

State of Florida



# Public Service Commission

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

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**DATE:** June 7, 2007

**TO:** Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (Rendell) *CRP*  
Division of Competitive Markets & Enforcement (Wright) *RW*  
Office of the General Counsel (Holley) *JAH*

**RE:** Docket No. 070041-SU – Application for limited proceeding rate increase in Monroe County by Key Haven Utility Corporation.

**AGENDA:** 06/19/07 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Argenziano

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\070041.RCM.DOC

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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

### **Case Background**

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

A customer meeting was held on April 5, 2007 at the Old City Hall in Key West. No customers attended the meeting. The Commission has jurisdiction pursuant to Section 367.0822, Florida Statutes.

### **Discussion of Issues**

**Issue 1:** What is the appropriate increase in revenues for this utility?

**Recommendation:** The appropriate wastewater increase should be \$99,287 which results in an increase over test year revenues of 27.49%. (Rendell, Wright)

**Staff Analysis:** In its limited proceeding application, the utility requested a \$99,287 (27.49%) increase to its wastewater rates. The utility's proposed increase is made up of additions to rate base for slip lining and main replacement in order to reduce saltwater infiltration of the collection system. In addition, the utility added a new master wetwell and pumps at the wastewater treatment plant. The adjustments to operating expenses include amortization of Contributions in Aid of Construction (CIAC), hurricane costs, rate case expense, and taxes other than income taxes. The utility's revenue increase is comprised of return on rate base items plus the increase in operating expenses and gross-up for taxes. Staff has reviewed the application as well as supporting documentation. Based on the review, staff recommends the revenue increase of \$99,287 (27.49%) as requested by the company, be approved. Items included in the determination of the revenue increase are discussed below.

#### **Plant Increases**

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

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

#### **Rate Case Expense**

The company did not include rate case expense in its filing, however it subsequently provided documentation in support of \$36,650 in rate case expense in response to a staff data request. The \$36,650 in rate case expense, amortized over four years, translates to an annual rate case adjustment of \$9,163 per year. As discussed below, staff's recommended revenue increase is limited to the \$99,287 that the company has requested rather than the calculated revenue increase of \$106,969 if all the rate case expense was considered in the revenue increase calculation. By limiting the company's revenue increase to \$99,287 rather than the \$106,969 as calculated, it has the net effect of limiting rate case expense considered in the revenue increase to

\$7,652 rather than the total rate case expense of \$36,650. Rate case expense of \$7,652 amortized over four years results in \$1,913 being included in the utility's revenue increase.

### Operating Expenses

The company included an adjustment to operating expenses of \$4,737, which represents \$14,211 in hurricane costs amortized over a three-year period. The company provided additional documentation which supported actual hurricane losses of \$24,809. Consistent with past Commission practice, hurricane costs are amortized over four years which results in a yearly amortization amount of \$6,202.<sup>1</sup> Additional adjustments to operating expenses have been made to depreciation expense, CIAC, and taxes other than income taxes.

### Revenue Increase

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

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

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

**Issue 2:** What are the appropriate wastewater rates for Key Haven Utility Corporation?

**Recommendation:** The recommended rates should be designed to allow the utility the opportunity to generate additional annual revenues of \$99,287 for wastewater service. This results in a wastewater increase of 27.49%. The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the appropriate rates. The approved rates should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the notice has been approved by staff. Within 10 days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within 10 days after the date that the notice was sent. (Rendell, Wright)

**Staff Analysis:** The rates requested by the utility are designed to allow the utility to generate additional revenues of \$99,287 for wastewater. The requested revenues represent an increase of 27.49% for wastewater service.

Staff recommends that the final rates approved for the utility should be the rates filed by the company as shown in Schedule 2.

The utility should file revised wastewater 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 approved rates should not be implemented until after staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

**Issue 3:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

**Recommendation:** The wastewater rates should be reduced as shown on Schedule No. 2 to remove rate case expense, grossed-up for regulatory assessment fees, which is being amortized over a four-year period. The decrease in wastewater rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (Rendell, Wright)

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

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

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

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**Issue 4:** Should this docket be closed?

**Recommendation:** If a protest is not received from a substantially affected person within 21 days of issuance of the Proposed Agency Action Order, the order will become final. This docket should be closed at the conclusion of the protest period, if no protest is filed, and upon staff's approval of the revised tariff sheets. (Holley)

**Staff Analysis:** If a protest is not received from a substantially affected person within 21 days of issuance of the Proposed Agency Action Order, the order will become final. This docket should be closed at the conclusion of the protest period, if no protest is filed, and upon staff's approval of the revised tariff sheets.

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Date: June 7, 2007

Key Haven Utility Corporation  
Revenue Increase

Schedule No. 1

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

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Key Haven Utility Corporation  
Wastewater Monthly Service Rates

Schedule No. 2

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