

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 20170141-SU

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PREHEARING STATEMENT OF K W RESORT UTILITIES CORP.

Pursuant to the Order Establishing Procedure issued January 12, 2018, 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 cases:

<u>Witness Name</u>	<u>Subject</u>	<u>Issue</u>
Deborah D. Swain	All financial matters, including Allowance for Funds Prudently Invested	3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 46, 47
Christopher A. Johnson	All technical and related financial matters	1, 2, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 30, 38, 44, 45, 47
Edward R. Castle	Construction project costs and sole source bidding	2
Frank Seidman	Used and useful	8, 29
Robert C. Pabian	Costs of Modular and Site Built Construction	2

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
CAJ-1	Resume	Christopher A. Johnson
CAJ-2	MFRs Volume III – Additional Engineering Information as Filed in the Docket	Christopher A. Johnson
CAJ-3	Contract for Rehabilitation of the Original Wastewater Treatment Plants	Christopher A. Johnson
CAJ-4	Chemical Analysis Spreadsheet Prepared by CAJ	Christopher A. Johnson
CAJ-5	KWRU’s Engineer of Records Sludge Hauling Cost Estimate	Christopher A. Johnson
CAJ-6	Cost for Rehabilitation of the Two Older Wastewater Treatment Plans	Christopher A. Johnson
CAJ-7	Engineering Invoices for Designing the Rehabilitation of the Original Two Wastewater Plants	Christopher A. Johnson
CAJ-8	Engineer Memorandum Regarding the Sole Source	Christopher A. Johnson
CAJ-9	Cost for Rehabilitation of the Chlorine Contact Chamber	Christopher A. Johnson
CAJ-10	Engineering Invoices for Designing the Rehabilitation of the Original Two Wastewater Plants	Christopher A. Johnson
CAJ-11	Cost for Replacement of Lift Station L2A Which Was Set For Replacement Prior To Hurricane Irma And Was Substantially Damage During Hurricane Irma (Broken and Knocked Down)	Christopher A. Johnson

<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>	<u>PERSON SPONSORING</u>
CAJ-12	The Cost Estimate For Replacement of The Generator That Backs Up The Wastewater Treatment Plant And That Was Damaged Beyond Repair During Hurricane Irma	Christopher A. Johnson
CAJ-13	Engineering Estimate For Replacement of Generator	Christopher A. Johnson
CAJ-14	Replacement Tow Behind	Christopher A. Johnson
CAJ-15	Costs For Replacement Of Phone System To Convert From Comcast Cable To AT&T Fiber Due To Comcast's Failure During Hurricane Irma and Its Failure To Operate As Of The Date Of This Testimony	Christopher A. Johnson
CAJ-16	Costs For A Temporary Construction Trailer And Rental Office Space Due To KWRU's Office Being Damaged and Deemed Uninhabitable After Hurricane Irma	Christopher A. Johnson
CAJ-17	Costs Of Information Technology Services Due To Hurricane Irma	Christopher A. Johnson
CAJ-18	Wastewater Plan Main Standby Generator Rental	Christopher A. Johnson
CAJ-19	Tow Behind Generator Rental	Christopher A. Johnson
CAJ-20	Hurricane Irma Expenditures	Christopher A. Johnson
CAJ-21	Modular Office Installation Agreement	Christopher A. Johnson
CAJ-22	Roofing Estimate	Christopher A. Johnson
CAJ-23	Employee Salaries	Christopher A. Johnson
CAJ-24	Billing Analysis	Christopher A. Johnson
FS-1	Curriculum Vitae	Frank Seidman
FS-2	F-Schedule	Frank Seidman

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

<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>	<u>PERSON SPONSORING</u>
DDS-2	Updated MFR Schedules	Deborah D. Swain
DDS-3	Schedule Supporting Position on Audit Findings	Deborah D. Swain
DDS-4	Table 1-1 from 2014 Audit Report Docket 20150071-SU	Deborah D. Swain
DDS-5	Pumping Equipment Asset Detail	Deborah D. Swain
DDS-6	Document Supporting Debt Rate	Deborah D. Swain
DDS-7	Schedules of Interest on FPSC Escrow Account	Deborah D. Swain
DDS-8	List of Adjustments to MFRs	Deborah D. Swain
CAJ-27	Lift Station Panel Proposal	Christopher A. Johnson
CAJ-28	Work Directive 2018-02	Christopher A. Johnson
CAJ-29	Davits and Clarifier Drive Quote	Christopher A. Johnson
CAJ-30	Generator Pad Quotation and Invoice	Christopher A. Johnson
CAJ-31	Portable Generator Invoice	Christopher A. Johnson
CAJ-32	KWRU Modular Office Design	Christopher A. Johnson
CAJ-33	Office Demolition Bids	Christopher A. Johnson
CAJ-34	Modular Office Installation Contract	Christopher A. Johnson
CAJ-35	KWRU Operating Permit	Christopher A. Johnson
CAJ-36	IT Solutions Letter re: Redundancy	Christopher A. Johnson
CAJ-37	Officer Compensation Payroll Reports	Christopher A. Johnson
CAJ-38	Communications Costs and Correspondence	Christopher A. Johnson
CAJ-39	Service Truck Invoices and Costs	Christopher A. Johnson
CAJ-40	Power documentation and analysis	Christopher A. Johnson
CAJ-41	ERC Calculations	Christopher A. Johnson
ERC-1	Resume	Edward R. Castle
ERC-2	Evoqua Sole Source Letter	Edward R. Castle
RCP-1	Modular Office Installation Agreement	Robert C. Pabian

<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>	<u>PERSON SPONSORING</u>
RCP-2	Prior Modular Office Developments	Robert C. Pabian

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 the amount of \$3,761,710, including amortization of current rate case expense.

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

Quality of Service

ISSUE 1 Is the quality of service provided by K W Resort satisfactory?

KWRU POSITION: Yes. KWRU is providing satisfactory quality of service to its customers.

Rate Base

Contested Issue A:

Did the Utility have a reasonable and prudent amount of insurance coverage for damages associated with Hurricane Irma?

Contested Issue B:

Did the Utility reasonably and prudently pursue insurance claims for damages associated with Hurricane Irma?

KWRU POSITION: These matters are not at issue within this docket. No testimony was provided as to the reasonableness or prudence of insurance coverage, or the pursuit of insurance compensation for damages associated with Hurricane Irma.

ISSUE 2 Was the Utility’s use of single source bidding reasonable and prudent for certain pro forma plant additions, and if not, what action should the Commission take regarding these pro forma projects?

KWRU POSITION: Yes. As testified by Professional Engineer Edward R. Castle in his rebuttal testimony with regard to the plant rehabilitation, the sole source bidder was the original designer and the modifier (to meet AWT standards) of the unique treatment trains requiring refurbishment and is the only potential provider with access to detailed designs and specifications for the replacement components. Further, as testified by Witness Johnson in his rebuttal testimony, the savings alleged to be available based on a “similar” project where competitive bids were obtained are illusory when the cost of developing designs and specifications of the bid process are considered. (Johnson, Castle) As testified by KWRU President Christopher A. Johnson in his rebuttal testimony with regard to the L2A Lift Station Replacement, Wharton Smith declined to bid based on mobilization costs and previous bids on a functionally identical lift station. As testified by Pabian Outdoor-Southeast, Inc. President Robert C. Pabian in his rebuttal testimony with regard to the new modular office, the mobile home vendor engaged by KWRU works with multiple mobile home manufacturers to obtain the best price and value.

ISSUE 3 What adjustments, if any, should be made to account for the audit findings related to rate base?

KWRU POSITION: None.

ISSUE 4 What is the appropriate amount of plant in service to be included in rate base?

KWRU POSITION: \$19,252,125.

ISSUE 5 What is the appropriate amount of accumulated depreciation to be included in rate base?

KWRU POSITION: \$6,490,653.

ISSUE 6 What is the appropriate amount of CIAC to be included in rate base?

KWRU POSITION: \$10,406,318.

ISSUE 7 What is the appropriate amount of accumulated amortization of CIAC to be included in rate base?

KWRU POSITION: \$3,898,064.

ISSUE 8 What are the used and useful percentages of the Utility's wastewater treatment plant and wastewater collection system?

KWRU POSITION: The Wastewater Collection System is 100% Used and Useful; the Wastewater Treatment Plant is 71.5% Used and Useful.

ISSUE 9 What is the appropriate working capital allowance to be included in rate base?

KWRU POSITION: \$2,269,090.

ISSUE 10 What is the appropriate rate base? (fall out)

KWRU POSITION: \$7,173,187.

Cost of Capital

ISSUE 11 What is the appropriate capital structure?

KWRU POSITION:

		<u>Weight</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long Term Debt	3,525,749	49.15%	5.39%	2.65%
Common Equity	3,446,398	48.05%	10.39%	4.99%
Deposits	<u>201,041</u>	<u>2.80%</u>	<u>2.00%</u>	<u>.06%</u>
Total	<u>7,173,188</u>			<u>7.70%</u>

ISSUE 12 What is the appropriate return on equity?

KWRU POSITION: 10.39%, based on the current leverage formula.

ISSUE 13 What is the appropriate cost of long-term debt?

KWRU POSITION: 5.39%, based on the current prime rate.

ISSUE 14 What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure?

KWRU POSITION: 7.70%.

Net Operating Income

ISSUE 15 What are the appropriate billing determinants (factored ERCs and gallons) to use to establish test year revenues?

KWRU POSITION:

<u>Residential</u>	
Bills	17,475
Gallons	65,498
<u>General Service</u>	
Bills	1,981
Gallons	106,976
<u>Harbor Shores</u>	
Bills	12
Gallons	2,436
<u>Private Lift Stations</u>	
Bills	2,269
Gallons	42,269
<u>Reuse Service</u>	
Bills	16
Gallons	27,074

ISSUE 16 What are the appropriate test year revenues?

KWRU POSITION: \$2,332,526.

ISSUE 17 What adjustments, if any, should be made to account for the audit findings related to net operating income?

KWRU POSITION: None.

ISSUE 18 What is the appropriate amount of salaries and wage expense?

KWRU POSITION: \$981,985.

ISSUE 19 What is the appropriate amount of employee pensions & benefits expense?

KWRU POSITION: \$236,540.

ISSUE 20 What is the appropriate amount of sludge hauling, chemicals, and purchased power expenses?

KWRU POSITION: The appropriate amount of sludge hauling expense is \$164,848; the appropriate amount of Chemicals is \$231,742; the appropriate amount of purchased power is \$240,106.

ISSUE 21 What is the appropriate amount of materials and supplies expense?

KWRU POSITION: \$42,751.

ISSUE 22 What is the appropriate amount of contractual services – engineering expense?

KWRU POSITION: \$20,765.

ISSUE 23 What is the appropriate amount of rental of equipment expense?

KWRU POSITION: \$1,479.

ISSUE 24 What is the appropriate amount of insurance – worker’s comp expense?

KWRU POSITION: \$34,607.

ISSUE 25 What is the appropriate amount of bad debt expense?

KWRU POSITION: \$2,443.

ISSUE 26 What is the appropriate amount to be recovered by the Utility for storm restoration expenses due to Hurricane Irma, and over what period should such expenses be recovered?

KWRU POSITION: \$273,178, to be recovered over four years.

ISSUE 27 What is the appropriate amount of miscellaneous expense?

KWRU POSITION: \$227,089.

ISSUE 28 What are the appropriate amounts of the Utility’s pro forma expenses?

KWRU POSITION: Operating and Maintenance: \$847,534; Depreciation Expense: \$185,883; Taxes other than Income Tax: \$135,954.

ISSUE 29 What is the appropriate amount of rate case expense, and over what period should such expense be recovered?

KWRU POSITION: \$387,286, amortized over four years.

ISSUE 30 What, if any, further adjustments should be made to the Utility's O&M expense?

KWRU POSITION: None.

ISSUE 31 What is the appropriate amount of O&M expense? (fall out)

KWRU POSITION: \$2,567,866.

ISSUE 32 What is the appropriate amount of depreciation expense?

KWRU POSITION: \$330,042.

ISSUE 33 What is the appropriate amount of Taxes Other Than Income?

KWRU POSITION: This is a fallout calculation, and the appropriate amount is \$311,467.

Revenue Requirement

ISSUE 34 What is the appropriate revenue requirement?

KWRU POSITION: \$3,761,710.

Rate Structure and Rates

ISSUE 35 What are the appropriate adjustments, if any, to test year billing determinants for setting final rates and charges?

KWRU POSITION: No further adjustments to the billing determinants shown in KWRU Position to Issue 15.

ISSUE 36 What are the appropriate rate structure and rates for wastewater service?

KWRU POSITION: The appropriate rate structure and rates are as follows:

Residential Service

BCF All Meter Sizes	\$31.66	\$31.86	\$51.86
Gallonage Charge per 1,000 gallons (10,000 gallon cap)	\$5.25	\$5.28	\$8.59

General Service

5/8" x 3/4 "	\$31.66	\$31.86	\$51.86
1"	\$79.15	\$79.65	\$129.65
1.5"	\$158.30	\$159.30	\$259.29
2"	\$253.28	\$254.88	\$414.87
3"	\$506.56	\$509.76	\$829.74
4"	\$791.50	\$796.50	\$1,296.46
6"	\$1,583.00	\$1,593.00	\$2,592.93
8"	\$2,532.80	\$2,548.80	\$4,148.68
8" Turbo	\$2,849.40	\$2,867.40	\$4,667.27
Gallonage Charge per 1,000 gallons	\$6.30	\$6.33	\$10.30

Harbor Shores

Base Facility Charge		\$2,198.34	\$3,578.24
Gallonage Charge per 1,000 gallons 690,000 gallon cap		\$5.28	\$8.59

Private Lift Station Owners

5/8" x 3/4 "	\$25.33	\$25.49	\$41.49
1"	\$63.32	\$63.72	\$103.72
1.5"	\$126.64	\$127.44	\$207.43
2"	\$202.62	\$203.90	\$331.89
3"	\$405.25	\$407.81	\$663.79
4"	\$633.20	\$637.20	\$1,037.17
6"	\$1,266.40	\$1,274.40	\$2,074.34
8"	\$2,026.24	\$2,039.04	\$3,318.95
Gallonage Charge per 1,000 gallons	\$6.30	\$6.33	\$10.30

Reuse Service

Gallonage Charge per 1,000 gallons	\$0.93	\$1.34	\$2.18
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Other Issues

ISSUE 37 What is the appropriate rate for KWRU’s reuse service?

KWRU POSITION: The reuse service, as well as the residential and general service base rate and gallonage rates, are all increased on a percentage basis based on the increase in the general revenue requirement determined by the Public Service Commission. The current fallout calculation is \$2.18 per 1,000 gallons.

ISSUE 38 What are the appropriate miscellaneous service charges?

KWRU POSITION: As no testimony has been proffered with regard to these charges, KWRU contends this matter is not at issue. Notwithstanding the foregoing, the appropriate miscellaneous service charges are based on a cost of living increase pursuant to the Public Service Commission Price Index since the last rate case (2015 - 1.57%, 2016 - 1.29%, 2017 - 1.51%), and are as follows:

	<u>Bus. Hrs.</u>	<u>After Hrs.</u>
Initial Connection Fee	\$ 62.14	\$ 68.72
Normal Reconnection Fee	\$ 68.72	\$ 79.47
Violation Reconnection Fee	Actual Cost	Actual Cost
Premises Visit Fee (in lieu of disconnection)	\$ 47.73	\$ 54.31
Bad Check Charge	Pursuant to 68.065 (2), Florida Statutes	

ISSUE 39 What is the appropriate late payment charge?

KWRU POSITION: As no testimony has been proffered with regard to the appropriate amount of late payment charges, KWRU contends this matter is not at issue. Notwithstanding the foregoing, the appropriate late payment charge is based on a cost of living increase pursuant to the Public Service Commission Price Index since the last rate case (2015 - 1.57%, 2016 - 1.29%, 2017 - 1.51%), \$7.47.

ISSUE 40 What is the appropriate Lift Station Cleaning charge?

KWRU POSITION: As no testimony has been proffered with regard to the appropriate lift station cleaning charge, KWRU contends this matter is not at issue. Notwithstanding the foregoing, the appropriate charge is based on a cost of living increase pursuant to the Public

Service Commission Price Index since the last rate case (2015 - 1.57%, 2016 - 1.29%, 2017 - 1.51%), for an appropriate charge of \$1,526.82.

ISSUE 41 What are the appropriate initial customer deposits?

KWRU POSITION: Two times the average customer bill based upon the final rate determination.

ISSUE 42 What are the appropriate Allowance for Funds Prudently Invested (AFPI) charges?

KWRU POSITION: This is a fall-out calculation based on the NUU adjustment, which is stipulated. The amount will change based on pro forma in the affected accounts.

ISSUE 43 What is the appropriate amount by which rates should be reduced to reflect the removal of the amortized rate case expense?

KWRU POSITION: This is a fall-out calculation based on the allowed rate case expense amount. Rates should be reduced pursuant to Commission Rule 25-30.4705, F.A.C.

ISSUE 44 In determining whether any portion of the interim wastewater revenue increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

KWRU POSITION: There should be no refund as KWRU's final rates evidenced by any and all testimony far exceed the interim rates.

ISSUE 45 Should the Utility maintain an asset management and preventive maintenance plan? If so, what action, if any, should be taken?

KWRU POSITION: Yes, predicated upon full employment (14 employees).

ISSUE 46 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?

KWRU POSITION: Yes.

ISSUE 47 Should this docket be closed?

KWRU POSITION: Yes.

G. Stipulated Issues

None as of the date of filing of this Statement.

H. Pending Motions And Other Open Matters

None.

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

KWRU objects to the testimony of OPC Witness Helmuth W. Schultz with regard to the reasonable cost per square foot of construction in the Florida Keys. Witness Schultz is not adequately qualified to express an opinion on this matter. Witness Schultz has no expertise or relevant experience relating to construction or construction costs, much less construction or construction costs in the Florida Keys. As a result, KWRU objects to Witness Schultz's pre-filed testimony, Page 11, Lines 12—23; Page 12, Lines 14 – 25; and Page 13, Lines 8 – 14.

KWRU objects to the testimony of OPC Witness Helmuth W. Schultz with regard to proper staffing. Witness Schultz is not adequately qualified to express an opinion on this matter. Witness Schultz has never operated a wastewater utility and has no knowledge regarding the particular operational demands of KWRU's treatment plant. As a result, KWRU objects to Witness Schultz's pre-filed testimony, Page 21, Lines 25 – 35; Page 22, lines 1 – 26; and Page 23, Lines 1 – 24.

KWRU objects to the testimony of OPC Witness Helmuth W. Schultz which relates to the reasonableness of KWRU's pension plan. Witness Schultz is not adequately qualified to express an opinion on this matter. Witness Schultz has no relevant experience or expertise which enable him to opine on the propriety or structure of pension plans generally, much less as the implementation of same relates to the employment market in the Florida Keys. As a result, KWRU objects to Witness Schultz's pre-filed testimony, Page 26, Lines 13 – 25; Page 27, Lines 1 – 25; and Page 28, Lines 1 – 9.

While KWRU has not logged objections to the testimony of other witnesses, it reserves the right to object to any opinions rendered that are beyond the expertise of such witnesses.

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

None known at this time.

Respectfully submitted this 17th day of April, 2018,
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 17th day of April, 2018:

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