

EXHIBIT "F"

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Direct Testimonies

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1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 KW RESORT UTILITIES CORPORATION

3 DOCKET NO. 070293-SU

4 APPLICATION FOR WATER RATE INCREASE OF
5 KW RESORT UTILITIES CORPORATION IN MONROE COUNTY

6 DIRECT TESTIMONY OF WILLIAM L. SMITH, JR.

7 Q. Please state your name and employment address.

8 A. William L. Smith, Jr., KW Resort Utilities Corporation,
9 P.O. Box 2125, Key West, Florida 33045.

10 Q. In what capacity are you employed by KW Resort Utilities?

11 A. I am the Utility's President.

12 Q. What is the purpose of your direct testimony?

13 A. The purpose of my testimony is to provide information
14 concerning the nature of the changes in costs which form
15 the basis for this rate increase request. These are: (1)
16 the recent re-sleeving of the Utility's collection
17 system; (2) refurbishment of the existing wastewater
18 treatment plant facilities; (3) the conversion of the
19 existing wastewater treatment plant to advanced waste
20 treatment; (4) increased operating costs related to
21 advanced waste treatment; and (5) change from flat to
22 usage based rates.

23 I believe each of these issues requires separate direct
24 testimony because an explanation is needed for why each
25 of these costs must be incurred and why full recognition

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1 of all of these costs must be included as proforma
2 adjustments to the historic test period and recovered
3 through the establishment of final rates. I am also the
4 custodian of all the records of KW Resort Utilities
5 Corporation and therefore am attesting to the accuracy of
6 the information provided within the schedules prepared by
7 Carlstedt, Jackson, Nixon & Wilson CPAs, to the extent
8 they rely upon the books and records of the company as a
9 basis for their calculations and the schedules prepared
10 by them and the engineers.

11 Q. Please address the first of the issues you have outlined?

12 A. The Utility's collection system is located in an area
13 that is subject to tidal influences and is relatively
14 old. As such, not only has the particular location of
15 the facilities caused its degradation, but the types of
16 "soils" themselves and the age of the system, have
17 resulted in substantial infiltration for years within the
18 Utility's system. It has now reached a point where it is
19 not only substantially impacting the ability to properly
20 treat effluent, but also to utilize the treated effluent
21 for reuse purposes. In addition, because the
22 infiltration is generally high in salt content, we were
23 told by our engineer that we could not proceed to AWT
24 without first fixing these infiltration problems, or the
25 AWT system would not work. Therefore, in 2006 the

1 Utility began a project for re-sleeving a substantial
2 portion of the existing collection system lines. This
3 work was completed at the beginning of 2007 at a cost of
4 approximately \$600,000. All of these costs were normal
5 and prudent expenditures on the part of the Utility and
6 must be fully recognized in rate setting through the
7 recognition of a proforma adjustment to the calendar year
8 for the capital expenditure and the related depreciation.

9 Q. Your second point was concerning a refurbishment of the
10 existing wastewater treatment facilities. Please provide
11 us with an explanation of that project.

12 A. Yes. The same factors outlined above that caused
13 deterioration and a need for substantial maintenance to
14 the collection system, also generally have impacted the
15 wastewater treatment plant. In addition to those
16 factors, the salt in the air and in the influent, and the
17 general environment of the Keys is one of the harshest to
18 steel equipment, such as these treatment facilities. The
19 steel wastewater treatment plant was badly deteriorated
20 and rusted out. Therefore, the Utility was required to
21 undertake substantial refurbishment of the existing
22 wastewater treatment facilities in order to continue to
23 utilize the system for the long run. Construction on
24 this project began during calendar year 2006.
25 Refurbishment is ongoing and is nearing completion and is

1 estimated to be completed by October 1, 2007. The total
2 estimated cost is \$426,650.

3 Q. The third category that you mentioned was the change to
4 advance waste treatment, otherwise known as AWT. Can you
5 please explain that?

6 A. Yes. Briefly, all wastewater utilities within the Keys
7 are required to go to AWT by 2010. Monroe County has
8 specifically come to us and asked KW Resort Utilities
9 Corporation to go to AWT as quickly as possible, in
10 advance of that 2010 deadline. We were required to
11 undertake a change to AWT no later than three years down
12 the road, and the change over would involve some
13 significant duplication of the effort we were already
14 undertaking for the refurbishment of the wastewater plant
15 if we undertook these projects separately. In addition,
16 both projects might conflict, to some extent, as far as
17 the facilities needed to be put in place to achieve each
18 goal separately. Therefore, because of the request of
19 Monroe County, and in order to make this refurbishment
20 and change to AWT as efficient and as cost effective as
21 possible, we have decided to move forward with AWT at the
22 same time as the refurbishment. That change to AWT has
23 been underway since 2006, and we expect it to go online
24 along with the refurbished facilities, on October 1,
25 2007. Monroe County has also given the company a grant

1 of approximately \$700,000 for this conversion to AWT,
2 which is all the more reason we want to follow their
3 recommendation to move forward with it as quickly as
4 possible. The estimated cost for improvements related to
5 AWT are \$792,350. As we noted when we filed this rate
6 case, not only is this change good for the environment,
7 but it will also allow the Utility to more efficiently
8 and effectively utilize the reuse that our system
9 produces. With the present level of treatment and the
10 infiltration levels that existed prior to our re-
11 sleeving, the effluent generated by the plant was
12 sometimes unsuitable to allow its utilization as reuse
13 water. Therefore, only during hours where operation
14 staff was onsite were we sending reuse to the Monroe
15 County Jail and Golf Course. With the move to AWT,
16 higher quality effluent which will result, combined with
17 the Utility's required use of 6 hour a day, seven days a
18 week onsite staff, we will be producing a higher quality
19 of effluent, which will allow us to send all of our
20 effluent into the reuse system.

21 Q. You mentioned something about the change in operating
22 expenses resulting from these changes.

23 A. Yes, the change to AWT will have significant changes in
24 operational costs, including a significant change in
25 staffing of the facility. The Utility's initial

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1 estimates of the increased operating costs, which are
2 outlined in detail in the schedules we filed, is
3 approximately \$288,625 per year in increased costs.

4 Q. Your final point was about the change in rate structure,
5 could you please explain this?

6 A. Yes. The Utility has always operated with primarily flat
7 rates for sewer service. This was due in large part to
8 the fact that the information from the Aqueduct Authority
9 concerning water usage was difficult, if not impossible
10 to obtain, until recently. Since the Aqueduct Authority
11 is the provider of water service to all of our wastewater
12 customers, obtaining that information was necessary in
13 order to move to a base facility type charge, including
14 a base charge and usage charge. Recently, we have
15 determined that we are now able to obtain this
16 information from the Aqueduct Authority and as such, we
17 believe it is appropriate for us to move to a base and
18 gallonage charge. Not only is this a better indicator of
19 the cost of providing service to each customer, but it
20 helps to promote conservation, and to ensure equity in
21 Utility charges. In a few instances, because of
22 circumstances, we are required to retain flat rate
23 charges. Those circumstances are outlined in our Volume
24 II of the schedules prepared by our accountants and filed
25 as part of our original Application (**Exhibit "A"**).

1 Q. Do you have any other testimony to provide at this time?

2 A. No, I do not.

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1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 KW RESORT UTILITIES CORP.

3 DOCKET NO. 070293-SU

4 DIRECT TESTIMONY OF PAUL E. DECHARIO, C.P.A.

5 Q. Please state your name and professional address.

6 A. Paul E. DeChario, C.P.A., a partner in the accounting firm
7 of Carlstedt, Jackson, Nixon & Wilson, P.A., 2560 Gulf-To-
8 Bay Boulevard, Suite 200, Clearwater, Florida 33765.

9 Q. Have you been retained by KW Resort Utilities Corp. to
10 provide documentary information and testimony in that
11 company's application for increased wastewater rates?

12 A. Yes.

13 Q. Will you please provide a brief resume of your training
14 and experience as it relates to this proceeding?

15 A. Attached to this testimony is a brief resume of my
16 education and training. The resume also includes a
17 listing of the companies for whom I have prepared rate and
18 other filings before the Florida Public Service Commission
19 (PSC).

20 Q. Did you prepare schedules and other documentary evidence
21 which were employed by the Commission in each of those
22 cases listed on your resume in setting the rates and
23 charges found by the Commission in those Orders?

24 A. Yes, I did.

25 Q. Did you and persons of your firm, working under your

1 supervision and direction, ~~prepare~~ ~~documentary~~ ~~evidence~~
2 for use by the Commission in establishing rates for KW
3 Resort Utilities Corp.?

4 A. Yes. Those documents are the Financial, Rate, and
5 Engineering schedules required as Minimum Filing
6 Requirements (MFRs) by the provisions of Rule 25-30.436,
7 .437 and .440, Florida Administrative Code, and filed in
8 this case as Volumes 1, 2, 3, and 4 of Exhibit "A".

9 Q. Briefly describe the types of information contained in
10 those exhibits.

11 A. Volume 1 of Exhibit "A" contains summary schedules in
12 Sections A through E of rate base, operating income, cost
13 of capital, and related supporting schedules for the
14 historic and proforma year ended December 31, 2006. Based
15 on these key schedules, the proposed interim and final
16 rates were developed using the historic and proforma test
17 year billing determinates (Volume 2 of Exhibit "A").
18 Section F includes a section of engineering information
19 containing summaries of plant operating data, used and
20 useful analysis, and customer growth using linear
21 regression.

22 Volume 2 of Exhibit "A" contains the Consolidated
23 Billing Analysis for the historic and proforma test year
24 ended December 31, 2006.

25 Volume 3 of Exhibit "A" contains the Supplemental

1 Engineering Information required by Rule 25-30.440.

2 Volume 4 of Exhibit "A" contains information on
3 Related Party Charges as required by Rule 25-30.436(h)

4 Q. What is the general nature of the information contained in
5 those volumes of Exhibit "A"?

6 A. The information in those volumes is divisible into two
7 broad categories: historic and proforma. The historic
8 information is derived directly from the books and records
9 of the company. The proforma information contains
10 management's best estimate of revenue, expenses, cost of
11 capital, and capital additions for the proforma test year
12 ended December 31, 2006.

13 Q. Is it accurate to state that the information contained in
14 the rate case volumes of Exhibit "A" is true and correct
15 to the best of your knowledge and belief?

16 A. Yes. In a wastewater utility rate application such as this
17 there are literally thousands of numbers which are
18 extracted from the books and records of the utility
19 company, by me and personnel of my firm. I believe them
20 to be reliable and accurate, however, there are almost
21 always slight differences in numbers that occur from
22 transposition errors and input errors, together with any
23 differences of opinion on policy matters that may arise
24 between our firm and the Commission Staff. The
25 information we have prepared and set forth in Volumes 1,

1 2, 3, and 4 of Exhibit "A" will, in all likelihood,
2 produce questions, some of which will become issues in
3 this case before it is concluded. At the time of
4 preparing this information, there were, of course, no
5 issues, merely the straightforward presentation of facts
6 and information, as set forth on schedules in conformity
7 with the rule on Minimum Filing Requirements.

8 Q. I notice on Schedule B-10 of Volume 1 you have estimated
9 total cost of this rate case to be \$200,000 and amortized
10 over a 4-year period. Would you please explain to the
11 Commission the source of that estimate?

12 A. Yes. At the time of preparation of that information, we
13 estimated the cost of this case based on information
14 provided, in part, by Rose, Sundstrom & Bentley, and our
15 experience in similar cases where a hearing is held. We
16 will provide the Commission with the company's actual and
17 estimated rate case expense, with support, as close to the
18 finalization of this case as possible, in accordance with
19 normal Commission practices.

20 Q. For the test year ended December 31, 2006, would you
21 please summarize the following, as they relate to the
22 final rate calculation: rate base, rate of return,
23 operating income, and operating revenue as required by KW
24 Resort Utilities Corp. to realize a fair rate of return on
25 investment?

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3 A. Yes. These are summarized as follows:

4	Rate Base	<u>\$ 964,239</u>
5	Rate of Return	<u>8.39%</u>
6	Operating Income	<u>\$ 80,900</u>
7	Operating Revenue	<u>\$ 1,647,998</u>

8 Q. Do you have anything further to add at this time?

9 A. No.

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Resume

Paul E. DeChario

Paul E. DeChario has a Bachelor of Science Degree in Business Administration from the North Adams State College in North Adams, Massachusetts. He was employed by Berkshire Gas Company in Pittsfield, Massachusetts for three years as the plant accountant.

Paul has been with the firm since 1991. He is a partner in the firm's regulated utility services practice. He is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

The firm's utility practice currently provides various services to approximately 55 investor-owned utilities regulated by the Florida Public Service Commission. Such services include rate, service availability and original certificate applications; assistance with over earnings investigations, preparation of Annual Reports and financial statements; utility valuations and tax services.

Paul's experience in preparing MFR's and information for use in other rate proceedings before the Florida Public Service Commission includes the following companies:

<u>Name of Company</u>	<u>Order No.</u>	<u>Date</u>
Lehigh Utilities, Inc.	PSC-93-0301-FOF-WS	02/25/93
Jasmine Lakes Utilities Corp.	PSC-93-1675-FOF-WS	11/18/93

	<u>Name of Company</u>	<u>Order No.</u>	<u>Date</u>
1			
2	Key Haven Utility Company	PSC-94-1557-S-SU	12/13/94
3	Aloha Utilities, Inc.	PSC-97-0280-FOF-WS	03/12/97
4	Gulf Utility Company	PSC-97-0847-FOF-WS	10/22/97
5	Lindrick Service Corporation	PSC-97-1501-FOF-WS	11/25/97
6	Aloha Utilities, Inc.	PSC-01-0326-FOF-SU	02/06/01
7	Indiantown Company, Inc.	PSC-05-0629-PAA-WS	06/29/05
8	Key Haven Utility Corp.	PSC-07-0568-PAA-WU	07/09/07
9	Plantation Bay Utility Company	PSC-06-0170a-PAA-WS	03/09/06
10	Rainbow Springs Utility	PSC-96-1229-FOF-WS	10/09/96