

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase
in wastewater rates in Monroe
County by KW Resort Utilities Corp.

Docket No. 150071-SU

PREHEARING STATEMENT OF K W RESORT UTILITIES CORP.

Pursuant to the Order Establishing Procedure issued May 17, 2016, KW Resort Utilities Corp. (“KWRU”), by and through its undersigned counsel, files its Prehearing Statement as follows:

A. All Known Witnesses

KWRU relies on the prefiled testimony of and intends to call the following witnesses in its direct and rebuttal case:

<u>Witness Name</u>	<u>Subject</u>
Deborah D. Swain	All financial matters
Christopher A. Johnson	All technical matters
Edward R. Castle	Plant expansion and vacuum tank matters
Frank Seidman	Used and useful

KWRU reserves the right to present additional witnesses to address issues which have not been previously raised by the parties, the Commission Staff, or the Commissioners.

B. All Known Exhibits

KWRU has identified and intends to sponsor the following exhibits in its direct case:

<u>Exhibit No.</u>	<u>Description</u>	<u>Person Sponsoring</u>
DDS-1	MFRs (except F Schedules)	Deborah D. Swain
DDS-2	Updated cost of pro-forma projects	Deborah D. Swain
DDS-3	Rate Case Expense	Deborah D. Swain
DDS-4	Selected Update Schedules from MFRs	Deborah D. Swain
DDS-5	KWRU's Response to Audit Finding 1	Deborah D. Swain
DDS-6	Schedules Supporting Equity	Deborah D. Swain
CAJ-1	Resume	Christopher A. Johnson
CAJ-2	MFRs Volume III	Christopher A. Johnson
CAJ-3	Plant Expansion Construction Contract	Christopher A. Johnson
CAJ-4	Data Request Responses	Christopher A. Johnson
CAJ-5	Wastewater Compliance Inspection Report	Christopher A. Johnson
CAJ-6	Glenn Miller housing agreement	Christopher A. Johnson
CAJ-7	Ted Yarboro housing agreement	Christopher A. Johnson
CAJ-8	Customer communications	Christopher A. Johnson
CAJ-8	Change Order for Vacuum Tank Replacement	Christopher A. Johnson
CAJ-9	Total Cost of Plant Expansion and Vacuum Tank Replacement	Christopher A. Johnson
CAJ-10	ERC List	Christopher A. Johnson
CAJ-11	E-Mail from Monroe County	Christopher A. Johnson
ERC-1	Schedule of increase in wastewater flows	Edward R. Castle
ERC-2	Explanation Letter re bidding vacuum tank replacement	Edward R. Castle
ERC-3	Estimate of vacuum tank replacement cost	Edward R. Castle
ERC-4	Schedule of engineering cost for vacuum tank replacement	Edward R. Castle
ERC-5	Expansion Estimate	Edward R. Castle
ERC-6	Vacuum Tank Replacement Estimate	Edward R. Castle
FS-1	Experience	Frank Seidman
FS-2	Schedule F-10 with comparison to PAA Order	Frank Seidman

KWRU may utilize other documents as exhibits at the time of hearing, either during cross examination or as further impeachment or rebuttal exhibits, and the precise identification of such documents cannot be determined at this time.

C. Statement of KWRU's Basic Position

KWRU is entitled to annual revenues in accordance with PAA Order as modified by its issues set forth in its Cross-Petition in the amount of \$3,440,501 plus amortization of rate case expense.

D. Questions of Fact that KWRU Considers at Issue, the Position on Each, and the Witness Testifying on Each Issue

TEST YEAR:

Issue 1: Is a two-phased revenue requirement calculation appropriate in this docket?

Position: The wastewater treatment plant expansion will be completed by the time the rates approved in this docket will be effective and thus there should be a single revenue requirement implemented without phasing. (Swain, Johnson)

Issue 2: What is the appropriate test year for establishing rates for KWRU?

Position: The appropriate test year is December 31, 2014 adjusted for known and measurable changes. (Swain, Johnson)

QUALITY OF SERVICE:

Issue 3: Is the quality of service provided by KWRU satisfactory?

Position: Yes. (Johnson)

RATE BASE:

Issue 4: What adjustments, if any, should be made to account for the audit adjustments to rate base in each of Staff's Audit Findings 1 through 7?

Position: Stipulation as to all but Audit Finding 6. Agree with Audit Finding 6 adjustments as contained in PAA Order (Swain)

Issue 5: What is the appropriate amount of plant in service to be used in setting rates?

Position: \$16,592,505 (Swain, Castle, Johnson)

Issue 6: What is the appropriate amount of accumulated depreciation to be used in setting rates?

Position: \$5,738,008 (Swain).

Issue 7: What is the appropriate amount of CIAC to be used in determining the rate base that is used for setting rates?

Position: \$9,649,877 (Swain, Johnson).

Issue 8: What is the appropriate amount of accumulated amortization of CIAC to be used for setting rates?

Position: \$3,014,941 (Swain)

Issue 9: What is the appropriate amount of construction work in progress (CWIP) to be used for setting rates?

Position: \$0 since the plant expansion will be on-line when the rates go into effect. If not a single increase then the amount is subject to a Stipulation. (Swain, Castle, Johnson)

Issue 10: What is the used and useful (U&U) percentage of the Utility's wastewater treatment plant after the treatment plant expansion is placed into service?

Position: The wastewater treatment plant is 100% used and useful after the treatment plant expansion is placed in service. (Swain, Castle, Johnson, Seidman)

Issue 11: What is the appropriate working capital allowance?

Position: \$1,458,270 based upon pro-forma test year balance sheet plus cost associated with permit litigation (Swain, Johnson)

Issue 12: What is the appropriate rate base?

Position: This is a fall-out calculation issue subject to the resolution of other protested issues.

COST OF CAPITAL AND CAPITAL STRUCTURE

Issue 13: What is the appropriate capital structure to be used in setting rates?

Position: This is a fallout calculation, based upon 100% equity financing of pro-forma plant (Swain)

Issue 14: What is the appropriate return on equity?

Position: Pursuant to Order No. PSC-16-0254-PAA-WS (leverage formula). (Swain)

Issue 15: What is the appropriate cost of long-term debt?

Position: 4.25% (Swain)

Issue 16: What is the appropriate weighted average cost of capital based on the proper components, amounts, and cost rates associated with the capital structure for the test year period?

Position: This is a fall-out calculation issue subject to the resolution of other protested issues.

NET OPERATING INCOME

Issue 17: What are the appropriate bills and gallons to use to establish test year revenues and rates?

Position: As stated in the PAA (Swain, Johnson)

Issue 18: What is the appropriate amount of miscellaneous revenues to be included in test year revenues and rates?

Position: As stated in the PAA, increased for the increase in miscellaneous rates. (Swain)

Issue 19: What is the appropriate amount of test year revenues for KWRU's wastewater system?

Position: Stipulation.

Issue 20: What adjustments, if any, should be made to account for the audit adjustments in each of Staff's Audit Findings 3, 4, 5, 10, and 11 to operating expenses?

Position: Stipulation.

Issue 21: What are the appropriate annual levels of O&M expenses for implementing advanced wastewater treatment (AWT)?

Position: \$2,220,932, plus amortization of additional actual rate case expense. (Swain, Johnson)

Issue 22: What adjustments, if any, should be made to pro forma contractual services accounting and engineering fees?

Position: None. (Swain, Johnson)

Issue 23: What adjustment, if any, should be made to KWRU's test year expenses for management fees charged by Green Fairways?

Position: None. (Swain, Johnson)

Issue 24: What is the appropriate amount of rate case expense?

Position: Actual rate case expense excluding the cost to respond to deficiencies through completion of the case. The amount expended through September 5, 2016 was \$288,306.52 (Swain)

Issue 25: What is the appropriate amount and accounting treatment of accounting fees incurred by the utility to restate its 2007 to 2012 Annual Reports?

Position: \$63,055. deferred and amortized over 5 years per Audit Finding 6 (Swain)

Issue 26: What is the appropriate amount and accounting treatment of fees associated with the legal challenge of KWRU's FDEP Permit Numbers FLA014951-012-DWIP, 18490-020, and 18490-021 for rate-setting purposes?

Position: \$477,435 deferred and amortized over 5 years, per PAA. (Swain)

Issue 27: What is the appropriate amount of depreciation expense to be used in setting rates?

Position: \$473,323 (Swain)

Issue 28: What is the appropriate amount of taxes other than income to be used in setting rates.

Position: \$288,613 (Swain)

REVENUE REQUIREMENT

Issue 29: What is the appropriate revenue requirement?

Position: This is a fall-out calculation issue subject to the resolution of other protested issues.

RATE AND RATE STRUCTURE

Issue 30: What are the appropriate rate structures and rates for KWRU’s wastewater system?

Position: Rate structure: per PAA. Rates: fall-out using staff formula (used in PAA) (Swain)

Issue 31: What is the appropriate rate for KWRU’s reuse service?

Position: \$.93 per PAA. (Swain)

Issue 32: What are the appropriate miscellaneous service charges to be charged by KWRU?

<u>Position:</u>	During Bus Hrs.	After Hrs.
Initial connection	\$75	\$125
Normal connection	\$75	\$125
Disconnect/Reconnect Non-Payment	\$150	\$225
Violation Connection	Actual Cost	Actual cost
Premise Visit	\$65	\$125
(Swain, Johnson)		

Issue 33: Should KWRU be authorized to collect Non-Sufficient Funds (NSF) charges?

Position: Stipulation.

Issue 34: Should KWRU request to implement a late payment charge be approved?

Position: Yes, \$9.50 (Swain)

Issue 35: Should KWRU’s be authorized to collect a Lift Station Cleaning charge?

Position: Stipulation.

Issue 36: If the Commission approves a rate increase for KWRU, when and under what circumstances should it be implemented?

Position: Yes, immediately upon issuance of final order. (Swain)

Issue 37: Should any portion of the implemented PAA rates be refunded? If so, how should the refund be calculated, and what is the amount of the refund?

Position: No portion of the PAA rates should be refunded. (Swain)

Issue 38: Should the Utility’s approved service availability policy and charges be revised?

Position: Stipulation.

Issue 39: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

Position: This is a fallout issue. (Swain)

Issue 40: Should the Utility be required to notify, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

Position: Yes.

Issue 41: Should this Docket be closed?

Position: Yes upon verification of post Final Order requirements.

E. Questions of Law that KWRU Considers at Issue, the Position on Each, and the Witness Testifying on Each Issue

KWRU is not aware of any questions of law not subsumed in the issues above.

F. Questions of Policy that KWRU Considers at Issue, the Position on Each, and the Witness Testifying on Each Issue

KWRU is not aware of any questions of policy not subsumed in the issues above.

G. Stipulated Issues

The following issues are stipulated:

1. Plant in service should be reduced by \$817,240 based on the Staff Audit Finding 1.
2. Construction work in progress should be increased by \$303,099 for the December 31, 2014 Phase I test year based on the Staff Audit Finding 2.
3. Land should be decreased by \$923 and O&M expenses (contractual services-other) should be increased by \$1,200 for survey fees, and working capital should be increased by \$738 based on the Staff Audit Finding 3.
4. CIAC should be decreased by \$297,120, accumulated amortization of CIAC should be decreased by \$81,153, and test year amortization of CIAC should be decreased by \$14,003 based on Staff Audit Finding 4.

5. Accumulated depreciation should be increased by \$2,040 and depreciation expense should be decreased by \$5,489, based on Staff Audit Finding 5.
6. The wastewater collection system should be considered 100% used and useful.
7. The existing wastewater treatment plant should be considered 100% used and useful before the wastewater treatment plant expansion is placed into service.
8. Accounts receivable-other should be increased by \$40,067 and miscellaneous current and accrued assets should be decreased by \$13,422, based on Staff Audit Finding 7.
9. Test year revenues for 2014 are as follows:

Residential and General Service	\$1,411,781
Reuse Revenues	\$50,400
Miscellaneous Revenues	<u>\$72,619</u>
Total	<u>\$1,534,799</u>
10. O&M expenses should be decreased by \$4,512, based on Staff Audit Finding 10 and \$6,276, based on Staff Audit Finding 11.
11. As currently set forth in Section 68.065(2), F.S., the following NSF charges may be assessed:
 - a. \$25, if the face value does not exceed \$50,
 - b. \$30, if the face value exceeds \$50 but does not exceed \$300,
 - c. \$40, if the face value exceeds \$300,
 - d. Or five percent of the face amount of the check, whichever is greater.
12. KW should be authorized to collect a monthly lift station cleaning charge of \$1,462 from the Monroe County Detention Center.
13. In calculating the rates to be collected from service rates, the amount of revenues from reuse rates should be calculated using the final approved reuse rate.
14. The appropriate plant capacity charge should remain unchanged at \$2,700 per ERC.

H. Pending Motions And Other Open Matters

KWRU has a pending Request to Take Official Notice.

I. Statement Identifying Pending Requests for Confidentiality

KWRU knows of no confidential documents to be introduced in this proceeding. However, should another party be allowed to introduce any documents not yet identified, KWRU reserves the right to assert a claim of confidentiality.

J. Objections to Qualifications of Witnesses

While KWRU does not object to the qualifications of the witnesses, it reserves the right to object to any opinions rendered that are beyond the expertise of such witness.

K. Reasons For Non-Compliance With Order (if any)

None known at this time.

Respectfully submitted this 14th day of October,
2016, by:

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by E-

Mail to the following parties this 14th day of October, 2016:

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