates

Base Facility Charge

Meter Size	Minimum Charge for 5,000 gallons Existing Monthly Rate	Staff's Recommended Monthly Rate
5/8" x 3/4"	$ 8.85	$ 10.10
3/4"	8.85	15.15
1"	8.85	25.25
1-1/2"	8.85	50.50
2"	8.85	80.80
3"	N/A	161.60
4"	N/A	252.50
6"	N/A	505.00

Gallonage Charge

Per 1,000 gallons		$ 2.51

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

Monthly Consumption (In Gallons)	Monthly Billing	Using Staff's Recommended Rates
5,000	$ 8.85	$18.30
7,500	$12.12	$24.45
10,000	$15.40	$30.60

The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

ISSUE 15: What are the appropriate customer deposits for this utility?

RECOMMENDATION: The appropriate customer deposits should be the recommended charges 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 deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (RENDELL, WALKER)

STAFF ANALYSIS: The utility's existing tariff provides for a Commission approved customer deposits for residential and general service customer for the amount of $35. Rule 25-30.311, Florida Administrative Code, provides guidelines for collecting, administering and refunding customer deposits. The rule also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. 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:

Water

Residential

Meter Size	Staff's Recommended Deposits
5/8" x 3/4"	$52.00

General Service

Meter Size	Staff's Recommended Deposits
5/8" x 3/4"	$52.00
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 deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets.

ISSUE 16: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility?

RECOMMENDATION: Yes, the recommended rates should be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility. The utility should be authorized to collect the temporary rates after staff's approval of the security for potential refund, the proposed customer notice, and the revised tariff sheets. (JAEGER, RENDELL, WALKER)

STAFF ANALYSIS: This report proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, in the event of a timely protest filed by a party other than the utility, 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 the security for potential refund and a proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of $36,616. 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 security, it should contain the following conditions:

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

2) The letter of credit will be in effect until 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 funds in the escrow account may be withdrawn by the utility without the express approval of the Commission.

2) The escrow account should be an interest bearing account.

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

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

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

6) The amount of revenue subject to refund should 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.

8) The Director of Records and Reporting must be a signatory to the escrow agreement.

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 result of the rate increase should be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it 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's Division of Economic Regulation no later than the 20th of the month. These reports should indicate the amount of revenue collected under the increased rates.

ISSUE 17: Should the Commission order Keen Sales, Rentals and Utilities, Inc., Sunrise Water Company, to show cause, in writing, within twenty-one days, why it should not be fined an amount up to $5,000 for each offense as authorized by Section 367.161, Florida Statutes, for: (1) What appears to be scheduled interruptions to customers without proper notice to customers in apparent violation of Rule 25-30.250(2), Florida Administrative Code; (2) The utility apparently considering bills delinquent after only 15 days and discontinuing service without providing five working days' written notice after the bills became delinquent in apparent violation of Rules 25-30.335(4) and 25-30.320(2)(g), Florida Administrative Code; (3) The utility's apparent failure to read meters and render bills to customers at regular intervals in apparent violation of Rules 25-30.261(1) and 25-30.335(1), Florida Administrative Code; (4) The utility's apparent failure to maintain a record of all interruptions in service in apparent violation of Rule 25-30.251, Florida Administrative Code; (5) For the utility's apparent failure to fully and promptly acknowledge and investigate all customer complaints and respond fully and promptly to all customer requests in apparent violation of Rule 25-30.355(1), Florida Administrative Code?

RECOMMENDATION: No, a show cause proceeding should not be initiated for the above-noted apparent violations. However, the utility should be directed to provide training to its staff on how to respond to customer complaints and the importance of good customer relations. Moreover, the utility should be admonished for its apparent violations of Commission rules and on the need to comply with all Commission rules. (JAEGER, RENDELL)

STAFF ANALYSIS: At the customer meeting held on February 12, 2001, in Auburndale, Florida, the customers, among other things complained about the following: (1) scheduled interruptions to customers without proper notice to customers (would be an apparent violation of Rule 25-30.250(2), Florida Administrative Code); (2) bills being considered delinquent by the utility after only 15 days and discontinuing service without providing five working days' written notice after the bills became delinquent (would be an apparent violation of Rules 25-30.335(4) and 25-30.320(2)(g), Florida Administrative Code); (3) the utility's apparent failure to read meters and render bills to customers at regular intervals (would be an apparent violation of Rules 25-30.261(1) and 25-30.335(1), Florida Administrative Code); (4) long interruptions to service without maintaining a record of all interruptions in service (would be an apparent violation of Rule 25-30.251, Florida Administrative Code); (5) the utility's apparent failure to fully and promptly acknowledge and investigate all customer complaints and respond fully and promptly to all customer requests (would be an apparent violation of Rule 25-30.355(1), Florida Administrative Code). Section 367.161(1), Florida Statutes, authorizes the Commission to assess a penalty of not more than $5,000 for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any provision of Chapter 367, Florida Statutes, or any lawful rule or order of the Commission.

Utilities are charged with the knowledge of the Commission's rules and statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL titled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc. the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Thus, any intentional act, such as the utility's failure to promptly respond to customer complaints or the apparent violation of the rules as set forth above, would meet the standard for a "willful violation." Staff has analyzed the apparent violations using the above-noted criteria and will address each apparent violation in the order listed.

Several customers complained that the utility seemed to always schedule interruptions to service late in the afternoon (and Fridays at that) just when they were getting home. Also, the customers stated that the utility only put up a small sign at the entrance to the subdivision or some sort of flags to warn when there would be a scheduled outage. The sign was reportedly so small that the customers could not read it as they drove into the subdivision. Also, many customers did not know what the flags meant. Staff has talked to the utility and discussed the need for a better means of notice and better timing for the interruptions. Staff believes that, in the future, the utility will give adequate notice and schedule the interruptions at a more appropriate time.

Some customers complained that the utility was considering bills delinquent after only 15 days and discontinuing service without providing the requisite five working days' written notice. However, staff has reviewed the bills of the utility and the bills stated that the bill would be considered delinquent if payment was not made within 20 days, which is still one day short of what is required (was corrected on March 26, 2001). Also, the utility provided documentation that it was providing five working days' written notice for at least some of the cut offs. Therefore, the utility has been reminded of the above requirements, and, if there was a problem, the utility now seems to be complying with Rules 25-30.335(4) and 25-30.320(2)(g), Florida Administrative Code.

One customer complained about the utility's failure to read meters and render bills to customers at regular intervals -- stated that meters and bills were read and sent sporadically and could be as short as three weeks or greater than five weeks. This would be an apparent violation of Rules 25-30.261(1) and 25-30.335(1), Florida Administrative Code.

Because this utility uses a minimum gallonage rate structure, this could have a significant impact. For a three-week period between meter readings and\or billings, the utility would receive the minimum charge even though the customer may have used significantly under the minimum allowed in that short of a time period. However, when the utility goes over five weeks between readings, then the customer could use significantly over the minimum and be charged for each 1,000 gallons over the minimum. For example, the minimum charge is $8.85 and includes the first 5,000 gallons, with a charge of $1.31 for each one thousand gallons above that -- if a customer uses 5,000 gallons a month, then the charge would be only $8.85 or $17.70 for two months. However, if the utility read the meter after only three weeks and then waited almost six weeks, the customer may only use three thousand gallons in the first period (be billed $8.85) and 6,000 gallons or more in the second period and be billed $8.85 plus $1.31 for each 1,000 gallons above the 5,000 gallon minimum for the extra gallons used). The customer expressed concern that the utility could manipulate the system if it was not held to a regular meter reading and billing cycle.

Staff has reminded the utility of the above-noted requirements and it appears that the utility now has a regularly scheduled time to read meters and to send out bills. Therefore, this problem also seems to have been taken care of.

Several customers complained of long interruptions to service that apparently affected the whole service area or a large part of it. However, there was no clear record of these long interruptions to service. Rule 25-30.251, Florida Administrative Code, requires the utility to maintain a record of all interruptions in service. That rule specifically states that "[t]he record shall show the cause of the interruption, its date, time, duration, remedy, and steps taken to prevent recurrence." That rule also states that the utility shall notify the Commission of such interruptions. Apparently, the utility was not complying with this rule. Staff has now advised the utility of the requirements of this rule, and the need for the utility to comply with all rules of this Commission.

Finally, several customers complained that the utility failed to fully and promptly acknowledge and investigate their complaints and respond fully and promptly to their requests. Moreover, many customers complained that utility personnel were rude in their dealings with the customers. The utility has been made aware of the requirements of Rule 25-30.355(1), Florida Administrative Code, and has been admonished by staff about the need to comply with this rule and to improve their customer relations.

In reviewing all the above, staff believes that the utility's acts (or failure to act) were "willful" in the sense intended by Section 367.161, Florida Statutes. Although there appear to be multiple violations, staff notes that Mr. Keen, the President, has been in poor health and that this appears to have affected his ability to manage the utility. Also, staff notes that, in Issue 10, staff is recommending that the president's salary be reduced by 50% ($7,629) to reflect this lack of management. A part of the problem appears to be the change over from Polk County regulation to Commission regulation and the relative lack of experience that Mr. Keen has in managing a utility. Staff believes that the utility is now aware of its responsibilities and the applicable rules, and is either in compliance with or will comply in the future with all the rules noted. Moreover, with the reduction for 50% of the president's salary staff notes that it is only recommending a revenue requirement of $88,335 (so the reduction is approximately 8.41% of staff's total recommended revenue requirement). Therefore, staff does not believe any further action in the form of a show cause proceeding is warranted.

However, staff is concerned about the utility's response to customer complaints and its customer relations. Therefore, staff believes that the utility should be directed to provide training to its staff on how to respond to customer complaints and the importance of good customer relations. Moreover, the utility should be admonished on the need to comply with all Commission rules, and, more specifically, on the rules noted above. However, at this time, staff recommends that the Commission not order the utility to show cause for its apparent violation of the above-noted rules.

ISSUE 18: Should this docket be closed?

RECOMMENDATION: No. If no timely protest is received upon expiration of the protest period, the PAA Order will become final and effective upon the issuance of a Consummating Order. However, this docket should remain open for an additional six months from the effective date of the Order to allow staff to verify that the utility has installed its recommended pro forma plant. Once staff has verified that this work has been completed, the docket should be closed administratively. (JAEGER, RENDELL, WALKER)

STAFF ANALYSIS: Staff has recommended that pro forma plant is needed for the Sunrise water system. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of the Consummating Order. However, this docket should remain open for an additional six months from the effective date of the Order to verify that the work staff is recommending has been completed. Once staff has verified that this work is completed, the docket should be closed administratively.

KEEN SALES, RENTALS AND TEST YEAR ENDING MARCH 31, 2000 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 001118-WU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$0	$112,782	$112,782
2. LAND & LAND RIGHTS	0	$553	$553
3. NON-USED AND USEFUL COMPONENTS	0	$0	$0
4. CIAC	0	($12,393)	($12,393)
5. ACCUMULATED DEPRECIATION	0	($28,679)	($28,679)
6. AMORTIZATION OF CIAC	0	$3,068	$3,068
7. WORKING CAPITAL ALLOWANCE	$0	$7,861	$7,861
8. WATER RATE BASE	$0	$83,192	$83,192

KEEN SALES, RENTALS AND UTILITIES, INC. TEST YEAR ENDING MARCH 31, 2000 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-B DOCKET NO. 001118-WU PAGE 1 OF 1
	WATER
UTILITY PLANT IN SERVICE	
1. To record plant per Order PSC-00-1388-PAA-WU.	84,346
2. To reflect Sunrise's portion purchase of a vehicle.	9,504
3. To record test year additions to plant.	2,114
4. To reflect organization cost incurred during the transfer.	750
5. To reflect the pro forma meters.	17,500
6. To reflect the averaging adjustment.	(1,432)
Total	$112,782
LAND	
1. To reflect original cost of land.	$553
CONTRIBUTIONS IN AID OF CONSTRUCTION(CIAC)	
1. To record CIAC pursuant to Rule 25-30.570 (1), F.A.C.	($12,393)
ACCUMULATED DEPRECIATION	
1. To reflect accumulated depreciation at March 31, 1999.	(36,210)
2. To correct Order No. PSC-00-1388-PAA-WU 3/31/99 Acc. Depr.	13,535
3. To reflect Acc. Depr. per Rule 25-30.140, F.A.C., through the beginning of the test year.	(2,944)
4. To record Acc. Depr. through the test year.	(5,090)
5. To reflect accumulated depreciation on proforma meters.	(515)
6. To reflect averaging adjustment.	2,545
Total	($28,679)
AMORTIZATION OF CIAC	
1. To reflect accumulated amortization at March 31, 2000.	$3,261
2. To reflect averaging adjustment.	($193)
Total	$3,068
WORKING CAPITAL ALLOWANCE	
1. To reflect 1/8 of test year O & M expenses.	$7,861

KEEN SALES, RENTALS AND UTILITIES, INC.
TEST YEAR ENDING MARCH 31, 2000
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 001118-WU

CAPITAL COMPONENT	PER	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	$1,000	$0	$1,000					
2. RETAINED EARNINGS	18,287	0	18,287					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	0	0	0					
5. TOTAL COMMON EQUITY	$19,287	$0	19,287	(12,246)	7,041	8.46%	9.94%	0.84%
6. LONG TERM DEBT-Whiting	40,791	0	40,791	(25,900)	14,891	17.90%	8.00%	1.43%
LONG TERM DEBT-Keen	26,682	0	26,682	(16,942)	9,740	11.71%	8.00%	0.94%
LONG TERM DEBT-Roberts	12,136	0	12,136	(7,706)	4,430	5.33%	10.00%	0.53%
LONG TERM DEBT-Hoff	4,855	0	4,855	(3,083)	1,772	2.13%	10.00%	0.21%
LONG TERM DEBT-Keen	75,002	0	75,002	(47,623)	27,379	32.91%	5.50%	1.81%
LONG TERM DEBT-Roberts	6,471	0	6,471	(4,109)	2,362	2.84%	11.00%	0.31%
LONG TERM DEBT-Hoff	2,039	0	2,039	(1,295)	744	0.89%	10.00%	0.09%
LONG TERM DEBT-Keen	12,000	0	12,000	(7,619)	4,381	5.27%	11.00%	0.58%
LONG TERM DEBT-Ford	13,662	0	13,662	(8,675)	4,987	5.99%	2.90%	0.17%
LONG TERM DEBT-Keen	13,700	0	13,700	(8,699)	5,001	6.01%	10.00%	0.60%
LONG TERM DEBT-Keen	1,270	0	1,270	(806)	464	0.56%	10.00%	0.06%
7. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
8. TOTAL	$227,895	$0	$227,895	($144,703)	$83,192	100.00%		7.58%
			RANGE OF REASONABLENESS			LOW	HIGH	
			RETURN ON EQUITY			8.94%	10.94%	
			OVERALL RATE OF RETURN			7.49%	7.66%	

KEEN SALES, RENTALS AND UTILITIES, INC. TEST YEAR ENDING MARCH 31, 2000 SCHEDULE OF WATER OPERATING INCOME					SCHEDULE NO. 3-A DOCKET NO. 001118-WU
	TEST YEAR PER UTILITY	STAFF ADJUST.	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	$35,353	$0	$35,353	$52,982 149.87%	$88,335
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	26,276	36,611	62,887	0	62,887
3. DEPRECIATION (NET)	0	5,784	5,784	0	5,784
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	3,059	7,917	10,976	2,384	13,360
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	$29,335	$50,312	$79,647	$2,384	$82,031
8. OPERATING INCOME/(LOSS)	$6,018		($44,294)		$6,304
9. WATER RATE BASE	$0		$83,192		$83,192
10 RATE OF RETURN	0.00%		-53.24%		7.58%

KEEN SALES, RENTALS AND UTILITIES, INC. — SHEDULE NO. 3-B
TEST YEAR ENDING MARCH 31, 2000 — DOCKET NO. 001118-WU
ADJUSTMENTS TO OPERATING INCOME — PAGE 1 OF 2

	WATER
OPERATING REVENUES	
To adjust utility revenues to audited test year amount.	$0
OPERATION AND MAINTENANCE EXPENSES	
1. Salaries and Wages - Employees	
a. To reflect Sunrise allocated of salaries for maint. engineer.	$4,028
b. To reflect the Office Manager's salary per Sunrise allocated portion. (Disclosure No. 3)	$10,712
c. To reflect Sunrise allocated of salaries for the office person.	($178)
Subtotal	$14,562
2. Salaries and Wages - Officers	
a. To reflect the officers' salary amount per Sunrise allocated portion.	$16,529
3 Purchased Power	
a. To reflect repression adjustment.	($172)
4. Chemicals	
a. To reclassify water system maintenance expense to Account No. 636.	(720)
b. To reclassify chemical expense to Account No. 635.	(538)
c. To reflect repression adjustment.	(114)
d. To bring chemical expense to staff's recommended amount.	370
Subtotal	($1,002)
5. Materials and Supplies	
a. To allow annual postage expense.	$567
b. To reflect the annual allocated amount for office supplies.	$349
Subtotal	$916
6 Contractual Services - Professional	
a. To reflect Sunrise allocation for set-up cost amortize over 5-years.	$587
b. To account for non-recurring computer expense amortize over 5-years.	($186)
c. To reflect Sunrise's share of the allocation adjustment for this	$174
d. To amortize attorney fees associated with purchase of utility.	($182)
Subtotal	$393
7 Contractual Services - Testing	
a. To reflect reclassified expense from Account No. 618.	538
b. To reflect annual testing expense.	$1,624
Subtotal	$2,162
8 Contractual Services - Other	
a. To reflect staff's allocation of telephone expense.	$200
b. To reflect utility's parts expense for the test year.	$444
c. To remove from expense and reclassify as UPIS.	($758)
d. To reflect staff's allocation of labor expense.	$105
e. To remove from expense and reclassify as UPIS.	($808)
f. To reflect the reclassification system maint. in Account No. 618.	$720
g. To reflect three months of system maint. not recorded by the utility.	$240
Subtotal	$143
9 Rents	
To reflect Sunrise allocated portion of office expense.	$5,281

KEEN SALES, RENTALS AND UTILITIES, INC. SCHEDULE NO. 3-B
TEST YEAR ENDING MARCH 31, 2000 DOCKET NO. 001118-WU
ADJUSTMENTS TO OPERATING INCOME PAGE 2 OF 2

	WATER
10. Transportation Expense	
a. To reflect utility related transportation expenses.	$587
b. To remove annual auto payments incorrectly recorded.	($1,601)
Subtotal	($1,014)
11. Insurance Expenses	
a. To reflect auto insurance coverage.	$104
b. To reflect commercial and worker's compensation insurance.	$596
Subtotal	$700
12. Bad Debt Expense.	
a. To reflect the uncollectible revenues occurred during the test	$134
13. Miscellaneous Expense	
a. To remove non-utility related expenses.	(1,732)
b. To reflect expense that was recorded in UPIS Account.	461
c. To disallow purchase cost of system.	(750)
Subtotal	($2,021)
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	$36,611
DEPRECIATION EXPENSE	
1. To reflect test year depreciation expense calculated per 25-30.140	5,081
2. To reflect depreciation expense on pro forma plant.	1,029
3. To reflect amortization of CIAC during the test year.	(326)
Total	$5,784
TAXES OTHER THAN INCOME	
1. To include regulatory assessment fees paid.	$1,202
2. To reflect payroll taxes for recommended salaries.	7,494
3. To adjust payroll tax on salaries during the test year.	(1,326)
4. To correct error in withholding taxes during the test year.	(681)
5. To reflect taxes paid to the Polk County tax collector.	839
6. To include additional RAF not paid or reported during the test year.	389
Total	$7,917
OPERATING REVENUES	
1. To reflect staff's recommended increase in revenue.	$52,982
TAXES OTHER THAN INCOME	
To reflect additional regulatory assessment fee associated with recommended revenue requirement.	$2,384

KEEN SALES, RENTALS AND UTILITIES, INC. TEST YEAR ENDING MARCH 31, 2000 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			SCHEDULE NO. 3-C DOCKET NO. 001118-WU	
	TOTAL PER PER	STAFF PER ADJUST.		TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	7,291	14,562	[1]	21,853
(603) SALARIES AND WAGES - OFFICERS	0	16,529	[2]	16,529
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0		0
(610) PURCHASED WATER	0	0		0
(615) PURCHASED POWER	2,382	(172)	[3]	2,210
(616) FUEL FOR POWER PRODUCTION	0	0		0
(618) CHEMICALS	2,604	(1,002)	[4]	1,602
(620) MATERIALS AND SUPPLIES	859	916	[5]	1,775
(630) CONTRACTUAL SERVICES - BILLING	0	0		0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	1,014	393	[6]	1,407
(635) CONTRACTUAL SERVICES - TESTING	0	2,162	[7]	2,162
(636) CONTRACTUAL SERVICES - OTHER	4,665	143	[8]	4,808
(640) RENTS	0	5,281	[9]	5,281
(650) TRANSPORTATION EXPENSE	2,853	(1,014)	[10	1,839
(655) INSURANCE EXPENSE	1,930	700	[11	2,630
(655) REGULATORY COMMISSION EXPENSE	0	0		0
(670) BAD DEBT EXPENSE	0	134	[12	134
(675) MISCELLANEOUS EXPENSES	2,678	(2,021)	[13	657
	26,276	36,611		62,887

ISSUE AND RECOMMENDATION SUMMARY

ISSUE 1: Should the quality of service provided by Sunrise Water Company be considered satisfactory?

PRIMARY RECOMMENDATION: No. The utility's overall quality of service is not satisfactory based upon the utility's attempt to address customer satisfaction. Until such time as the utility makes certain changes within its personnel, and attempts to provide satisfactory service to all of its customers, staff is recommending that this utility's overall quality of service is unsatisfactory. (RENDELL)

ALTERNATIVE RECOMMENDATION: Yes. Staff recommends that the quality of service be considered satisfactory and that staff monitor the utility for 90 days to insure that problems with the maintenance man are corrected. (MUNROE)

ISSUE 2: Are any pro forma adjustments needed for the Sunrise Water Company?

RECOMMENDATION: Yes, a pro forma adjustment of $17,500 is needed for continuation of the meter replacement program, which results in approximately 145 meters due to be replaced by the utility. Pro forma plant should be completed within six months of the effective date of the Commission's Consummating Order. (MUNROE)

ISSUE 3: Should any excessive unaccounted for water be recognized in the used and useful calculation?

RECOMMENDATION: No. (MUNROE)

ISSUE 4: What portions of the water plant and distribution system are used and useful?

RECOMMENDATION: The water treatment plant should be considered 100% used and useful. The water distribution system should also be considered 100% used and useful. (MUNROE)

ISSUE 5: What is the appropriate allocation of common costs from Keen to the Sunrise water system?

RECOMMENDATION: The appropriate allocation from Keen to the Sunrise water system is 48.90%. (RENDELL, WALKER)

ISSUE 6: Should an acquisition adjustment be approved in the determination of the utility's rate base at the date of purchase?

RECOMMENDATION: No, an acquisition adjustment should not be approved in the determination of the utility's rate base at the date of purchase. (RENDELL, WALKER)

ISSUE 7: What is the utility's appropriate average amount of rate base?

RECOMMENDATION: The appropriate average amount of rate base should be $83,192 for the test year. (RENDELL, WALKER)

COST OF CAPITAL

ISSUE 8: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate rate of return on equity should be 9.94% with a range of 8.94% to 10.94% and the appropriate overall rate of return should be 7.58% with a range of 7.49% to 7.66%. (RENDELL, WALKER)

NET OPERATING INCOME

ISSUE 9: What is the appropriate test year revenue for this utility?

RECOMMENDATION: The appropriate test year revenue should be $35,353. (RENDELL, WALKER)

ISSUE 10: What is the appropriate amount of operating expenses for rate setting purposes?

RECOMMENDATION: The appropriate amount of operating expenses for rate making purposes should be $82,031. (RENDELL, WALKER, MUNROE)

REVENUE REQUIREMENT

ISSUE 11: What is the appropriate revenue requirement for this system?

RECOMMENDATION: The appropriate revenue requirement should be $88,335 for the test year. (RENDELL, WALKER)

RATES AND CHARGES

ISSUE 12: Is a continuation of the utility's current rate structure appropriate in this case, and, if not, what is the appropriate rate structure?

RECOMMENDATION: No, a continuation of the utility's current rate structure, which includes a 5,000 gallon per month allotment, is not appropriate in this case. The rate structure should be changed to a three-tier inclining block rate structure, with recommended usage blocks per month of 0-5,000 gallons, 5,001-10,000 gallons and over 10,000 gallons. The recommended usage block rate factors are 1.0, 1.5 and 3.0, respectively, and a 50% conservation adjustment should also be implemented. (LINGO)

ISSUE 13: Is an adjustment to reflect repression of residential consumption appropriate due to the change in rate structure and price increase in this case, and, if so, what is the appropriate repression adjustment?

RECOMMENDATION: Yes, a repression adjustment of 1,907 kgal is appropriate. In order to monitor the effects of both the change in rate structure and the recommended revenue increase, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. (LINGO)

ISSUE 14: What are the appropriate rates for this utility?

RECOMMENDATION: The recommended rates should be designed to produce revenue of $88,335. If the approved revenue requirement is significantly different from $88,335, staff should be given the authority to approve administratively the recalculated rates that generate the final approved revenue requirement, based on the rate structure recommendations and fallout repression adjustments discussed in Issues Nos. 12 and 13. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (LINGO, RENDELL)

ISSUE 15: What are the appropriate customer deposits for this utility?

RECOMMENDATION: The appropriate customer deposits should be the recommended charges 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 deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (RENDELL, WALKER)

ISSUE 16: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility?

RECOMMENDATION: Yes, the recommended rates should be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility. The utility should be authorized to collect the temporary rates after staff's approval of the security for potential refund, the proposed customer notice, and the revised tariff sheets. (JAEGER, RENDELL, WALKER)

ISSUE 17: Should the Commission order Keen Sales, Rentals and Utilities, Inc., Sunrise Water Company to show cause, in writing, within twenty-one days, why it should not be fined an amount up to $5,000 for each offense as authorized by Section 367.161, Florida Statutes, for: (1) What appears to be scheduled interruptions to customers without proper notice to customers in apparent violation of Rule 25-30.250(2), Florida Administrative Code; (2) The utility apparently considering bills delinquent after only 15 days and discontinuing service without providing five working days' written notice after the bills became delinquent in apparent violation of Rules 25-30.335(4) and 25-30.320(2)(g), Florida Administrative Code; (3) The utility's apparent failure to read meters and render bills to customers at regular intervals in apparent violation of Rules 25-30.261(1) and 25-30.335(1), Florida Administrative Code; (4) The utility's apparent failure to maintain a record of all interruptions in service in apparent violation of Rule 25-30.251, Florida Administrative Code; (5) For the utility's apparent failure to fully and promptly acknowledge and investigate all customer complaints and respond fully and promptly to all customer requests in apparent violation of Rule 25-30.355(1), Florida Administrative Code?

RECOMMENDATION: No, a show cause proceeding should not be initiated for the above-noted apparent violations. However, the utility should be directed to provide training to its staff on how to respond to customer complaints and the importance of good customer relations. Moreover, the utility should be admonished for its apparent violations of Commission rules and on the need to comply with all Commission rules. (JAEGER, RENDELL)

ISSUE 18: Should this docket be closed?

RECOMMENDATION: No. If no timely protest is received upon expiration of the protest period, the PAA Order will become final and effective upon the issuance of a Consummating Order. However, this docket should remain open for an additional six months from the effective date of the Order to allow staff to verify that the utility has installed its recommended pro forma plant. Once staff has verified that this work has been completed, the docket should be closed administratively. (JAEGER, RENDELL, WALKER)