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STEVE CRISAFULLI
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Representatives*



September 14, 2016

Carlotta Stauffer
Office of Commission Clerk
Public Service Commission
2540 Shumard Oak Blvd.
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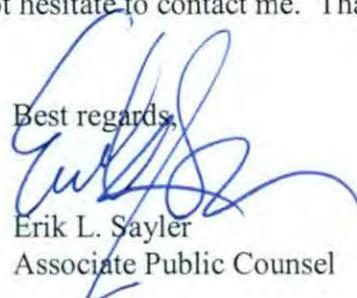
Re: Docket No. 150071-SU

Dear Ms. Stauffer,

Please find enclosed for filing in the above referenced docket the Direct Testimony and Exhibits of Patricia W. Merchant, CPA. This filing is being made via the Florida Public Service Commission's Web Based Electronic Filing portal.

If you have any questions or concerns; please do not hesitate to contact me. Thank you for your assistance in this matter.

Best regards,


Erik L. Saylor
Associate Public Counsel

ELS:bsr

CC: All Parties of Record (via email)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in)
wastewater rates in Monroe County by)
KW Resort)
_____)

Docket No. 150071-SU

Filed: September 14, 2016

DIRECT TESTIMONY

OF

PATRICIA W. MERCHANT, CPA

On Behalf of the Citizens of the State of Florida

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List of Exhibits

<u>Exhibit No.</u>	<u>Title</u>																				
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PWM-2	Phase I Accounting Schedules																				
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PWM-4	OPC Interrogatory 27 – FL Keys Linen 2012 Addendum to Utility Service Agreement																				
PWM-5	KW Response to Staff Audit Document Request 5 – Pro Forma Expenses																				

PWM-6 KW 2015 PSC Annual Report
PWM-7 Bankrate.com WSJ Prime Rate of Interest
PWM-8 FCAA Water Fees and Charges
PWM-9 GDU Silver Springs Shores Hearing Transcript

1 supervisor in the Division of Water and Wastewater which evolved into the
2 Division of Economic Regulation.

3

4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC**
5 **SERVICE COMMISSION?**

6 A. Yes, I have testified numerous times before the PSC as an expert witness. I have
7 also testified before the Division of Administrative Hearings as an expert witness.

8

9 **Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS CASE?**

10 A. Yes. I am sponsoring Exhibit PWM-1, a summary of my regulatory experience and
11 qualifications, which is attached to my testimony. I also sponsor Exhibits PWM-2
12 to PWM-9, which are described on my Table of Contents page. Exhibit PWM-2
13 contains the accounting spreadsheets for my recommended Phase I revenue
14 requirement calculations. Exhibit PWM-3 contains the accounting spreadsheets for
15 my recommended Phase II revenue requirement calculations.

16

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?**

18 A. I am presenting OPC's overall recommended Phase I and Phase II revenue
19 requirements in this case and I provide testimony regarding the appropriate rate
20 base, net operating income, cost of capital, revenue requirement and rates for KW
21 Resort Utilities Corporation (KW or Utility). I present evidence supporting the
22 need to update the historical test year so that it will be representative of the time
23 that the proposed plant expansion will be placed into service. I further testify about
24 adjustments to the Commission's Proposed Agency Action (PAA) Order No. PSC-

1 16-0123-PAA-SU¹ (PAA Order), including adjustments which I support and
2 adjustments with which I disagree.

3
4 **Q. ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF**
5 **THE FLORIDA OFFICE OF PUBLIC COUNSEL IN THIS CASE?**

6 A. Yes. Andrew T. Woodcock, P.E., with the firm Tetra Tech, Inc., is presenting
7 testimony on the appropriate amount of the plant additions related to the expansion
8 of the wastewater treatment plant, the appropriate cost of the vacuum tank plant
9 replacement, and the appropriate amount of non-used and useful plant, as well as
10 some additional calculations which I incorporated into my recommended Phase I
11 and Phase II revenue requirements and rates.

12
13 **SUMMARY**

14 **Q. PLEASE PROVIDE A BRIEF SUMMARY OF YOUR TESTIMONY IN**
15 **THIS CASE.**

16 A. I testify to numerous issues that show that the Utility's requested rate increase and
17 the Commission's approved PAA Order Phase I and Phase II rate increases are
18 excessive. Further, the historic test year requested by the Utility and relied upon
19 by the Commission in its PAA Order is unreasonable for setting rates for the
20 growth-related wastewater treatment plant. Similar to the PAA Order, I use two
21 separate test years to establish rates for KW. I have utilized an historic test year
22 ended December 31, 2014 for Phase I rates, and I have calculated rate base, cost of
23 capital, net operating income and rates for Phase I as shown in my Exhibit PWM-

¹ Order No. PSC-16-0123-PAA-SU, issued March 23, 2016, in Docket No. 150071-SU, In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

1 2. The appropriate revenue requirement for Phase I rates should be \$1,821,639,
2 which represents an increase of \$286,840, or 18.69%, to adjusted 2014 test year
3 revenues. For purposes of setting Phase II rates I have updated the 2014 test year
4 forward to a pro forma 2016 test year, as I describe in detail later in my testimony.
5 Based on my adjustments presented in Exhibit PWM-3, I testify that the appropriate
6 revenue requirement for Phase II rates should be \$2,269,893, representing an
7 increase of \$568,263, or 33.40%, to adjusted 2016 pro forma test year revenues.

8 Some of the other issues with which I present testimony include the following:

- 9 • Exclusion of known and measurable growth-related adjustments;
- 10 • Overstatement of pro forma operating expenses;
- 11 • Amortization of legal fees associated with the litigation of the treatment
12 plant expansion permit, which should be capitalized;
- 13 • Amortization of accounting fees for the Utility to correct its books after the
14 last rate case;
- 15 • Miscellaneous revenues and reuse gallons and appropriate rate;
- 16 • Refund of revenues collected under excessive PAA Rates;
- 17 • Discontinuance of collection of Contributions in Aid of Construction
18 (CIAC) Charges.

19
20 **APPROPRIATE TEST YEAR**

21 **Q. WHAT TEST YEAR DID KW REQUEST IN THIS DOCKET?**

22 **A.** KW requested an historical test year ended December 31, 2014. To that test year,
23 KW made substantial pro forma adjustments to rate base, operating expenses and
24 the capital structure to add post-test year increases to its requested revenue
25 requirement.

1 Q. WHAT TYPES OF PRO FORMA ADJUSTMENTS DID THE UTILITY
2 MAKE TO ITS HISTORICAL TEST YEAR MINIMUM FILING
3 REQUIREMENTS (MFRs) IN THIS DOCKET?

4 A. To begin, the Utility made a pro forma adjustment to increase plant by \$3,574,468
5 and accumulated depreciation by \$196,282 for its new wastewater treatment plant
6 expansion, which KW has now indicated will go into service no sooner than March
7 2017. Second, it made pro forma adjustments to accumulated depreciation and
8 depreciation expense to annualize its 2014 test year depreciation expense based on
9 other test year plant additions that went into service in 2014. Third, KW made
10 adjustments to its historical test year adding more than \$840,000 in pro forma
11 operation and maintenance (O&M) expense adjustments, including additional
12 salaries and benefits, chemicals, purchased power, accounting fees, sludge hauling
13 fees, materials and supplies, contractual services for engineering, testing and other,
14 insurance, and miscellaneous expenses. Fourth, the Utility made an adjustment to
15 amortize legal fees over 5 years for its defense of its Florida Department of
16 Environmental Protection (DEP) application for a construction/operating permit to
17 expand plant capacity in an administrative challenge by the Last Stand
18 organization. Finally, the Company made corresponding adjustments to taxes other
19 than income related to its other O&M expense pro forma adjustments.

20

21 Q. IS THE 2014 HISTORICAL TEST YEAR WITH PRO FORMA
22 ADJUSTMENTS APPROPRIATE FOR SETTING RATES FOR KW IN
23 THIS PROCEEDING?

24 A. Yes and no. First, I believe that a 2014 historical test year can be appropriate in
25 this docket, but only to the extent that the Commission implements a two-phased

1 rate increase. To explain, an historical test year with proper adjustments can be
2 appropriate to establish rates from the date KW implemented the Commission's
3 Phase I rates in the PAA Order until its new plant expansion is placed into service.
4 However, the Utility is expecting material growth in its treatment capacity,
5 customers, and consumption; therefore, an historical test year is not appropriate. In
6 this docket, based on its statements in its MFRs, KW is expecting substantial
7 growth in customers and consumption as soon as the new wastewater treatment
8 plant is placed in service; so much so that KW's projected 7% growth per year
9 exceeds the statutory 5% growth cap. While some of the pro forma adjustments
10 that the Utility has requested for salaries and advanced wastewater treatment
11 (AWT) may be appropriate for a 2014 historic test year, the majority of the
12 requested pro forma adjustments relate to the implementation of the wastewater
13 treatment expansion. The Utility's filing did not include any growth-related offsets
14 that would reduce the revenue requirement. Including growth-related plant and
15 expense pro forma adjustments without including the corresponding adjustments
16 for the impact of growth in customer contributions in aid of construction (CIAC),
17 additional customer bills and equivalent residential connections (ERCs) and
18 wastewater treatment consumption, will overstate the per-ERC cost. This is the
19 basic concept of the "matching principle." To include the growth-related increases
20 without the related reductions will immediately overstate the revenues and earnings
21 received by the Utility when the new rates are implemented, and will not result in
22 fair, just, and compensatory rates pursuant to Section 367.081, Florida Statutes.

23
24 **Q. ARE THERE ADDITIONAL CONCERNS YOU WOULD LIKE TO**
25 **ADDRESS TO SHOW THAT THE COMPANY'S HISTORICAL TEST**

1 **YEAR WILL NOT BE REPRESENTATIVE OF THE INVESTMENT**
2 **LEVELS WHEN THE NEW RATES WILL BE IMPLEMENTED?**

3 A. Yes. Adding in the positive pro forma adjustments that will increase rates for its
4 historical test year and ignoring the offsets that reduce rates clearly results in
5 “cherry-picking.” The definition of “cherry-picking” according to the Merriam-
6 Webster online dictionary² is to pick or accept the best people or things in a group,
7 or to select the best or most desirable. The addition of material amounts of growth
8 in CIAC, customers and consumption are clearly evident in the Utility’s filing, as
9 well as the actual changes that have occurred since the end of the 2014 test year.
10 These items represent material known and measurable transactions that are being
11 ignored. Further, if you increase the costs of plant and operating expenses without
12 reflecting the known and reasonably expected increases in sales and customer
13 growth, which KW clearly expects, you will inflate the average cost per customer
14 over the true cost and thus overstate the rates charged to customers. As I address
15 later in my testimony, the Utility has collected almost \$500,000 of CIAC since
16 December 31, 2014, which is a substantial amount. The test year used should
17 provide a foundation for determining the statutory requirement of just and
18 reasonable rates. Without the inclusion of the offsetting decreasing impacts to the
19 revenue requirement, the Commission will establish unfair, unjust and
20 unreasonable rates.

21
22 **Q. WHAT ARE THE STATEMENTS THE UTILITY MADE IN ITS MFRS ON**
23 **WHICH YOU ARE BASING YOUR STATEMENT THAT THE UTILITY IS**
24 **EXPECTING SUBSTANTIAL GROWTH IN CUSTOMERS AND**

² <http://www.merriam-webster.com/dictionary/cherry-pick>

1 **CONSUMPTION?**

2 A. On MFR Schedule F-6 page 2 of 4, it states in part:

3 In 2013 the maximum 3MADF³ was at 91% of the .499 MGD⁴
4 permitted capacity. When the permitted capacity (measured in
5 3MADF) will be equal or exceeded within the next six months, the
6 permittee is required to submit an application for a
7 construction/operating permit to expand. In April, 2014, KWRU
8 submitted an application to FDEP to increase the processing
9 capacity of the plant by .350 MGD based on known flows through
10 2013. In June, 2014, the FDEP issued an "Intent to Issue" a
11 construction permit. By October, 2014, the 3MADF had reached
12 102% of the permitted capacity. At that point, the County would
13 only issue dry permits until the KWRU expansion is approved and
14 construction is under way. As a result, flows going forward are
15 suppressed in 2015 from what they would have been. The need for
16 the expansion is critical. In April, 2015, FDEP⁵ was still holding
17 hearings wherein developers were concerned that the requested
18 .350 GPD⁶ [sic] expansion was inadequate. The Utility rate of
19 growth has been at a historical average of just over 7%, even
20 considering recent slower growth due to suppression. It is expected
21 to continue at that rate including and after the known suppressed
22 demand comes on line in the year the plant expansion is completed.
23

24 **Q. IS THE NEW TREATMENT PLANT EXPANSION DESIGNED FOR**
25 **HISTORICAL CUSTOMER FLOWS OR FOR FUTURE CUSTOMER**
26 **GROWTH?**

27 A. Clearly, expanding the treatment plant capacity from the existing capacity of .499
28 MPD to .849 MPD (a 79% increase in capacity), is designed primarily for future
29 growth. While some small component of the new plant is needed for current
30 customer consumption, the majority of the plant expansion is designed for customer
31 growth beyond the level of current customers.

32

33 **Q. WOULD ANOTHER TEST YEAR BE MORE APPROPRIATE THAN THE**

³ 3MADF is the 3 Month Average Daily Flow.

⁴ MGD is Million Gallons Per Day

⁵ FDEP is the Florida Department of Environmental Protection

⁶ GPD is Gallons Per Day

1 **2014 TEST YEAR TO ESTABLISH RATES AFTER THE WASTEWATER**
2 **TREATMENT PLANT IS PLACED INTO SERVICE?**

3 A. Yes. The growth from the wastewater treatment expansion will begin when the
4 new plant is placed into service. A projected test year of at least a year out from
5 the date the plant goes into service would clearly be more representative of the level
6 of investment, operating income and expenses, and customer billing determinants
7 for that first year. This will allow the rates established to be representative of the
8 circumstances at the time the new plant expansion is placed into service. KW did
9 not qualify to implement an interim rate increase due to the level of rate base and
10 operating earnings for the 2014 test year. However, the Utility was required to
11 implement advanced wastewater treatment to its existing treatment plant as of
12 January 1, 2016, and it is my understanding that it has done so. Understandably,
13 the existing treatment plant would incur additional costs of chemicals, purchased
14 power and sludge hauling expenses, as well as some additional operational
15 personnel.

16
17 **Q. IF THE 2014 TEST YEAR IS NOT APPROPRIATE, WHAT**
18 **ADJUSTMENTS SHOULD THE COMMISSION MAKE?**

19 A. The Company has stated that the new plant expansion will not be completed and
20 placed into service until the end of the first quarter of 2017. The best representative
21 test year would have been a 2017 average projected test year that takes into account
22 all of the matching items necessary to set rates for the time that the plant will be
23 placed into service. While a 2017 test year would be the best to use to set rates in
24 this docket, including the growth-related plant expansion, unfortunately that ship
25 has sailed. At this point, the Company has not provided the necessary information

1 to enable the Commission to properly establish the most reasonable test year for
2 the growth-related plant expansion and the resulting customer growth that will
3 ensue. That being said, for the many reasons which I will discuss later, an
4 alternative 2016 projected balance with proper adjustments can be utilized, which
5 will be much more representative than using an historic 2014 test year,. I will refer
6 to this as a Pro Forma Test Year Ended December 31, 2016. As I address the
7 different test year items in my testimony, I specifically outline the adjustments that
8 will allow an adjusted pro forma 2016 test year to be the most appropriate to set
9 prospective rates.

10
11 **Q. HAS THE COMMISSION PREVIOUSLY USED A PROJECTED TEST**
12 **YEAR WHEN GROWTH WAS OCCURRING AT AN EXCEPTIONAL**
13 **RATE TO BETTER MATCH INCREASING REVENUES WITH THE**
14 **HIGH LEVEL OF PRO FORMA ADDITIONS?**

15 **A.** Yes, the Commission has allowed projected test years on many occasions when
16 circumstances warranted matching a utility's investment with its operating income,
17 expenses, and customer growth. Also, projected test years are regularly used in
18 electric rate cases. One relevant case in the water and wastewater industry which
19 issues are very similar to KW's case, is the Burkim Enterprises, Inc. (Burkim), staff
20 assisted rate case (SARC). In Order No. PSC-01-2511-PAA-WS⁷, the
21 Commission, stated that it was appropriate to use a projected test year when the
22 Utility was growing at an exceptionally high rate per year. The Commission Order
23 in the Burkim case states:

⁷ Issued December 24, 2001, in Docket No. 010396-WS, In Re: Application for staff-assisted rate case in Brevard County by Burkim Enterprises, Inc., pages 11-12.

1 For audit purposes, we selected a historical test year ending May 31,
2 2001. Because the utility is growing at an exceptionally high rate (29
3 connections per year), rates based on historical data alone will be
4 significantly different than rates based on current or even future
5 conditions, and the potential for overearning exists if a projected test
6 year is not used. We find that a projected test year ending May 31, 2003
7 is appropriate in this case and will better match increasing revenues with
8 the high level of DEP required pro forma additions that are being
9 approved.

10
11 This is consistent with Order No. 15725, issued February 21, 1986, in
12 Docket No. 840315-WS, In re: Application of Martin Downs Utilities,
13 Inc. For an increase in water and wastewater rates to its customers in
14 Martin County, Florida, in which we found the following:

15
16 The test year is an analytical device used in rate making
17 proceedings to compute current levels of investment and income
18 in order to determine the amount of revenue that will be required
19 to assure a company a fair return on its investment. Test year
20 data must be adjusted to properly reflect conditions in the future
21 period for which rates are being fixed. Based upon historical
22 data we anticipate Martin Downs will continue to experience
23 rapid growth of demand for its services.

24
25 Therefore, we found that a projected test year was appropriate.

26
27 Because of the above factors, we find that a projected test year is
28 appropriate in this case to better match rate base with customer base on
29 a going forward basis, and allow the utility an opportunity to earn a fair
30 return on its investments. A projected test year ending May 31, 2003,
31 shall be approved.

32
33 (Emphasis added.)
34

35 **Q. WHAT CIRCUMSTANCES ARE SIMILAR FROM THE TWO ABOVE**
36 **CASES AND THE CURRENT KW RATE CASE?**

37 **A.** These two cases clearly represent similar facts to the KW case regarding growth.
38 First, in the Burkim case, the Commission audited an historical case and then
39 projected two years out. This is consistent with my testimony in this docket.
40 Second, both Burkim and Martin Downs had significant expected growth and also
41 significant growth in plant. In those cases, the Commission expressed concerns
42 that if a projected test year were not used, then the future customer growth would

1 produce overearnings. These are precisely the same arguments that I am making
2 in this current rate case. Additionally, as OPC witness Woodcock addresses in his
3 testimony, the Burkim case limited the growth factor for the used and useful
4 calculation based on the 5% statutory cap. As I will address in the test year revenue
5 section of my testimony, the Commission in Burkim and Martin Downs used the
6 historical billing and customer growth factor to project forward two years after the
7 historical audited billing determinants. Based on the facts that I present in this case,
8 the Commission should be consistent with its prior practice and update the test year
9 in this case for Phase II rates to a pro forma 2016 year-end test year.

11 RATE BASE

12 Plant in Service

13 **Q. WHAT IS THE APPROPRIATE AMOUNT OF PLANT IN SERVICE FOR**
14 **ESTABLISHING PHASE I RATES?**

15 A. The amount of plant in service for the Phase I rates should be \$11,108,464, which
16 is the amount of plant in service that was approved in the PAA Order in this docket.
17 This reflects the adjustments made by the Commission to reflect the agreed-upon
18 audit reductions of \$817,240 from Audit Finding 1, and to remove the Utility's
19 requested pro forma plant of \$3,574,468, for a total decrease to plant of \$4,391,708.

20 **Q. WHEN YOU REFER TO "AGREED-UPON ADJUSTMENTS," TO WHAT**
21 **ARE YOU REFERRING?**

22 A. I am referring to the reference that the Commission uses in its PAA Order to
23 delineate adjustments to which both the Utility and Staff have agreed. By reading
24 these words, "agreed-upon," this could be interpreted as a stipulation among all
25 parties. However, this is not the case, as OPC in PAA proceedings routinely is not

1 asked to join into these agreements between the Utility and Staff. I am simply
2 making this clarification for the record, and will specifically delineate the issues
3 that I disagree with and which are part of the PAA Order as previously agreed-upon
4 adjustments.

5
6 **Q. DO YOU HAVE ANY COMMENTS THAT YOU WOULD LIKE TO MAKE**
7 **REGARDING AUDIT FINDING 1?**

8 A. Yes, in Audit Finding 1, the staff auditors made recommendations to correct the
9 Utility's plant balances since KW's last rate case in Docket 070293-SU. The test
10 year for that docket was the year ended December 31, 2006. In Order No. PSC-09-
11 0057-FOF-SU, issued January 27, 2009, the Commission made a \$933,498
12 reduction to plant in service in 15 separate adjustments to plant and 15
13 corresponding adjustments to accumulated depreciation. On page 46 of the order,
14 the Commission "ORDERED that the Utility shall provide proof within 90 days of
15 this final order that the adjustments for all the applicable NARUC USOA primary
16 accounts have been made."

17
18 **Q. DID THE UTILITY COMPLY WITH ORDER NO. PSC-09-0057-FOF-SU**
19 **AND FILE A REPORT TO PROVIDE PROOF THAT THE**
20 **ADJUSTMENTS FOR ALL THE APPLICABLE NARUC⁸ USOA⁹**
21 **PRIMARY ACCOUNTS HAVE BEEN MADE WITHIN 90 DAYS OF THIS**
22 **FINAL ORDER?**

⁸ National Association of Regulatory Utility Commissioners

⁹ Uniform System of Accounts

1 A. No. There is no filing from KW on the PSC's website in Docket No. 070293-SU
2 that addresses whether the Utility made the adjustments to correct its books to
3 reflect the Commission ordered adjustments from the Final Order in the last rate
4 case. This is a standard requirement in all water and wastewater rate cases before
5 the Commission for at least the last 15 years. While Commission staff did not
6 verify whether KW had complied with this requirement, it is the Utility's burden to
7 comply with the Commission's order.

8
9 **Q. DOES THE UTILITY'S FAILURE TO COMPLY WITH PSC ORDER NO.**
10 **PSC-09-0057-FOF-SU HAVE AN IMPACT IN THE CURRENT RATE**
11 **CASE?**

12 A. Yes, since the Utility's books and records are not consistent with the adjusted
13 balances as approved and required to be corrected in the last rate case. In addition,
14 as I discuss in detail in the Working Capital section of my testimony, the Utility
15 also hired outside accounting consultants to perform an analysis of its rate base
16 accounts prior to the filing of its current rate case, which will increase rate case
17 expense in this docket.

18
19 **Q. DO YOU BELIEVE THAT IT IS APPROPRIATE TO INCLUDE THE**
20 **UTILITY'S REQUESTED PRO FORMA ADJUSTMENT FOR THE**
21 **WASTEWATER TREATMENT PLANT EXPANSION IN PHASE I**
22 **RATES?**

23 A. No, I believe that it is completely inappropriate to include any pro forma plant for
24 growth-related plant in Phase I rates that will provide service to future customers
25 more than two years beyond the historical test year. Section 367.081(2)(a)2.,

1 Florida Statutes, provides that for purposes of establishing rates, the Commission
2 shall consider utility property, including facilities constructed or to be constructed,
3 not to exceed 24 months after the end of the historic test year used to set final rates,
4 unless a longer period is approved by the Commission, to be used and useful in the
5 public service. In this docket, the construction of the wastewater treatment plant is
6 clearly 24 months beyond the historic test year of 2014. Therefore, the
7 Commission, when setting Phase I rates, should not consider this pro forma plant.

8 Notwithstanding the above, the pro forma plant for the wastewater
9 treatment plant expansion can be considered when setting a Phase II rate increase
10 if those Phase II rates are based on a representative test period that reflects the net
11 investment levels, the corresponding operating expenses and the customer billing
12 determinants that will be in place at or near the time that the plant expansion is
13 placed into service.

14
15 **Q. DO YOU BELIEVE THAT IT IS APPROPRIATE TO ADD THE COST OF**
16 **THE VACUUM TANK REPLACEMENT IN PHASE I RATES?**

17 **A.** No, I do not. The Utility made no request in its initial application or its MFRs for
18 this plant replacement. Further, the plant is currently not in service and I am not
19 aware of the date that this plant will be placed into service. If it is placed into
20 service 24 months after the historical test year ended December 31, 2014, it should
21 not be included in Phase I rates. It should be noted that the Utility's testimony or
22 exhibits do not mention any date when the vacuum tank will be constructed and
23 placed into service. Based on the testimony of OPC witness Woodcock, I do
24 believe that consideration should be given to the appropriate amount of plant to be
25 considered for this vacuum tank plant addition in Phase II rates as long as the

1 appropriate retirement adjustments are made at the same time. Further, the Utility
2 has made no retirement entries related to the existing vacuum tank that will be
3 replaced and retired. The retirement entry does not impact rate base as it decreases
4 plant and accumulated depreciation by the same amount. However, it does reduce
5 depreciation expense on a going forward basis. Additionally, to the extent that
6 inclusion of this plant replacement increases the revenue requirement more than the
7 level requested in the Utility's petition and MFRs, any increase granted should be
8 limited to the revenue requirement requested. As I understand it from counsel, to
9 do otherwise would violate the customers' due process rights as they have not been
10 noticed of any revenue increase above that requested in KW's original PAA petition
11 and customer notices.

12
13 **Q. WHAT IS THE APPROPRIATE AMOUNT OF PLANT IN SERVICE TO**
14 **BE USED FOR SETTING PHASE I RATES?**

15 A. The appropriate amount of plant in service for Phase I rates should be \$11,108,464.

16
17 **Q. SHOULD ANY ADJUSTMENTS BE MADE TO PLANT IN SERVICE**
18 **ADDITIONS PLACED INTO SERVICE AFTER DECEMBER 31, 2014,**
19 **FOR ESTABLISHING PHASE II RATES?**

20 A. Yes. First, I applied the same agreed-upon adjustment to Plant which I made for
21 Phase I rates of (\$817,240). Second, the average balance of adjusted 2014 plant
22 included in rate base should be brought forward to the year-end balance approved
23 by the Commission in its PAA order. This results in an increase to plant of \$88,027.
24 Third, the OPC's recommended cost of the wastewater treatment plant expansion
25 should be included in plant in service for Phase II rates. In the Utility's MFRs, it

1 requested a pro forma adjustment of \$3,574,468. In the PAA Order, the
2 Commission lowered this adjustment to \$3,481,973. Exhibit CAJ-3, attached to
3 Utility witness Johnson's testimony contains a signed contract for the plant
4 expansion at a fixed cost of \$4.3 million. OPC witness Woodcock has testified that,
5 while on the high side, the \$4.3 million cost is reasonable for a treatment plant this
6 size in the Florida Keys. Therefore, I have reflected a \$1,202,968 increase to Phase
7 II plant to reflect the Company's revised treatment plant cost. This includes the
8 \$477,436 adjustment to capitalize the legal fees incurred to litigate the Utility's
9 construction permit for the wastewater treatment plant (WWTP) expansion. I
10 address this adjustment in detail in the working capital section of my testimony
11 regarding the Utility's requested deferred debits.

12
13 **Q. HAVE YOU MADE AN ADJUSTMENT TO PHASE II PLANT FOR THE**
14 **VACUUM TANK REPLACEMENT?**

15 **A.** Yes. It is also appropriate to allow recovery of the new vacuum tank plant addition
16 in the amount of \$474,552 in Phase II rates. In Utility witness Swain's direct
17 testimony, she added a requested pro forma amount for the tank replacement of
18 \$610,177. Based on the testimony of OPC witness Woodcock, \$135,625 should be
19 reduced from the Utility's pro forma amount for the tank replacement. Based on
20 Mr. Woodcock's adjusted balance of \$474,552, a retirement adjustment is
21 necessary as the existing vacuum system is being retired and replaced and will not
22 remain in service. I have based my retirement entry on 75% of the plant addition
23 cost which is a common method of determining the amount to retire for water and
24 wastewater utilities in Florida. The proper retirement entry is a decrease to plant
25 of \$355,914 for plant and a \$355,914 decrease to accumulated depreciation. Thus,

1 the retirement of the replaced tank has a zero impact on rate base. Further, while it
2 is normal to reflect an average test year balance in rate base, due to the materiality
3 of the plant improvements and customer growth, I agree with the Utility that it is
4 appropriate to include these items on a year-end basis, as long as the corresponding
5 projections to CIAC and customer billing determinants are recognized.

6
7 **Q. HAVE YOU MADE ANY OTHER ADJUSTMENTS TO PLANT IN**
8 **SERVICE TO UPDATE THE PLANT TO THE 2016 TEST YEAR?**

9 A. No, I have not, other than the \$12,000 pro forma addition of a truck that was
10 included in the PAA Order. The Company has not adequately shown that it has
11 made any other material adjustments to plant other than the wastewater treatment
12 plant expansion and the vacuum tank system.

13
14 **Q. WHAT IS THE APPROPRIATE AMOUNT OF PLANT IN SERVICE TO**
15 **BE USED FOR SETTING PHASE II RATES?**

16 A. The appropriate amount of plant in service for Phase II rates should be \$15,182,830.

17 Land

18 **Q. DO YOU AGREE WITH AUDITING FINDING 3 REGARDING LAND AND**
19 **LAND RIGHTS?**

20 A. Yes. In Audit Finding 3, the staff auditors recommended that land be reduced by
21 \$6,000 for the cost of a survey the Utility incurred in November 2014 to identify
22 and locate sewer mains that cross private property in its service territory. The cost
23 was not a land-related capital cost and should have been appropriately expensed.
24 Since it was a non-recurring cost, the auditors recommended that it be amortized

1 over 5 years, consistent with Rule 25-30.433(8), Florida Administrative Code
2 (F.A.C). The auditors recommended that the general ledger be corrected to reduce
3 land by \$6,000 and increase Contractual Services-Other by \$1,200 and increase
4 deferred debits by \$4,800. The adjustment to the filing to reflect the averaging
5 impact is to decrease land by \$923 and increase deferred survey fees by \$738, to
6 reflect an average rate base decrease of \$185. Contractual Services-Other should
7 be increased by \$1,200 ($\$6,000/5$), for the 2014 test year. I concur with this
8 adjustment.

9

10 **Q. DO YOU AGREE THAT IT IS PROPER TO USE RULE 25-30.433(8),**
11 **F.A.C., TO AMORTIZE THIS EXPENSE DURING THE TEST YEAR?**

12 A. Yes. This is the appropriate application of the rule for non-recurring expenses
13 incurred during the test year, as long as the costs are reasonable and prudent. It
14 should not be used for non-recurring expenses that occurred before the test year.

15

16 **Q. WHAT IS YOUR RECOMMENDED BALANCE OF LAND FOR BOTH**
17 **PHASE I AND PHASE II RATES?**

18 A. The appropriate balance of land should be \$374,077 for both Phase I and Phase II
19 rates.

20

21 Accumulated Depreciation

22 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO**
23 **ACCUMULATED DEPRECIATION FOR ESTABLISHING PHASE I**
24 **RATES?**

1 A. Yes, I am. First, I concur with and recommend that the Commission's adjustments
2 to the balance of accumulated depreciation included in the PAA Order for Phase I
3 rates should be made. Accumulated depreciation should be increased to reflect the
4 net adjustment of the PAA agreed-upon audit adjustments of \$2,040 recommended
5 by Audit Finding 2. Second, it is appropriate to remove the Utility's pro forma
6 plant to accumulated depreciation of \$196,281 related to the wastewater treatment
7 plant expansion pro forma adjustment. Consistent with my testimony in the plant
8 in service section above, I am not recommending the inclusion of any pro forma
9 plant for the plant expansion or the vacuum tank replacement. However, as
10 discussed below, I am recommending for Phase I that the Utility's adjustment to
11 annualize the 2014 depreciation expense of \$4,384 should be disallowed. The total
12 adjustment that I am recommending to accumulated depreciation is a decrease of
13 \$198,625 for Phase I rates.

14

15 **Q. WOULD YOU COMMENT ON THE NUMBER OF ADJUSTMENTS**
16 **INCLUDED IN STAFF'S AUDIT FINDING 5, REGARDING**
17 **ACCUMULATED DEPRECIATION?**

18 A. Yes, I again note the volume and amount of adjustments recommended by the
19 auditors and how the Utility's books and records have not been maintained in
20 accordance with the adjustments as ordered by the Commission in the prior rate
21 case and the Uniform System of Accounts.

22

23 **Q. DO YOU AGREE WITH THE COMPANY'S ADJUSTMENT TO THE**
24 **TEST YEAR TO ANNUALIZE THE ACCUMULATED DEPRECIATION**
25 **BASED ON THE PLANT ADDITIONS MADE IN 2014?**

1 A. No, I do not. This is clearly a violation of the test year concept, and is also a
2 matching violation. Basically, this adjustment allows the Utility to have a year-end
3 depreciation expense, while KW's test year includes only average CIAC, average
4 amortization of CIAC, and average billing determinants. As a result, this type of
5 adjustment is a "pick and choose" or "cherry-picking" adjustment that incorporates
6 only the increases and ignores any corresponding and appropriate decreases. The
7 test year concept is quite clear that you need to match the investment with the
8 operating revenues and expenses, along with the billing determinants for the same
9 test year on either an average or year-end basis. To blend some year-end items with
10 some average items is an obvious violation of the matching principal.

11

12 **Q. IS THERE ANOTHER REASON OTHER THAN A MATCHING**
13 **VIOLATION AS TO WHY THIS ADJUSTMENT IS IMPROPER?**

14 A. Yes. It is also a violation of the statutory requirement that CIAC, Accumulated
15 Amortization of CIAC, and test year amortization of CIAC are properly included
16 in the revenue requirement calculation. Section 367.081(2)(a)1, Florida Statutes,
17 states in part:

18 However, the commission shall not allow the inclusion of
19 contributions-in-aid-of-construction in the rate base of any
20 utility during a rate proceeding ... and accumulated depreciation
21 on such contributions-in-aid-of-construction shall not be used to
22 reduce the rate base, nor shall depreciation on such contributed
23 assets be considered a cost of providing utility service.

24

25 **Q. PLEASE PROVIDE THE COMPARATIVE IMPACT OF WHY THIS**
26 **ANNUALIZATION ADJUSTMENT IS IMPROPER?**

1 A. The MFRs in this case reflect the difference between average and year-end plant
2 additions in 2014 was \$204,353, to which the year-end annualization adjustment
3 for depreciation expense and accumulated depreciation was made by KW. The
4 corresponding difference between average and year-end CIAC for the 2014 test
5 year was \$136,012. Thus, allowing the Utility to make a one-sided adjustment
6 overstates depreciation expense by ignoring the impact of the annualization of
7 amortization of CIAC. This violation of the test year matching concept, as well as
8 the statutory violation of not including test year amortization of CIAC on
9 contributed plant, should be disallowed. Accordingly, accumulated depreciation
10 should be increased by \$4,384 and depreciation expense should be decreased by
11 \$4,384 to remove these improper adjustments to reflect year-end depreciation
12 expense.

13

14 **Q. WHAT IS THE TOTAL AMOUNT OF ACCUMULATED DEPRECIATION**
15 **THAT YOU ARE RECOMMENDING FOR PHASE I RATES?**

16 A. I am recommending a balance of Accumulated Depreciation for Phase I of
17 \$5,830,802. This is based on the two Accumulated Depreciation adjustments made
18 by the Commission in its PAA Order for the Phase I rate base, plus my
19 recommended adjustment to remove the improper adjustment to annualize test year
20 depreciation expense.

21

22 **Q. SHOULD ANY ADJUSTMENTS BE MADE TO THE BALANCE OF**
23 **ACCUMULATED DEPRECIATION PLACED INTO SERVICE AFTER**
24 **DECEMBER 31, 2014, FOR ESTABLISHING PHASE II RATES?**

1 A. Yes. I am recommending several adjustments to accumulated depreciation for
2 Phase II rates. First, I start out with my adjusted Phase I adjustment to accumulated
3 depreciation for the agreed-upon Adjustment from Audit Finding 5 of (\$2,040).
4 My other two adjustments to Phase I Accumulated Depreciation are not necessary
5 as I am adjusting my balances to the Utility's full request, not an incremental Phase
6 I to Phase II method that the Commission used in the PAA Order. Next, as I
7 testified earlier, it is proper to update the test year to 2016, which is a more
8 representative period that will be consistent with and closer to the timeframe when
9 the treatment plant expansion will be placed into service.

10

11 **Q. WHAT TYPES OF ADJUSTMENTS DO YOU RECOMMEND TO BRING**
12 **THE 2014 TEST YEAR FORWARD TO 2016?**

13 A. As I explained earlier, since we do not have the necessary information and
14 documentation from the Utility to update the test year to a more representative
15 period when the new plant will be placed into service, a reasonable proxy is to
16 update the 2014 average balance to a year-end basis, and then add two years of
17 accumulated depreciation based on the 2014 test year depreciation expense. The
18 average to year-end adjustment to accumulated depreciation is an increase to
19 accumulated depreciation of \$183,207. This adjustment is net of the Company's
20 adjustment to reflect year-end accumulated depreciation for the 2014 test year plant
21 additions. Based on the Commission Staff's workpapers used to calculate the year-
22 end plant investment included in the PAA Order, I have calculated the 2014 year-

1 end Depreciation Expense to be \$462,339¹⁰. Thus, for the two year update to 2016,
2 the 2014 balance of Accumulated Depreciation should be increased by \$924,677.

3

4 **Q. WHAT IS THE NEXT ADJUSTMENT THAT SHOULD BE MADE TO**
5 **ACCUMULATED DEPRECIATION FOR THE UPDATED 2016 PRO**
6 **FORMA TEST YEAR?**

7 A. Next, it is appropriate to add the accumulated depreciation related to the pro forma
8 cost of the wastewater treatment plant expansion costs and the vacuum tank
9 addition, along with the corresponding retirement. Based on the recommendations
10 of OPC witness Woodcock as to the proper amounts of the pro forma plant
11 expansion and the vacuum tank replacement, incremental Accumulated
12 Depreciation should be increased by \$67,026 and \$26,385, respectively. I am
13 recommending that a year-end expense be allowed for this plant since I am
14 recommending the full year of plant in rate base and also updating the other
15 components of the test year as necessary for depreciation expense and property
16 taxes.

17

18 Non-used and Useful Plant Adjustments

19 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO NON-USED AND**
20 **USEFUL PLANT FOR PHASE I RATES?**

21 A. No. As testified by OPC witness Woodcock, the current 2014 level of plant is
22 100% used and useful; therefore, no adjustments are necessary for Phase I.

23

¹⁰ This adjustment was made before the inclusion of any pro forma plant additions for the plant expansion of the treatment plant or vacuum tank.

1 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO NON-USED AND**
2 **USEFUL PLANT FOR PHASE II RATES?**

3 A. Yes, based on the used and useful recommendations of OPC witness Woodcock. I
4 have taken the non-used and useful percentage of 25% and applied it to the
5 recommended balance of plant, accumulated depreciation, depreciation expense
6 and property tax expense as shown on my Exhibit PWM-3, Schedule 1-D. The
7 recommended adjustments were applied to the following accounts:

8 354.4 Structures & Improvements
9 380.4 Treatment and Disposal Equipment
10 381.4 Plant Sewers
11 389.4 Other Plant & Miscellaneous Equipment

12 I have also made the corresponding adjustments to the same accumulated
13 depreciation and depreciation expense accounts, as well as to the adjusted property
14 tax expenses.

15

16 **Q. WHAT ARE YOUR RECOMMENDED ADJUSTMENTS TO REFLECT**
17 **THE OPC'S USED AND USEFUL PERCENTAGES?**

18 A. I have recommended a reduction to rate base of \$1,632,646 (Plant in Service of
19 \$2,429,995 less Accumulated Depreciation of \$797,349). I also recommend
20 reductions to Depreciation Expense of \$130,954 and to property taxes of \$16,177.

21 Contributions in Aid of Construction (CIAC) and Accumulated Amortization of CIAC
22 Phase I CIAC

23 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO CIAC FOR**
24 **ESTABLISHING PHASE I RATES?**

1 A. Yes, I am. I concur with and recommend that the Commission's adjustments to the
2 balance of CIAC included in the PAA Order for Phase I rates should be made.
3 CIAC should be decreased to reflect the net adjustment of the PAA agreed-upon
4 audit adjustments of \$297,120 recommended by Audit Finding 4. (This adjustment
5 results in an increase to rate base.) Consistent with my adjustments to plant and
6 accumulated depreciation for purposes of the Phase I revenue requirement, I am not
7 recommending any updates to reflect the amount of CIAC collected after December
8 31, 2014. The total balance of CIAC for Phase I rates should be \$9,649,877.

9
10 **Q. ARE YOU RECOMMENDING ANY INCREASE TO CIAC RELATED TO**
11 **THE COLLECTION OF ADDITIONAL CIAC FROM EXISTING**
12 **CUSTOMERS FOR PHASE I RATES?**

13 A. Not at this time. However, the collection of \$310,187 in 2015 and \$179,281 in
14 2016 in additional CIAC from existing customers truly reflects another reason why
15 the 2014 test year is unreasonable for setting prospective rates for 2017.

16
17 **Q. WHAT IS YOUR RECOMMENDED BALANCE OF ACCUMULATED**
18 **AMORTIZATION OF CIAC FOR PHASE I RATES?**

19 A. I concur with and recommend that the Commission's adjustments to the balance of
20 Accumulated Amortization of CIAC included in the PAA Order for Phase I rates
21 should be made. Accumulated Amortization of CIAC should be decreased to
22 reflect the net adjustment of the PAA agreed-upon audit adjustments of \$81,153
23 recommended by Audit Finding 4, for a total balance of \$3,014,941. Since I am
24 not recommending any updates to CIAC collected after December 31, 2014, I am

1 not recommending any additional adjustments to Accumulated Amortization of
2 CIAC for Phase I rates.

3

4 **Q. DO YOU HAVE ANY COMMENTS REGARDING THE STAFF AUDIT**
5 **ADJUSTMENTS IN AUDIT FINDING 4, REGARDING CIAC AND THE**
6 **AMORTIZATION OF CIAC?**

7 A. Yes, I do. I again point out the large amount of outside accounting work that was
8 incurred to correct and revise the Utility's books and records to be in compliance
9 with the Commission's Order from the last rate case. Included in the staff audit
10 workpapers, there was a 20-page document referred to as "Restatement of CIAC"
11 provided by the Company to reflect the results of the accounting consultant's
12 analysis. Based on the volume of the audit workpapers on the CIAC and the
13 Amortization of CIAC issue, considerable time was spent by the staff auditors in
14 reviewing these accounts since the last rate case. As I testified previously, this
15 clearly reflects that the Utility's books and records were not maintained in
16 accordance with the Uniform System of Accounts or in compliance with the
17 Commission's previous rate case order. I also recommend that the Commission
18 carefully review the accounting rate case expense invoices to determine whether
19 the Utility's inadequate record keeping has increased the amount of accounting
20 work performed to prepare the MFRs, address audit findings and respond to
21 discovery, thus increasing rate case expense. Any rate case expense related to
22 bringing the Utility's books into compliance included in rate case expense should
23 be disallowed.

24

25 Phase II CIAC

1 **Q. SHOULD ANY ADJUSTMENTS BE MADE TO THE BALANCE OF CIAC**
2 **AFTER DECEMBER 31, 2014, FOR ESTABLISHING PHASE II RATES?**

3 A. Yes, I am recommending several adjustments to CIAC for Phase II rates. First, I
4 make the agreed-upon adjustment from Audit Finding 5, which is a decrease to
5 CIAC of \$297,120. Second, as I testified earlier, it is proper to update the test year
6 to 2016, which is a more representative period that will be consistent with the
7 timeframe when the treatment plant will be placed into service. Consistent with
8 my adjustment to plant and accumulated depreciation, I have adjusted the 2014
9 average balance of CIAC from the PAA Order Phase I revenue requirement to the
10 year-end balance. The average to year-end adjustment to CIAC is an increase of
11 \$136,012.

12
13 **Q. HOW MUCH ACTUAL CIAC HAS BEEN COLLECTED AFTER THE END**
14 **OF 2014, THE HISTORICAL TEST YEAR REQUESTED BY THE**
15 **UTILITY?**

16 A. According to its 2015 Annual Report and KW's response to OPC's Interrogatory
17 7, the Utility collected \$310,187 in CIAC for 2015. KW's response to Interrogatory
18 7 also reflects that it collected \$110,583 in CIAC from January to April 2016.
19 According to KW's response to OPC Interrogatory 27, it collected an additional
20 \$68,698 in CIAC in May 2016. Thus, since the test year, the Utility has collected
21 at least \$489,469 in 2015 and 2016. Before any future plant expansion or pro forma
22 plant is allowed, it is critical and appropriate to include the actual 2015 and January
23 through May 2016 CIAC that the Company collected.

24

1 Q ARE THERE ANY OUTSTANDING PAYMENTS OF CIAC THAT ARE
2 CURRENTLY SUPPORTED BY EXECUTED DEVELOPER
3 AGREEMENTS?

4 A. Yes. The Utility has 3 outstanding CIAC receivables of \$14,539.50 each from the
5 Florida Keys Linen, LLC due August 15, 2016, November 15, 2016, and February
6 15, 2017. I have attached Exhibit PWM-4 which is an Addendum to a December
7 6, 2012 Utility Agreement with Florida Keys Linen, LLC, from the Utility's
8 response to OPC Interrogatory 27. This addendum outlines the payments due from
9 May 2014 to February 2017, and is the result of a recalculation of the gallons of
10 water treated and, thus, the number of ERCs that this customer is currently using.
11 All of the required payments apparently have been made on a timely basis to date.

12

13 Q. IS IT CORRECT THAT IN ITS HISTORICAL 2014 TEST YEAR, THE
14 UTILITY HAS REQUESTED A FULL YEAR OF DEPRECIATION
15 EXPENSE AND DIRECT OPERATIONAL EXPENSES ASSOCIATED
16 WITH THE PLANT EXPANSION BUT HAS MADE NO ADJUSTMENTS
17 TO OFFSET THOSE EXPENSES WITH THE CIAC THAT WILL BE
18 COLLECTED OR THE CUSTOMER GROWTH THAT IS EXPECTED
19 SHORTLY AFTER THE PLANT IS PLACED INTO SERVICE?

20 A. Yes, it is. If the Commission allows the new rates to be set without the
21 consideration of the CIAC and the expected customer growth, then the rates
22 established will immediately provide excess earnings to the Utility at a substantial
23 cost to the existing and future customers. This will also violate the matching
24 principle.

25

1 **Q. OTHER THAN INCLUDING THE ACTUAL AND SOON TO BE**
2 **COLLECTED CIAC, WHAT OTHER ADJUSTMENTS DO YOU**
3 **RECOMMEND?**

4 A. Based on the Utility's statements that growth has been stunted because of the
5 limited capacity of the existing plant, it is reasonable to expect the Utility will begin
6 adding new customers once the plant expansion is online and operational. The dry
7 permits that have been issued can be fulfilled and connected once the plant is
8 operational as well. It is only fair that, if the used and useful investment is allowed
9 in rates, along with the first year's operating expenses, a projection should also be
10 made to add the CIAC that will be collected in this first year, as well as the increase
11 in revenues for these customers and the consumption that those additional
12 customers will bring. The Utility has not provided reasonable estimates of how
13 much growth will occur once the new plant is operational, and continues to argue
14 that the historical test year is appropriate because it was audited and the MFRs were
15 already prepared using that test year. While I agree with the Utility that audited
16 books and records are much more reliable, especially given this Utility's poor
17 record keeping, it is crucial that the growth components be estimated forward to at
18 least 2016; otherwise, there is a mismatch of projected expenses to projected
19 revenues. Again, this is a violation of the matching principle.

20
21 **Q. HOW DO YOU RECOMMEND THAT THE GROWTH IN ERCS FOR**
22 **PURPOSES OF ADDING CIAC BE CALCULATED?**

23 A. It is reasonable to use the same percentage growth in ERCs that is used in the
24 growth allowance for the used and useful calculation. Based on OPC witness
25 Woodcock's recommended growth allowance of 5% per year and his annual growth

1 in the number of ERCs of 222, I have estimated the additional level of ERCs will
2 be added in the first year of operations. According to KW's response to OPC's
3 Interrogatory 27, the Utility stated that it pre-collected 48.88 ERCs in future CIAC
4 (\$131,976 from Oceanside Investors and Stock Island Marina Phase II). The Utility
5 did not list the amount of future ERCs received from the Oceanside Marina Condo
6 Association, so I backed into the amount of ERCs by taking the \$25,920 collected
7 for future ERCs and divided it by the Utility's \$2,700 plant capacity charge per
8 ERC. Adding the 9.60 ERCs estimated from Oceanside, I have assumed that the
9 Utility has pre-collected 58.48 ERCs in 2016. I have already incorporated these
10 actual CIAC payments into my prior adjustment to CIAC. It is appropriate to add
11 the additional 163.68 ERCs at \$2,700 per ERC to equal the total number of ERCs
12 that are expected in the first year. This results in an increase to CIAC of \$441,931.

13
14 **Q. IS YOUR ADJUSTMENT TO INCREASE CIAC CONSISTENT WITH**
15 **HOW THE COMMISSION HAS INTERPRETED SECTION 367.081(2)(A)2,**
16 **FLORIDA STATUTES?**

17 **A.** Yes. Clearly, the adjustment that I am recommending is a projection of the amount
18 of CIAC that will added in the first year the plant will be placed into service. This
19 is just as appropriate as projecting the estimated amount of operating expenses as
20 they are only estimates or projections at this time and obviously will not be known
21 until the end of the year after the plant is placed into service. In addition, if you do
22 not consider the projected CIAC, you will in fact violate the very same statutes that
23 state the Commission shall not allow a return on plant that has been contributed in
24 setting rates. Section 367.081(2)(a)1., Florida Statutes, states:

25 The commission shall, either upon request or upon its own motion,
26 fix rates which are just, reasonable, compensatory, and not unfairly

1 discriminatory. In every such proceeding, the commission shall
2 consider ... all property used and useful in the public service;
3 However, the commission shall not allow the inclusion of
4 contributions-in-aid-of-construction in the rate base of any utility
5 during a rate proceeding, nor shall the commission impute
6 prospective future contributions-in-aid-of-construction against the
7 utility's investment in property used and useful in the public
8 service....

9 (Emphasis Added)

10

11 **Q. HOW HAS THE COMMISSION INTERPRETED THE EMPHASIZED**
12 **LANGUAGE REGARDING THE INCLUSION OF CIAC IN RATE BASE?**

13 A. The Commission has historically interpreted this section to mean that all CIAC
14 related to used and useful plant should be included as a reduction to rate base.

15

16 Accumulated Amortization of CIAC - Phase II

17 **Q. WHAT ADJUSTMENTS DO YOU RECOMMEND TO ACCUMULATED**
18 **AMORTIZATION OF CIAC FOR PHASE II RATES?**

19 A. First, I have included the adjustment to reflect the agreed-upon adjustment to
20 decrease Accumulated Amortization of CIAC of \$81,153 from Audit Finding 4,
21 consistent with my adjustment for Phase I rates. Second, based on my
22 recommended adjustments to CIAC, it is appropriate to increase Accumulated
23 Amortization of CIAC by \$204,033 to reflect the 2014 year-end balance. Third,
24 consistent with my adjustment to accumulated depreciation, I have added two years
25 of the 2014 year-end amortization expense of CIAC of \$682,928 to reflect the
26 amount that would have been added in for 2015 and 2016. Fourth, consistent with
27 my adjustments to CIAC, I increased Accumulated Amortization of CIAC by
28 \$27,903 to reflect the addition of actual CIAC additions for 2015 and January
29 through May 2016. Lastly, I have added Accumulated Amortization of CIAC on
30 the projected additions to CIAC for the 2016 pro forma test year of \$15,421. For

1 all of these adjustments, I have utilized the amortization rate used in the PAA Order
2 of 3.49%. Based on these adjustments, the Phase II amount of Accumulated
3 Amortization of CIAC should be \$3,945,225.

4
5 Construction Work in Progress (CWIP)

6 **Q. DO YOU AGREE WITH THE STAFF AUDIT FINDING 2 REGARDING**
7 **CONSTRUCTION WORK IN PROGRESS (CWIP)?**

8 A. Yes, for the Phase I rate increase. The staff auditors in Audit finding 2 stated that
9 the invoices the Utility recorded to Plant in Service for the wastewater treatment
10 plant expansion were reclassified to CWIP in Finding 1. The auditors
11 recommended that the Utility create a CWIP account to record the cost for the
12 wastewater plant expansion project, with a balance of \$158,151 as of December 31,
13 2014, and an additional addition to CWIP of \$144,984 to record in 2015. I am
14 recommending an addition to CWIP of \$303,135 for the plant expansion costs.¹¹
15 In addition, the 2015 balance of the Last Stand Legal Fees should be recorded in
16 CWIP until the new wastewater treatment plant is placed into service. This results
17 in an increase to CWIP of \$477,436. When the WWTP expansion is placed into
18 service, the final recommended amount of the CWIP should be capitalized into
19 plant in service and there will be a zero balance of CWIP in Phase II rates. My total
20 balance of CWIP for Phase I rates is \$780,571.

21
22 Working Capital

23 Cash

¹¹ The PAA Order had an amount from the 2015 amount in the audit report, which is apparently a transposition error.

1 Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO KW'S
2 WORKING CAPITAL ALLOWANCE?

3 A. Yes. I am supporting most of the Commission approved adjustments to working
4 capital with a few exceptions that I will explain below. First, I will address the
5 adjustments that were made in the PAA Order with which I agree.

6
7 Q. DO YOU AGREE WITH THE BALANCE OF CASH APPROVED BY THE
8 COMMISSION IN THE PAA ORDER?

9 A. Yes. I agree with the adjustments to Cash that the Commission approved in its
10 PAA Order. In its filing, the Utility's requested working capital allowance included
11 a cash balance of \$877,289. This balance is \$666,869 higher than the balance
12 requested and approved for cash in the last rate case of \$210,420. I agree with the
13 following adjustments to Cash made by the Commission.

14 The Commission's first adjustment was to remove \$126,930 associated with
15 an escrow account that was closed in March 2015, which contained escrowed funds
16 from capacity fees collected for the vacuum expansion project between Monroe
17 County and KW Resort. The Commission stated that because ratemaking is
18 prospective in nature, a normalization adjustment was necessary to remove the cash
19 amounts associated with this closed escrow account. The second adjustment to
20 cash was to remove another escrow account in cash working capital titled
21 "Customer Escrow Account," which is related to customer deposits. Since
22 customer deposits are a component of the Utility's capital structure, the
23 Commission removed the \$141,828 13-month average to reflect the removal of
24 customer deposits.

1 The third adjustment the Commission made was to remove a capital
2 operating account with a balance of \$375,840. The Utility stated that this account
3 was created in order to pay for capital projects, instead of having to transfer from
4 the operating account. In response to staff's second data request, the Utility stated
5 that this account will remain active and require an approximate \$400,000 minimum
6 necessary to ensure a proper capital budget may be undertaken each year to allow
7 the Utility to operate properly. The Commission had a number of concerns with
8 this account in the test year. These concerns were that the account was never drawn
9 down on in the test year for its stated purpose, the balance never changed
10 throughout the test year, and the account was equivalent to temporary cash
11 investment which provided no benefit to the ratepayers. The Commission removed
12 the 13-month average of \$231,286 from working capital.

13 The Commission's final adjustment to cash related to an account funded by
14 a single transfer from the operating account in May 2014. Preceding this transfer,
15 the balance of the operating account increased in January 2015 because of a
16 \$500,000 deposit. To be consistent with the rationale for removing the capital
17 operating account, the Commission removed this \$115,643 amount from the 13-
18 month average balance operating account.

19 The Commission's total decrease of \$615,687 resulted in an approved cash
20 balance of \$261,602, which exceeded the cash balance of \$210,420 approved in
21 KW's last rate case by \$51,182. The Commission concluded that it had compared
22 the average monthly O&M expenses, including pro forma AWT operating
23 expenses, to this balance and found that the \$261,602 cash level was an appropriate
24 balance.

25

1 **Q. WHAT CONCLUSIONS DO YOU HAVE REGARDING THE LEVEL OF**
2 **CASH THAT THE UTILITY HAS REQUESTED AND THE**
3 **ADJUSTMENTS APPROVED BY THE COMMISSION?**

4 A. The Utility's requested balance of \$877,289 is clearly excessive and should not be
5 approved. The Commission's adjustments establish a reasonable level of the cash
6 needs of this Company. The Utility's 2015 cash balance of \$157,269 plus the
7 amount included in special deposits of \$204,268 (a total of \$361,537) is
8 significantly lower than the 2014 requested level of cash. The 2014 level of cash
9 was clearly an anomaly especially when compared to KW's 2015 Annual Report.
10 Further, the Utility's argument that it needs more cash because it is building a major
11 plant expansion does not support a need for such a huge balance of cash in working
12 capital. Therefore, I concur with and recommend the Commission's adjustments
13 made to Cash in the PAA Order.

14

15 Accounts Receivable – Other and Miscellaneous Current & Accrued Assets

16 **Q. DO YOU AGREE WITH THE STAFF'S AUDIT ADJUSTMENTS IN AUDIT**
17 **FINDING 7, REGARDING OTHER WORKING CAPITAL**
18 **ADJUSTMENTS?**

19 A. I agree with the Audit Staff's recommendation that average Accounts Receivable-
20 Other should be increased by \$40,067 to reflect the cash clearing account for
21 service availability and other customer receivables and extraordinary income
22 corrections. I also agree with the audit recommendation to remove the \$13,422
23 balance of Miscellaneous Current & Accrued Assets which include utility deposits.
24 As I have testified, the adjustment for the wastewater permit and legal fees should

1 be capitalized to CWIP for Phase I and transferred to plant in service in Phase II.
2 The net adjustment to working capital is an increase of \$26,645.

3

4 Deferred Debits - Other

5 Survey Fees

6 **Q. YOU ADDRESSED AUDIT FINDING 3, REGARDING LAND AND LAND**
7 **RIGHTS, EARLIER IN YOUR TESTIMONY. WHAT IMPACT DOES**
8 **THAT ADJUSTMENT HAVE TO WORKING CAPITAL?**

9 A. In Audit Finding 3, the staff auditors recommended that land be reduced by \$6,000
10 for the cost of a survey the Utility incurred in November 2014 to identify and locate
11 sewer mains that cross private property in KW's service territory. I agree that land
12 should be reduced by \$6,000, Contractual Services-Other should be increased by
13 \$1,200, and deferred debits should be increased by \$4,800.

14

15 **Q. PLEASE EXPLAIN YOUR POSITION ON THE COMPANY'S**
16 **REQUESTED BALANCE OF DEFERRED DEBITS TO BE INCLUDED IN**
17 **WORKING CAPITAL.**

18 A. The Utility made a pro forma adjustment to deferred debits other than rate case
19 expense in its filing. The adjustment was to defer and amortize legal and consulting
20 fees it incurred to defend its application for a construction permit for its wastewater
21 treatment plant expansion. While the Utility did not make an additional adjustment
22 to working capital, it did request to defer and amortize accounting fees incurred to
23 correct its books and records after KW's last rate case to be in compliance with the
24 Commission's Order in its last rate case and the Uniform System of Accounts. I
25 do not agree with this adjustment, and I will address each of these topics below.

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Deferred Debits – Construction Permit Litigation

Q. DO YOU AGREE WITH THE UTILITY’S REQUEST TO DEFER AND AMORTIZE THE LEGAL AND CONSULTING FEES INCURRED TO DEFEND ITS CONSTRUCTION PERMIT RELATED TO KW’S WASTEWATER TREATMENT EXPANSION?

A. No, I do not. The Utility's filing includes a pro forma adjustment to Miscellaneous Deferred Debits of \$467,625 for the estimated costs to modify its wastewater permit in conjunction with the wastewater plant expansion as reflected on MFR Schedule A-17. It also requested that it be permitted to amortize the total cost incurred over 5 years and requested an annual amortization expense of \$103,917. As I discuss below, these costs should appropriately be capitalized to the cost of plant and are not period or non-recurring expenses.

Q. DO YOU AGREE WITH THE AUDIT ADJUSTMENTS TO ADJUST THE AMOUNT OF COSTS INCURRED TO DEFEND KW’S WASTEWATER PERMIT?

A. Yes. In Audit Finding 1, the auditors reduced plant by \$30,090 for engineering costs related to the wastewater permit modification and reclassified the costs to add them to the deferred asset account for the wastewater permit fees. I agree with this adjustment to remove the costs from plant in Phase I, and I have included them in the balance of CWIP. Further, in Audit Finding 16, the staff auditors reduced the deferred asset account for permit fees by \$42,157 to remove unsupported legal fees from the wastewater permit fees. I also agree with this adjustment and these costs are not included in my balances of CWIP, as they were unsupported.

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Q. DO YOU BELIEVE THAT IT IS PROPER TO DEFER AND AMORTIZE THE LEGAL AND CONSULTING COSTS OVER A FIVE-YEAR PERIOD?

A. No, I do not. These costs were incurred directly by KW to obtain permission from DEP to build KW's treatment plant expansion. While the title of the permit was labeled as an operating and construction permit, the permit for the existing plant had two more years before it expired. This permit was necessary only for the fact that the utility wanted and needed to expand its capacity. The legal challenge did not impact the operations of the existing treatment plant. It was directed primarily at the capacity expansion and the desire of the Last Stand organization to require the Utility to implement deep well injection for effluent disposal. These legal fees clearly belong with the capital costs associated with the plant expansion and should be recovered over the life of the plant. They should not be considered non-recurring expenses for renewing a normal operating permit. According to the NARUC¹² Uniform System of Accounts (USOA), legal fees associated with the construction of a plant should be capitalized.

Accounting Instruction 19. Utility Plant - Components of Construction Cost
The cost of construction properly includible in the utility plant accounts shall include, where applicable, the direct and overhead costs as listed and defined hereunder:
(1) "Contract work" includes amounts paid for work performed under contract by other companies, firms, or individuals, costs incident to the award of such contracts, and inspection of such work.
(9) "Privileges and permits" includes payments for and expenses incurred in securing temporary privileges, permits or rights in connection with construction work, such as for the use of private or public property, streets, or highways, but it does not include rents, or amounts chargeable as franchises (See account 302 - Franchises).

¹² National Association of Regulatory Utility Commissioners

1 (15) "Legal expenditures" includes the general legal expenditures
2 incurred in connection with construction and the court and legal
3 costs directly related thereto, other than legal expenses included in
4 protection, item 7, and in injuries and damages, item 8.
5

6 Since the wastewater treatment plant is not in service, the auditor's adjusted cost of
7 the construction permit legal and consulting fees of \$477,436 should be recorded
8 in CWIP for the Phase I rates. For Phase II rates, the costs should be added to
9 Account 380-Wastewater Treatment & Disposal Plant. The Utility's requested
10 deferred debit balance of \$467,625 for the legal and consulting fees should be
11 removed from Working Capital. Test year O&M Expenses should also be reduced
12 by the Utility's requested \$103,917 in amortization. For clarity, I have removed
13 the Utility's requested amortization, but not the amount of amortization that was
14 included in the PAA Order. This adjustment allows the Utility to recover its
15 litigation costs over the life of the plant, which is the appropriate recovery method
16 pursuant to the Uniform System of Accounts and the resulting rate impact to
17 customers is substantially less.

18

19 Deferred Debits - Accounting Fees

20 **Q. PLEASE ADDRESS THE COMPANY'S REQUEST TO AMORTIZE**
21 **ACCOUNTING FEES OVER FIVE YEARS AND THE IMPACT ON ITS**
22 **WORKING CAPITAL ALLOWANCE.**

23 A. On MFR Schedule B-3, page 1, KW increased its O&M Expenses by \$11,678,
24 which was described as "To amortize expenses incurred to restate 2007-2012
25 Annual Reports." The Utility apparently did not request that working capital be
26 increased to reflect the unamortized balance.

1 **Q. DID KW ACTUALLY RESTATE ITS 2007-2012 ANNUAL REPORTS**
2 **WITH THE COMMISSION?**

3 A. It does not appear that the Utility restated its annual reports on file with the
4 Commission, nor have I seen any restated or re-filed Annual Reports for this time
5 frame.

6
7 **Q. WHEN DID THE UTILITY PERFORM THIS ACCOUNTING AND**
8 **RECORD-KEEPING REVIEW?**

9 A. According to the invoices provided to the Staff Auditors, the accounting review
10 was performed in 2014. According to Exhibit CAJ-4, Page 2 of 269, entitled Data
11 Request Responses, Staff asked the following question 4 on the deferred accounting
12 fees:

13
14 According to MFR Schedule B-3, page 1, line 26, the utility has
15 proposed an increase of \$11,678 to other deferred expenses to
16 amortize the expenses incurred to restate 2007-2012 Annual
17 Reports. Please provide justification for the amount of the expense
18 incurred. Please state whether the Annual Report restatement was
19 solely for Florida Public Service Commission Annual Reports. In
20 addition, please provide all of the utility's calculations, basis,
21 workpapers, and documentation to support the adjustment,
22 including the amortization period.
23

24 The following response was provided by KW:

25
26 Milian, Swain & Associates, Inc., (MSA) was engaged to review
27 the utility's Annual Reports file subsequent to the prior rate case
28 to determine if CIAC, utility plant in service, and associated
29 amortization and depreciation was correctly stated on the Utility's
30 books, and if Annual Reports required revision. After review,
31 MSA recommended adjustments to the Utility's General Ledger,
32 and prepared revised Annual Reports to reflect the adjustments.
33 Because this work was not associated with a rate case, MSA
34 recommended that the costs not be included in rate case expense.
35 Although the costs were incurred during the test year, MSA
36 recommended that the cost not be included in the rate case as a

1 current year expense, but rather amortize it over a five-year period
2 to reflect a more reasonable period based upon its future benefit.
3

4 First, KW fails to explain how restating the Annual Reports provide any future
5 benefit to KW or its customers. Second, the staff audit workpapers show that the
6 amount incurred in 2014 was \$58,388, which was then divided by 5 years to equal
7 the Company's requested amortization expense of \$11,678. The auditors in Audit
8 Findings 6 and 11 recommended reclassifying deferred rate case expense of \$4,468
9 to the unamortized balance of deferred accounting fees, thus recommending an
10 unamortized balance of \$63,056, with an annual amortization expense of \$12,611.
11

12 **Q. DO YOU AGREE WITH THE UTILITY'S REQUEST TO RECOVER**
13 **THESE COSTS FROM THE RATEPAYERS?**

14 A. No, I do not. As I discussed previously in the Plant in Service section of my
15 testimony, the Utility failed to make the Commission-ordered adjustments from the
16 last rate case as it was required to do, and then subsequently incurred a substantial
17 expense in 2014 to bring its records into compliance with the Commission's Order
18 and the accounting requirements of the NARUC Uniform System of Accounts. I
19 would also note that, given the substantial number of adjustments that the Staff
20 Auditors recommended in this case, the detailed accounting analysis was not
21 sufficient to properly correct the Utility's books for accounting and ratemaking
22 purposes.

23
24 **Q. DO YOU RECOMMEND AN ADJUSTMENT FOR THE DEFERRED**
25 **ACCOUNTING FEES AND RELATED TEST YEAR AMORTIZATION?**

26 A. Yes, I do. The ratepayers should not have to pay for the accounting fees to correct
27 KW's books and records, when the Utility should have made these corrections as it

1 was ordered to do by the Commission after its last rate case. The fact that the Staff
2 Auditors have recommended substantial rate base and expense adjustments, even
3 after the Utility's costly analysis to restate its 2007-2012 Annual Reports, reflects
4 that the books and records have been poorly maintained. This extra expense for
5 outside accounting services is not a cost that is reasonable or prudent as the books
6 and records should have been correctly maintained.

7 Therefore, the ratepayers should not pay in future rates for costs to repair
8 the Utility's records when that should have been incurred annually since the last
9 rate case. Furthermore, none of the PSC annual reports have been actually refiled
10 or revised as of the date of this testimony. For these reasons, all of the accounting
11 costs related to restating the Utility's books and records subsequent to the last rate
12 case decision and prior to filing this current rate case should be disallowed.¹³ Since
13 the Utility did not make an adjustment to increase working capital for the
14 unamortized accounting fees, I have not made an adjustment to working capital,
15 only the \$11,678 reduction to O&M expenses.

16 **Q. WHAT AMOUNTS DO YOU BELIEVE SHOULD BE INCLUDED IN**
17 **DEFERRED DEBITS FOR UNAMORTIZED RATE CASE EXPENSE?**

18 A. One half of the amount of rate case expense approved by the Commission should
19 be allowed as a deferred debit. For purposes of my testimony, I am using half or
20 \$76,011 of the total rate case expense approved by the Commission in the PAA
21 Order of \$152,021. This amount should be adjusted based on the Commission's
22 final decision.

¹³ If the adjustment will be made to the PAA Order amount of working capital an adjustment should be made to remove the \$50,285 (\$63,056 less \$12,611) deferred costs from working capital and the amortization expense of \$12,611 should also be removed from O&M Expenses.

1 **Q. HAVE YOU MADE A CALCULATION OF THE AMOUNT OF WORKING**
2 **CAPITAL NEEDED FOR THE 2016 PRO FORMA TEST YEAR?**

3 A. Yes, I have. First, I compared the adjusted working capital balance for the 2014
4 Phase I rates to the actual 2015 working capital from the Utility's 2015 Annual
5 Report. I then averaged the 2014 average test year with the Utility's reported 2015
6 year-end balances. I included the same accounts and made adjustments to the 2015
7 amounts consistent with my recommendations for 2014. Second, I removed the
8 balance of cash included in Special Deposits of \$204,268, consistent with the
9 treatment in the PAA Order. I would note that the remaining balance of cash is
10 \$157,269, which is substantially lower than the balance the Company reported in
11 its 2014 test year MFRs and books. Third, I removed the balance of Miscellaneous
12 Current and Accrued Assets, similar to the PAA, to remove the utility deposits that
13 earn interest. Additionally, I included the Utility's 2015 reported balance of
14 deferred rate case expense of \$243,070. For comparison purposes, I have calculated
15 a year-end balance of 2015 working capital of \$321,939. Since the average and
16 year-end 2015 balances are so close to the 2014 recommended level of working
17 capital, I recommend that the Commission use the adjusted 2014 balance of
18 working capital for both Phase I and Phase II rates of \$328,976.

19
20 **Q. PLEASE DESCRIBE UTILITY WITNESS SWAIN'S DIRECT**
21 **TESTIMONY ON KW'S REQUESTED WORKING CAPITAL.**

22 A. Ms. Swain testified, on page 3, that KW's requested working capital of almost \$1.4
23 million is necessary based on the AWT operational expenses, the Last Stand
24 litigation, and the regulatory environment existing in the Florida Keys Area of
25 Critical Concern. She adds that after the pro forma adjustments are made, the

1 requested working capital is aligned with KW's 2014 test year needs. She then
2 states that the Utility's requested amount of working capital using the balance sheet
3 method, should not be similar to, or compared to the formula method or 1/8 of
4 O&M Expenses, nor would one expect working capital to be an amount similar to
5 a filing made years prior to the current test period. Lastly, she escalated the working
6 capital balance approved in the last case using customer growth and inflation of
7 172%, and then added the Last Stand Legal fees. She stated that her adjusted
8 benchmark threshold of \$1,732,532 was reasonable compared to the Utility's
9 requested working capital of \$1,367,232.

10
11 **Q. WHAT CONCERNS DO YOU HAVE WITH MS. SWAIN'S TESTIMONY**
12 **ON WORKING CAPITAL?**

13 A. First, the requested pro forma working capital is a completely inappropriate balance
14 for setting rates. It does not represent what actual working capital needs the Utility
15 is actually using as evidenced by the Utility's 2015 balance sheet. It also includes
16 the unamortized balance of the Last Stand legal fees, which I have capitalized to
17 CWIP in Phase I and capitalized to Plant in Service in Phase II. Further, the Utility
18 has not shown that it actually maintains working capital anywhere near the level it
19 has requested in its pro forma request. Furthermore, comparing the balance sheet
20 approach to the formula method is a tool that can be used to test the reasonableness
21 of the items included in the balance sheet calculation. However, I do agree that it
22 should not be the sole basis for reducing the amounts calculated using the balance
23 sheet approach. Moreover, Ms. Swain's benchmark comparison is completely
24 irrelevant to show what the Utility's working capital needs actually are or should
25 be. The balance sheet calculation of working capital should be based on the facts

1 supported by the Utility's actual and projected balance sheet components, with
2 consistent adjustments made based on the Commission's past practice. Lastly, the
3 Utility's 2015 Annual Report reflects a working capital balance of \$298,595. This
4 is much less than the amount reflected in the MFRs and it is also the year that the
5 Utility incurred the majority of its legal fees associated with the construction permit
6 litigation.

7 KW's assertions that an inflated working capital balance is necessary for
8 AWT operational expenses, the Last Stand litigation, and the regulatory
9 environment existing in the Florida Keys Area of Critical Concern are without
10 merit. AWT is included as part of O&M and not working capital. The Last Stand
11 litigation expense should be capitalized (as discussed above). If KW at some time
12 in the future is required to expend additional resources because the Florida Keys is
13 an Area of Critical Concern, it can submit a filing at that time.

14 **Q. WHAT IS THE TOTAL AMOUNT OF WORKING CAPITAL THAT YOU**
15 **ARE RECOMMENDING FOR PHASE I AND PHASE II REVENUE**
16 **CALCULATIONS?**

17 A. Based on my recommended adjustments as discussed above, the appropriate
18 amount of working capital for Phase I and Phase II should be \$328,976.

19

20 Rate Base

21 **Q. WHAT IS THE APPROPRIATE AMOUNT OF RATE BASE TO BE USED**
22 **IN SETTING PHASE I RATES?**

23 A. Based on my recommended adjustments, the appropriate rate base for establishing
24 Phase I rates should be \$127,237.

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Q. WHAT IS THE APPROPRIATE AMOUNT OF RATE BASE TO BE USED IN SETTING PHASE II RATES?

A. Based on testimony of OPC witness Woodcock, and my prior recommended adjustments, the appropriate rate base for establishing Phase II rates should be \$604,323.

COST OF CAPITAL AND CAPITAL STRUCTURE

Q. PLEASE DESCRIBE THE UTILITY'S REQUESTED CAPITAL STRUCTURE.

A. The Utility's actual 2014 capital structure consists of \$395,434 of debt to BB&T at an interest rate of prime plus .075%. For the test year, the requested interest rate for this loan was 4%. The Utility also reflects an \$852,903 loan with an interest rate of 6% from WS Utilities, which is an affiliate of KW. The capital structure also contains \$162,972 in customer deposits with an interest rate of 2%. The Utility reflected a negative equity balance of \$276,537. In its MFRs, the Utility made a \$3.5 million pro forma adjustment to equity to reflect the equity provided to fund the WWTP expansion.

Q. ARE ADJUSTMENTS NECESSARY TO THE COST OF CAPITAL REQUESTED BY THE COMPANY?

A. Yes. In its PAA Order for Phase I, the Commission removed the Utility's pro forma adjustment to Common Equity in the amount of \$3.5 million. The Order stated that removing the Utility's adjustment resulted in a negative common equity balance.

1 Based on historical Commission practice,¹⁴ the Commission set the Utility's
2 common equity balance to zero for Phase I rates. Additionally, the Commission
3 reconciled rate base to capital structure on a pro rata basis over all sources of capital,
4 including customer deposits. I agree with and recommend all three of these
5 adjustments for Phase I rates.

6

7 **Q ARE ANY FURTHER ADJUSTMENTS NECESSARY TO THE CAPITAL**
8 **STRUCTURE?**

9 A. Yes. The affiliate debt interest rate should be equal to the interest rate of the loan
10 from BB&T. The Utility has not demonstrated why a higher interest rate charged
11 by an affiliate should be allowed above the rate that is part of an arms-length
12 transaction with a non-affiliate. The Commission's historically has stated that it is
13 the Utility's burden to show that its requested costs are reasonable.¹⁵ The Supreme
14 Court of Florida has also stated:

15 The mere fact that a utility is doing business with an affiliate does not
16 mean that unfair or excess profits are being generated, without more.
17 We believe the standard must be whether the transactions exceed the
18 going market rate or are otherwise inherently unfair.¹⁶
19

20 In this case, the Utility's affiliate debt cost exceeds the going market rate and thus,
21 I believe that it is inherently unfair. The cost of variable cost debt should be based
22 on the current cost when rates are in effect, especially since I am recommending a
23 pro forma 2016 test year. This is consistent with past Commission practice that
24 interest rates for debt be based on the interest rate when customer's rates are placed

¹⁴ Order No. PSC-08-0652-PAA-WS, issued October 6, 2008, in Docket No. 070722-WS, In re: Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.

¹⁵ See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

¹⁶ See GTE Florida Incorporated v. Deason, 642 So.2d 545 (Fla. 1994).

1 into service. The current prime rate as of September 7, 2016, is 3.5%, based on the
2 Wall Street Journal Prime Rate. I have attached a copy of the Bankrate.com
3 webpage as Exhibit PWM-7. Since the BB&T loan is based on the prime rate of
4 interest plus 0.075%, this equates to a debt cost of 3.58%.

5

6 **Q. WHAT IS THE APPROPRIATE RETURN ON EQUITY FOR PHASE I AND**
7 **PHASE II RATES?**

8 A. In its PAA Order for Phase I rates, the Commission set the Utility's negative
9 common equity balance to zero but approved an equity return based on the current
10 leverage formula currently in effect.¹⁷ The resulting ROE was 11.16%, with an
11 allowed range of plus or minus 100 basis points. I concur that this ROE is the
12 appropriate ROE for Phases I and II.

13 **Q. WHAT IS THE APPROPRIATE OVERALL RATE OF RETURN FOR**
14 **PHASE I RATES?**

15 A. Based on my recommended adjustments, the appropriate overall rate of return for
16 Phase I rates should be 3.39%.

17

18 **Q. ARE YOU MAKING FURTHER ADJUSTMENTS TO THE COST OF**
19 **CAPITAL FOR PHASE II RATES?**

20 A. Yes. In the PAA Order, the Commission allowed the \$3.5 million pro forma
21 adjustment to equity to support the construction cost of the wastewater treatment
22 plant expansion. However, the Utility has not shown that it will, in fact, increase

¹⁷ Order No. PSC-15-0259-PAA-WS, issued July 2, 2015, in Docket No. 150006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4) (f), Florida Statutes.

1 equity for the construction of the plant. As of April 2016, the Utility had not
2 reflected any increase in its equity account based on its general ledger.¹⁸ In
3 response to Staff's Interrogatory 17, the Utility stated that WS Utilities, Inc., made
4 infusions of equity for the pro forma WWTP expansion on the following dates:

5	Contributor	Date	Amount
6	WS Utilities, Inc.	5/6/2016	\$659,000.00
7	WS Utilities, Inc.	6/1/2016	\$852,903.05
8	WS Utilities, Inc.	8/25/2016	<u>\$530,000.00</u>
9	Total:		\$2,041,903.05

10 The Utility's timing in making these equity infusions raises questions, especially as
11 to whether the infusions were made to debt or equity. Until such time that the
12 Utility can meet its burden and produce documents demonstrating that it has infused
13 any equity as opposed to debt into its capital structure, I recommend that debt be
14 used to support the cost of any pro forma plant.

15 **Q. WHAT OVERALL RATE OF RETURN SHOULD BE USED IN SETTING**
16 **PHASE II RATES?**

17 A. Based on my recommended adjustments, the appropriate overall rate of return for
18 Phase II rates should be 3.53%.

19

20 **NET OPERATING INCOME**

21 **Operating Revenues – Phase I**

22 **Q. DO YOU HAVE ANY ADJUSTMENTS TO MAKE TO TEST YEAR**
23 **REVENUES FOR PHASE I RATES?**

24 A. Yes. The first adjustment I made was to remove the Utility's requested rate increase
25 in order to determine the appropriate amount of test year revenues before any rate

¹⁸ Based on the Utility's general ledger provided in response to OPC's Production of Documents No. 8.

1 increase is considered. Second, in the PAA Order, the Commission increased test
2 year revenues by \$61,484, based on Staff Audit Finding 9. After reviewing all of
3 the Commission Staff workpapers and the PAA Order, I was unable to reconcile
4 this adjustment to the amount of test year revenues before any rate increase. I have
5 instead made the adjustments recommended by the Staff Auditors in Audit Finding
6 9 to Miscellaneous and Reuse Revenues. The auditors recommended increasing
7 Miscellaneous Revenues by \$61,899 and Reuse Revenues by \$1,152, for a total
8 increase of \$63,051. I agree with these adjustments.

9 Also, in the PAA Order, the Commission changed the 2014 billing
10 determinants to correct the Utility's erroneous billings for numerous customers.
11 When you change test year billing determinants, it is appropriate to change test year
12 revenues. I have recalculated test year revenues from service rates for residential
13 and general service customers based on the 2014 adjusted billing determinants per
14 the PAA Order. Based on this calculation, test year revenues should be further
15 decreased by \$21,629 based on the changed billing determinants. Based on this
16 adjustment, 2014 test year revenues for Phase I rates should be \$1,534,799.

17
18 Operating Revenues – Phase II

19 Revenue Growth Projections – Phase II

20 **Q. PLEASE DESCRIBE YOUR ADJUSTMENTS TO PHASE II TEST YEAR**
21 **REVENUES.**

22 **A.** First, consistent with my adjustments for Phase I, I have removed the Utility's
23 requested revenue increase of \$1,438,382. I then made the same adjustments I
24 recommended to Phase I Miscellaneous and Reuse Revenues (increase of \$63,052)
25 and the correction to the 2014 PAA Order adjusted billing determinants (decrease

1 of \$21,629). As I discuss below, I have made additional adjustments to reflect the
2 estimated growth in my 2016 pro forma test year revenues.

3

4 **Q. WHAT IS THE APPROPRIATE METHOD OF PROJECTING TEST YEAR**
5 **REVENUES FOR KW'S WASTEWATER SYSTEM TO BE USED IN**
6 **ESTABLISHING PHASE II RATES?**

7 A. Consistent with my adjustment to rate base and capital structure, it is appropriate
8 to increase test year revenues to the level that is estimated to exist the first year after
9 the wastewater treatment plant expansion is placed into service. For the reasons
10 discussed below, I have used a proxy method of projecting 2016 revenues. As
11 reflected in its 2015 Annual Report filed with the Commission, the Utility's
12 revenues from residential customers increased 2.6% and the general service
13 revenues increased 8.4% over the 2014 levels. In response to OPC Interrogatory
14 16, the Utility provided the actual 2015 and January to April 2016 billing reports,
15 which are entitled the "Base and Overage Reports." These reports reflect 31 billing
16 and customer classifications, many more than the tariffed classifications. While I
17 was able to review these records, the Utility had not corrected its billing system to
18 reflect the proper billing classes for the numerous customer classifications. In
19 OPC's Interrogatory 25a to KW, regarding Billing Determinants, the Utility was
20 asked:

21 a. Please provide a calculation of revenues at present rates using the
22 total bills and gallons by class of service and meter size as provided
23 by Minimum Filing Requirements (MFR) Schedule E-2 for 2015
24 and 2016 from January through June 30, 2016, for (1) the actual
25 billings made and (2) the corrected/revised billings as provided by
26 the Company to staff in its Schedule E-2 Revised in February 2016.

27

28 b. For the 2016 information, please provide the revenue impact for
29 each customer class and meter size calculation.

1
2 c. Please provide the requested information for (a) and (b) in an
3 electronic Excel spreadsheet with all values and formulas intact and
4 no cells protected. Also please provide a breakdown of how each
5 revision and/or correction of general service rate class was changed
6 from the billing method used by the utility to the revised method
7 required by the tariff and used by staff in its PAA recommendation.
8

9 KW's Response:

10 As to Interrogatory 25 (a), (b), and (c), KWRU objects to the
11 request as overly broad, unduly burdensome, and not reasonably
12 calculated to lead to the discovery of admissible evidence. KWRU
13 and its agents have not created such calculations, and the creation
14 of such calculations would require significant effort on the part of
15 KWRU's accountants and significant expenditures on the part of
16 KWRU. Further, the calculations may be performed by OPC,
17 should it so desire, with information already in OPC's possession.
18 These calculations do not bear upon the issues in this action, as
19 KWRU has not based any calculations or projections from these
20 non-existent calculations. In short, if OPC desires these
21 calculations, they have the necessary information and may
22 undertake the calculations themselves. As to Interrogatory 25 (d),
23 KWRU implemented new residential and general service rate
24 classifications per the PSC approved Tariffs, which are in OPC's
25 possession.
26

27 Thus, KW refused to restate the 2015 and 2016 billing determinants pursuant to the
28 tariffed required billing classes. Although the Utility states that the requested
29 information would not lead to the discovery of admissible evidence, I respectfully
30 disagree that OPC has the information necessary to restate the rate classification
31 corrections, due to the complexity and volume of changes that were made to
32 transfer the billing classifications from the Utility's billing records to the amount
33 adjusted by the Commission in the PAA Order.

34 KW also states that these calculations do not bear upon the issues in this
35 action, as it has not based any calculations or projections from these non-existent
36 calculations. It is clearly obvious that the Utility does not want the Commission to

1 look beyond the historical 2014 test year, except to add in the items that increase
2 its revenue requirement. Apparently, KW's position is that any adjustment that
3 would decrease the prospective revenue requirement or rates is inappropriate and
4 irrelevant.

5 As I testified earlier, it is the Utility's burden to prove that its requested
6 costs are prudent and reasonable. The same applies to revenues as well. It is very
7 apparent that billing determinants have increased in 2015 above the 2014 levels by
8 just reviewing the 2015 Annual Report, which I have attached as Exhibit PWM-7.
9 On Schedule F-3a on the 2015 Annual Report, KW reports that its 2015 revenues
10 were \$1,659,247, compared to its 2014 revenues of \$1,479,307, which
11 demonstrates an increase of \$179,940 or 12%. On page F-4, which is the Utility's
12 Rate Base, the Utility reflects an achieved rate of return of 16.19%. To put this in
13 perspective, KW's reported cost of capital for the Annual Report was 7.25%, even
14 though it is not consistent with the calculations made by the Commission in the
15 PAA Order. As discussed earlier, KW collected \$310,187 in additional CIAC in
16 2015. Evidently, the financial picture of KW is much better in 2015 and will most
17 likely be better in 2016; however, the Utility does not believe that these offsets to
18 the revenue requirement are relevant. To attempt to place the burden on OPC or
19 any other party is clearly inappropriate. Further, the Utility has not provided any
20 reliable projections to reflect the future customer growth after the new plant comes
21 online.

22
23 **Q. GIVEN THE COMPLEXITY OF THE ADJUSTMENTS AND BILLING**
24 **ERRORS AND THE LACK OF INFORMATION AVAILABLE TO**
25 **CORRECTLY STATE THE ACTUAL 2015 AND 2016 BILLING**

1 **DETERMINANTS, WHAT ADJUSTMENTS SHOULD BE MADE TO**
2 **CUSTOMER BILLING DETERMINANTS?**

3 **A.** Since the Utility failed to provide the actual corrected billing determinants for 2015
4 and 2016, I have used a proxy method of projecting 2016 consumption levels. I
5 have matched the projected 5% annual increase in consumption and ERCs used by
6 OPC witness Woodcock to determine the growth in test year flows for 2015 and
7 2016 to reflect my pro forma 2016 test year. In the Burkim docket cited previously,
8 the Commission updated the projected bills and consumption in setting rates based
9 on an historical, audited period with two years of projections.¹⁹ Mr. Woodcock's
10 recommended annual increase is 222 ERCs, which was limited to 5% customer
11 growth per year. I would note that this is a conservative adjustment, as the Utility's
12 requested growth factor is 7.06% per year.

13 **Q.** **PLEASE EXPLAIN HOW YOU APPLIED THE GROWTH FACTOR TO**
14 **THE 2014 ADJUSTED BILLING DETERMINANTS.**

15 **A.** I took the 2014 number of bills and gallons of wastewater gallons billed as used in
16 the PAA Order and multiplied all of those by 10%, which represents 5% per year.
17 For simplicity purposes, I did not escalate, or compound the 2015 factor by 5%,
18 which would have generated a 10.25% factor.

19
20 **Q.** **WHAT ADJUSTMENT DO YOU RECOMMEND FOR CUSTOMER**
21 **GROWTH AS A RESULT OF YOUR PROJECTION OF ADDITIONAL**
22 **BILLS AND GALLONS FOR 2016?**

¹⁹ See Order No. PSC-01-2511-PAA-WS, page 52, issued December 24, 2001, in Docket No. 010396-WS, In re: Application for staff assisted rate case in Brevard County by Burkim Enterprises, Inc.

1 A. Using my adjusted billing determinants, the appropriate adjustment is an increase
2 of \$141,178 to 2016 test year revenues. My calculations are reflected on Schedule
3 4-B as part of my Exhibit PWM-3 for the 2016 pro forma test year.

4
5 **Q. IF THERE IS RELIABLE EVIDENCE THAT THE NUMBER OF**
6 **CUSTOMERS AND GALLONS BILLED BY KW WILL LIKELY BE**
7 **GREATER IN 2017 THAN YOU HAVE PROJECTED IN 2016, SHOULD**
8 **THE COMMISSION TAKE THAT EVIDENCE INTO ACCOUNT WHEN**
9 **SETTING KW'S RATES IN THIS CASE?**

10 A. Yes, I believe that if reliable evidence is presented in the record which shows that
11 KW's growth will exceed the level that I have projected, the Commission should
12 consider that evidence and update my recommended billing determinants.

13
14 **Q. WHAT DOES THE PAA ORDER STATE ABOUT THE UTILITY'S**
15 **FAILURE TO BILL BASED ON ITS APPROVED TARIFFS?**

16 A. The PAA Order stated that the Utility's billing practice for several general service
17 customers is inconsistent with its approved tariff, and that Staff would address
18 whether the Utility should be ordered to 'show cause' why it should not be fined
19 for charging rates that are inconsistent with its tariff in a subsequent proceeding.

20 The PAA Order gave the following examples:

- 21 • Safe Harbor Marina is billed a negotiated rate, rather than the
- 22 approved bulk flat rate.
- 23 • Sunset Marina is billed base facility charges (BFCs) based on
- 24 an 8" and a 2" meter, the Utility's approved gallonage charge
- 25 based on water demand, the approved charge for two pools, as
- 26 well as an additional 64 BFCs based on the number of units
- 27 behind the meter.
- 28 • Marinas with 2" meters are billed based on an approved bulk
- 29 flat rate that includes BFCs for a 2" meter and six residential
- 30 units, as well as a gallonage charge that was erroneously added

1 to the bulk rate tariff as a result of an administrative approval
2 of a 2011 price index.
3 • One general service customer with a 6” meter is billed the BFC
4 for a 5/8”x3/4” meter for each of the 103 units.
5 • Another general service customer with a 5/8”x3/4” meter is
6 billed the BFC for a 5/8”x3/4” meter for 49 units.
7

8 **Q. PLEASE STATE THE STATUTORY AND RULE REQUIREMENTS THAT**
9 **ADDRESS CUSTOMER BILLING AND REFUND REQUIREMENTS.**

10 A. According to Section 367.091(4), Florida Statutes, “A utility may only impose and
11 collect those rates and charges approved by the commission for the particular class
12 of service involved. A change in any rate schedule may not be made without
13 commission approval.” Rule 25-30.350(2), F.A.C., states that “In the event of an
14 overbilling, the utility shall refund the overcharge to the customer based on
15 available records. If the commencement date of the overbilling cannot be
16 determined, then an estimate of the overbilling shall be made based on the
17 customer’s past consumption.”

18 Commission Staff sent a letter dated February 18, 2016, to KW requesting
19 the Utility to provide a response by March 21, 2016, describing when and under
20 what circumstances each outlined violation occurred and the Utility's plan to correct
21 the billing errors. By letter dated March 21, 2016, the Utility sent a 6 page response,
22 with 22 pages of documents attached. OPC agrees that the issues are very complex
23 and it does not appear that the Utility agreed that any amounts should be refunded.
24 It also appears that the Utility believes that communication with the Commission
25 staff is tantamount to “approval by the Commission.” It is not the Commission
26 Staff’s obligation to seek approval of a tariff and communicating with Staff
27 definitely does not grant approval unless specifically authorized by the Commission
28 by statute, rule, or order.

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Q. DO YOU HAVE A RECOMMENDATION ON WHAT ACTION THE COMMISSION SHOULD TAKE REGARDING THE UTILITY'S FAILURE TO BILL BASED ON ITS APPROVED TARIFFS?

A. Yes, I recommend that a full audit and investigation be initiated by the Commission to determine whether and how much of the revenues billed were based on unapproved, thus improper, erroneous billing classifications, and how much these, and potentially other improperly billed customers are owed in refunds.

Miscellaneous Revenues

Q. DO YOU RECOMMEND ANY ADJUSTMENTS TO PROJECT 2016 MISCELLANEOUS SERVICE REVENUES?

A. Yes, I do. I have used the actual 2015 miscellaneous revenues from the Utility's Annual Report; however, I made several adjustments to those amounts. First, I made the same adjustments to miscellaneous service charges that I made to Phase I rates based on Audit Finding 9. I then obtained the 2015 miscellaneous service charges from the Utility's General Ledger as of December 31, 2015, provided in KW's response to OPC's Document Request 8. The miscellaneous revenues totaled \$104,651, not including reuse revenues. In its PAA Order, the Commission discontinued the tariff for revenues received from the reuse testing charge to the Monroe County Detention Center (MCDC), as the testing costs would be included in the increased reuse rate. I agree with the Commission's discontinuation of this tariff, so I have removed the \$19,500 received for reuse testing from 2015 miscellaneous revenues. I also adjusted the amount of the MCDC Lift Station Cleaning Income to match the tariff rate approved in the PAA Order. This results

1 in a decrease of \$2,006 to miscellaneous revenues. I then escalated the remaining
2 miscellaneous service revenue accounts by 5%, an increase of \$3,276, which is
3 consistent with the other escalation factors that I have used in my pro forma 2016
4 Phase II rate projections. The net result of my 2016 adjustments increase the
5 adjusted miscellaneous revenues by \$13,802. My calculations are reflected in
6 Exhibit PWM-3, Schedule 3-C.

7
8 Reuse Revenues

9 **Q. HAVE YOU MADE AN ADJUSTMENT TO REUSE REVENUES FOR THE**
10 **2016 PRO FORMA TEST YEAR?**

11 A. Yes, I have. In the historical 2014 test year, the utility received revenues of \$49,248
12 from the MCDC for 72,423 thousand gallons of reuse provided. In 2015, the Utility
13 received \$58,188 in revenues, for 85,571 thousand gallons of reuse. The increase
14 in 2015 reuse gallons sold was an increase of 18% from the 2014 levels. I increased
15 the gallons sold for 2016 by an additional 5% consistent with my 2016 projection
16 factors. This results in a 2016 projected level of reuse revenues at the current rate
17 of \$0.68 per thousand gallons of \$61,098, or an increase of \$10,697 to the historical
18 test year. As discussed later in my testimony, I address the appropriate prospective
19 reuse rate to be charged. My reuse revenue calculations are also reflected in Exhibit
20 PWM-3, Schedule 3-C.

21
22 Total Test Year Revenues – Phase II Rates

23 **Q. WHAT IS YOUR ADJUSTED AMOUNT OF TEST YEAR REVENUES FOR**
24 **THE 2016 PRO FORMA TEST YEAR?**

1 A. Based on the adjustments that I discuss above, the appropriate amount of test year
2 revenues for setting Phase II rates is \$1,701,630.

3

4 Operating Expenses

5 O&M Expenses

6 **Q. DO YOU AGREE WITH THE AUDIT FINDINGS RELATED TO O&M**
7 **EXPENSES?**

8 A. No, I do not. As I discussed previously, I agree with some but not all of the agreed-
9 upon audit adjustments. Audit Finding 3 relates to the reclassification of survey
10 fees to O&M Expenses, which results in an increase of \$1,200 to Contractual
11 Services-Other. I reduced O&M Expenses based on Audit Finding 10 regarding
12 the removal of non-utility, duplicative, out-of-period costs and undocumented
13 expenses of \$4,512.

14

15 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO EXPENSES**
16 **ASSOCIATED WITH AUDIT FINDINGS 6 AND 11?**

17 A. As I previously testified in the Deferred Debit section of my testimony, I do not
18 agree with the agreed-upon adjustment made in the PAA Order regarding Audit
19 Finding 6, which relates to the amortization of Accounting Fees to “Restate the
20 2007-2012 Annual Reports.” Since both of the expense impacts recommended by
21 the Staff Auditors relates to items that I have accounted for differently, neither of
22 the two expense adjustments related to Audit Finding 6 are appropriate to be made.
23 I do agree with making the adjustment in Audit Finding 11 regarding expenses for
24 Legal Fees relating to the Last Stand litigation that the auditors believe should be

1 deferred and amortized, as these amounts should not be included in the test year
2 O&M expenses.

3

4 **Q. WHAT ADJUSTMENT TO O&M EXPENSES ARE YOU MAKING TO**
5 **REMOVE THE REQUESTED AMORTIZATION OF ACCOUNTING FEES**
6 **TO CORRECT ITS BOOKS AND RECORDS?**

7 A. As addressed in the Working Capital section of my testimony, I removed the
8 Utility's requested amortization expense of \$11,678 for correcting its books and
9 records to comply with the Commission's Order in KW's last rate case and the
10 Uniform System of Accounts to which the Utility referred to as "restating the 2007-
11 2012 Annual Reports." Since, I have not made any of the agreed-upon adjustments
12 from Audit Finding 6, it is not necessary to remove the PAA Order's amortization
13 amount.

14

15 **Q. DO YOU AGREE WITH THE PAA ORDER ADJUSTMENT TO**
16 **CONTRACTUAL SERVICES-ACCOUNTING?**

17 A. Yes. In its MFRs, KW included a \$12,350 pro forma adjustment for additional
18 accounting services, not related to the correction of its books and records. In its
19 response to Staff's first data request No. 2,²⁰ the Utility stated that the \$12,350
20 adjustment was based on an additional hour of bookkeeping for 49.5 weeks at an
21 hourly rate of \$250 an hour due to the increase in transactions related to accounts
22 payable, cash disbursements, and customer service. The PAA Order states the \$250
23 is based on the hourly rate charged by the Utility's accountant, Mr. Jeffrey Allen
24 CPA, for additional work not included in his fixed-rate \$525 monthly service fee;

²⁰ See Exhibit CAJ-4 Page 2

1 however, no explanation was specified for using 49.5 weeks. In its response to
2 Staff's first data request, the Utility indicated that the increase in the expense for
3 December 2014 was due to Mr. Allen performing fourth quarter accounting work
4 in place of the Utility's in-house accountant who had resigned. The Commission
5 stated that this position was filled in 2015; therefore, the additional work performed
6 in the test year did not warrant an adjustment to increase accounting fees on a going-
7 forward basis. Additionally, the PAA Order stated the Utility indicated that the
8 increase in wastewater treated would not increase the prospective amount of
9 transactions relative to the amount of flows received. Based on the above, I concur
10 with the Commission's decision to disallow the \$12,350 pro forma contractual
11 services-accounting adjustment for Phase I and Phase II rate setting purposes.

12

13 Contractual Services-Engineering

14 **Q. DO YOU AGREE WITH THE ADJUSTMENT IN THE PAA ORDER FOR**
15 **CONTRACTUAL SERVICES-ENGINEERING?**

16 A. Yes. I agree that this adjustment is appropriate to correct expenses for an invoice
17 that was capitalized. Contractual services-engineering expense should be
18 decreased by \$653.

19

20 Contractual Services-Management Fee

21 **Q DO YOU AGREE WITH THE COMMISSION'S ADJUSTMENT TO KW'S**
22 **TEST YEAR EXPENSES FOR MANAGEMENT FEES CHARGED BY**
23 **GREEN FAIRWAYS?**

24 A. Yes. I agree that the majority of the management duties provided by Green
25 Fairways is duplicative of the in-house officers and management the Utility has

1 hired since its last rate case. The PAA Order also states the Utility explained that
2 Mr. William Smith personally guaranteed loans to KW, and that his management
3 fees are reasonable compared to those charged by most lenders. KW further
4 explained that WS Utilities, as the sole shareholder and largest creditor, requires
5 outside management to review KW's operations and to ensure that all debts are
6 properly paid and that no security is jeopardized or personal guaranty is put at risk.
7 The Commission properly found that these services primarily benefit Mr. Smith as
8 a shareholder. Finally the PAA Order states, and I agree, that Green Fairways does
9 not provide true, independent third party oversight, as two related-party individuals
10 are providing the services. Therefore, I concur with the Commission's decision to
11 remove the affiliate transaction as not being necessary for the provision of regulated
12 utility service. Thus, I recommend that contractual services-management expense
13 be decreased by \$60,000 for both Phase I and Phase II rates.

14 Legal Fees Associated with Construction Permit Litigation

15 **Q. WHAT ADJUSTMENT IS APPROPRIATE FOR THE LEGAL AND**
16 **CONSULTING FEES THAT THE UTILITY INCURRED TO DEFEND ITS**
17 **CONSTRUCTION PERMIT WITH DEP FOR THE WASTEWATER**
18 **TREATMENT PLANT EXPANSION?**

19 **A.** As discussed earlier in my testimony, the legal and engineering fees associated with
20 the construction permit should be capitalized to CWIP and not deferred and
21 amortized over 5 years as requested by the Utility. These costs clearly were
22 incurred to obtain the construction permit and are required to be capitalized
23 according to the NARUC Uniform System of Accounts. In its filing, the Utility
24 requested total fees of \$519,585 to be amortized over 5 years for an annual

1 amortization expense of \$103,917. For Phase I, I have added the amounts to CWIP
 2 and for Phase II rates, I have capitalized these fees to Treatment and Disposal Plant.
 3 Accordingly, I have removed the Utility's requested amortization of \$103,917 from
 4 both Phase I and Phase II O&M Expenses.

5

6 Pro Forma Expense Adjustments – Phase I

7 **Q. PLEASE ADDRESS THE UTILITY'S PRO FORMA O&M EXPENSES**
 8 **FOR PHASE I RATES?**

9 A. The Phase I O&M Expenses requested by the Utility and approved by the
 10 Commission severely overstated the expenses for Phase I level of service. The
 11 biggest problem with the Phase I level of expenses is that the Utility requested pro
 12 forma adjustments for service levels at least a year after the new treatment plant
 13 will be placed into service. If you look at the actual levels of expenses incurred in
 14 2015 and for the January through April 2016 timeframe, it is evident that the Utility
 15 is not spending near the amount of expenses that the Commission approved for
 16 Phase I even though the Utility was required to implement AWT in January 2016.
 17 This is particularly evident when you look at chemicals, purchased power and
 18 sludge hauling expenses, as demonstrated below:

<u>Account Title</u>	<u>2014</u>	<u>2015</u>	<u>Annualized 2016</u>	<u>PAA Order Phase I & II</u>
Sludge Removal Expense	\$39,394	\$36,777	\$130,925	\$148,728
Purchased Power	\$146,711	\$145,781	\$181,726	\$189,611
Chemicals	\$32,330	\$89,146	\$183,152	\$257,071

19

20 In its PAA Order on page 13, the Commission stated the following under the
 21 heading "Changes in Operation and Maintenance (O&M) Expenses Due to AWT
 22 Upgrade":

1 The Utility requested pro forma expenses associated with
2 upgrading its operations to meet Advanced Wastewater Treatment
3 (AWT) Standards required by Section 403.087(10), F.S., with a
4 deadline of January 1, 2016. Section 367.081, F.S., provides that
5 we approve rates for service which allow a utility to recover the full
6 amount of environmental compliance costs. Recognizing that the
7 requested expenses are needed for compliance with the Utility's
8 DEP Permit, KW Resort shall be permitted recovery of reasonable
9 and prudent expenses associated with the AWT upgrade.

10
11 In its filing, the Utility requested a total of \$666,134 of pro forma
12 O&M expense for estimated increases in the following expenses:
13 salaries and wages, employee pension and benefits, general liability
14 insurance, workmen's comp insurance, sludge disposal, purchased
15 power, chemicals, materials and supplies, contractual services-
16 engineer, contractual services-testing, contractual services-other,
17 and miscellaneous. As addressed below, this request was
18 subsequently increased to \$708,511. In addition, the Utility
19 requested a corresponding pro forma increase of \$13,526 to payroll
20 taxes. We find the following adjustments are appropriate.
21

22 **Q. DOES IT APPEAR THAT THE COMMISSION WAS AWARE THAT THE**
23 **REQUESTED LEVEL OF EXPENSES WAS NOT JUST FOR**
24 **IMPLEMENTING AWT ON ITS EXISTING TREATMENT PLANT?**

25 **A.** No, it does not appear that the Commission or its Staff understood that the majority
26 of the pro forma expenses requested were based on treatment and expense levels
27 much higher than those in the current test year, as the Order only stated that the pro
28 forma expenses were needed to implement AWT. In response to Staff Audit
29 Request 5, which is Exhibit PWM-5 attached to my testimony, the majority of the
30 adjustments projected the expense levels for the treatment plant operations out to
31 2016 after the treatment plant expansion was online and operating for at least a
32 year. The Utility did not provide this information in its direct testimony that was
33 filed in this docket. As shown on page 2 of the exhibit, the calculation of salaries
34 is projected out to 2015 and 2016. Page 4 reflects sludge hauling estimates for 2016

1 when the expansion is operational. Page 6 reflects purchased power for a full 2016
2 level. Pages 7-12 estimate chemical expenses based on 550,000 GPD, and page 13
3 reflects the Utility engineer's annual estimate for testing after the plant expansion
4 is in service. Based on this exhibit, it is clear that the majority of the O&M expenses
5 for the pro forma adjustments reflect the annual operational level when the
6 expansion is in service and does not reflect the level of pro forma expenses for
7 implementing AWT for its existing plant.

8
9 **Q. DO YOU AGREE THAT SOME LEVEL OF PRO FORMA ADJUSTMENT**
10 **IS NECESSARY FOR PHASE I RATES TO IMPLEMENT AWT ON THE**
11 **EXISTING PLANT?**

12 A. Yes, I do. While I do not have an estimate provided by the Utility for AWT on its
13 existing plant, I can make a reasonable estimate based on the actual results from
14 2016 that the Utility has provided. Phase I O&M expenses should be no more than
15 the actual annualized levels incurred for 2016. The Utility provided the January to
16 April 2016 level of operating expenses and those expenses totaled \$237,762. I
17 multiplied the majority of the expense accounts by 3 to reflect a full year of
18 expenses. For chemicals, purchased power and sludge hauling expenses, I
19 multiplied the first four months by 3.25 instead of 3 to recognize that the flows
20 generally increase in the last quarter of the year. I then made several adjustments
21 to my annualized 2016 amounts. First, I made all of my adjustments that I
22 recommend to O&M expenses for the agreed-upon adjustment. I then removed the
23 \$60,000 management fee for the affiliate services that are not necessary or
24 supported. I also added back in the rate case expense that the Commission approved
25 in the PAA Order.

1 The last adjustment I made was to correct the general liability insurance
2 annualization that was based on an overstated amount in the general ledger. In
3 response to Staff's Interrogatory 16, the Utility stated that the general liability
4 insurance for KW's expense through April 2016 was originally reported as \$28,657,
5 which when annualized totaled \$85,971. The utility later reviewed the entry to that
6 account, and corrected the general ledger. The corrected amount through April
7 2016 is \$13,729, or \$41,187 annualized. I have adjusted the annualized general
8 liability insurance to the corrected amount.

9 Attached to my testimony is Schedule 3-C from Exhibit PWM-2, which
10 shows my recommended level of 2014 adjusted O&M expenses which totals
11 \$1,546,872. Thus, a further reduction to Phase I O&M Expenses of \$301,461
12 should be made. It should be noted that this is higher than the actual 2015 O&M
13 expenses of \$1,402,438, as reflected in the Utility's 2015 Annual Report. I would
14 not recommend any higher levels of O&M expenses for Phase I, even including
15 additional direct expenses associated with AWT, unless the Utility can meet its
16 burden of proof and document that it is in fact incurring more than the annualized
17 costs that I have calculated for 2016.

18
19 **Q DO YOU HAVE ANY OTHER COMMENTS REGARDING THE**
20 **UTILITY'S REQUESTED PRO FORMA EXPENSES FOR PHASE I?**

21 **A.** Yes. In its last rate case, KW requested and the Commission approved increased
22 O&M expenses (with few adjustments) to allow the Utility to implement AWT
23 starting in 2008. We know now that the Utility did not implement AWT on its
24 existing plant until a few months before January 1, 2016. Thus, the Commission
25 included significantly higher chemical, purchased power and sludge hauling

1 expenses in the last rate case, which the Utility never incurred, yet ratepayers paid
2 for. While I am not asking the Commission to take any action on this, it should be
3 noted that the Utility again has requested higher O&M expenses to “implement
4 AWT” in this case, which we now know is not the level needed in Phase I rates.

5

6 Rate Case Expense

7 **Q. DO YOU HAVE A RECOMMENDATION REGARDING RATE CASE**
8 **EXPENSE IN SETTING PHASE I AND PHASE II RATES?**

9 A. Yes. For purposes of my accounting schedules, I included the rate case expense
10 amortization that the Commission approved in the PAA Order. Thus, the rate case
11 expense adjustments and the total amount approved by the PAA Order are
12 appropriate for setting Phase I and Phase II rates. I will address below the major
13 adjustments that the Commission approved. In addition, the final amount should
14 be based on supported estimates for taking the case to hearing.

15

16 **Q. WHAT ADJUSTMENTS ARE APPROPRIATE FOR LEGAL FEES?**

17 A. Legal fees should be reduced to remove the filing fees, costs incurred to submit and
18 address deficiencies in the MFRs, and a reasonable estimate to complete. Also, it
19 is not appropriate for the Utility to seek reimbursement from its ratepayers to have
20 two attorneys reviewing the same work product. I agree with the PAA Order that
21 any duplication in legal fees incurred by having two law firms working on the rate
22 case should be disallowed. Further, it is the Utility’s burden to show that the legal
23 fees incurred are not duplicative. Customers should not pay double the rate case
24 expense to have two attorneys review a data request, a discovery response, attend a
25 conference call with staff, attend the prehearing conference, or pay for hours

1 associated with “researching” different Commission functions such as the PAA
2 process. The Utility has retained experienced counsel and customers should not
3 pay additional rate case expense for another attorney, at a higher hourly rate, to
4 learn Commission processes, especially when that attorney is affiliated with the
5 Utility. Therefore, rate case expense should be adjusted accordingly to remove
6 duplicative legal fees.

7
8 **Q. WHAT ADJUSTMENTS ARE APPROPRIATE TO ACCOUNTING**
9 **CONSULTING FEES?**

10 A. The PAA Order made adjustments to accounting fees to remove duplicate filing
11 costs to correct MFR deficiencies, to reflect a reasonable level of estimated hours
12 to complete the case, and to remove duplicative, unsupported, and other accounting
13 invoices not related to rate case expense. I concur that these adjustments are
14 reasonable and should be made. I also recommend that the Commission carefully
15 review the accounting rate case expense invoices to determine whether the Utility’s
16 inadequate record keeping has increased the amount of accounting work performed
17 to prepare the MFRs, address audit findings and respond to discovery, thus
18 increasing rate case expense. Any rate case expense related to bringing the Utility’s
19 books into compliance included in rate case expense should be disallowed.

20
21 **Q. DID THE COMMISSION MAKE ADJUSTMENTS TO MISCELLANEOUS**
22 **RATE CASE EXPENSE?**

23 A. Yes, it made adjustments to reflect a reasonable cost for customer notices, printing
24 and shipping, and rate case travel expenses. I also agree with these adjustments.

25

1 **Q** **BASED ON THE ADJUSTMENTS ABOVE, WHAT AMOUNT OF RATE**
2 **CASE EXPENSE HAVE YOU INCLUDED?**

3 A. Based upon the adjustments discussed above, the Commission approved rate case
4 expense of \$152,021. Amortized over 4 years, this equates to an annual expense of
5 \$38,005. The Utility's requested rate case expense should be increased by \$6,805
6 (\$38,005 - \$31,200).

7

8 Phase II O&M Expenses

9 **Q. ARE YOU MAKING SIMILAR ADJUSTMENTS TO PHASE II O&M**
10 **EXPENSES THAT YOU MADE TO PHASE I?**

11 A. Yes, I am making the same adjustments for the agreed-upon audit adjustments,
12 contractual services-accounting, contractual services-engineering, management
13 fees, and rate case expense. I am also recommending the removal of the
14 amortization of legal fees for the permit litigation fees incurred which should be
15 capitalized, and I remove the amortization of accounting fees to correct the Utility's
16 books and records for 2007-2011. Additionally, I agree that the reduction to pro
17 forma expenses made by the Commission of \$10,028 is appropriate for Phase II
18 rates.

19

20 Pro Forma Expenses-Phase II

21 **Q. WHAT ADDITIONAL ADJUSTMENTS TO THE UTILITY'S**
22 **REQUESTED PRO FORMA EXPENSES DO YOU BELIEVE ARE**
23 **APPROPRIATE FOR PHASE II RATES?**

24 A. Additional adjustments are needed to the pro forma expenses for Sludge Removal,
25 Purchased Power, Chemicals, and Material and Supplies Expenses. The pro forma

1 adjustments for those accounts are based on consumption levels that exceed the
2 level recommended by OPC witness Woodcock's engineering analysis and growth
3 for the first year that the new plant expansion will be placed into service. Mr.
4 Woodcock recommends that the projected 2016 treatment level will be 507,370
5 gallons per day (gpd). The Utility has calculated its projected level of expenses
6 based on a consumption level of 550,000 gpd. I have reduced those 4 accounts,
7 which are directly impacted by the amount of flows treated, by 7.75%.
8 (42,630/550,000 gpd). This results in a decrease of \$29,223 to O&M Expenses.

9 **Q. HAVE YOU REVIEWED UTILITY WITNESS SWAIN'S ADDITIONAL**
10 **O&M EXPENSE ADJUSTMENTS THAT WERE INCLUDED IN HER**
11 **DIRECT TESTIMONY?**

12 A. Yes, I have. In Ms. Swain's Exhibit DDS-2, page 5 of 11, attached to her direct
13 testimony, she shows that KW increased O&M Expenses by \$224,501, for a total
14 pro forma O&M Expense adjustment of \$1,085,543. The adjustments to each
15 account are listed below:

16

701 Salaries & Wages – All	\$14,640
704 Employee Pensions & Benefits	\$18,413
715 Purchased Power	\$38,264
718 Chemicals	\$32,330
720 Materials & Supplies	\$31,502
757 Insurance - General Liability	\$47,271
766 Reg. Comm. Exp. - Rate Case Amort.	\$60,657
775 Miscellaneous Expenses	<u>\$2,424</u>
Total	<u>\$245,501</u>

17

18 I disagree with those pro forma expenses for many reasons. First, all of these
19 expenses are in addition to the more than \$840,000 in pro forma adjustments

1 requested in the MFRs and were not included in KW's original rate case filing. To
2 increase projected expenses by almost a quarter of a million dollars, with no
3 justification and after the Intervenors' protest was filed, is completely inappropriate
4 and unjustified. Second, the Utility has not provided any documentation with its
5 testimony that shows how these amounts were calculated or what changes occurred
6 to necessitate such a large increase above those included in the MFRs. These
7 additional costs are a transparent attempt to bolster the Utility's request for a rate
8 increase. Further, the Utility has utterly failed to identify any known and
9 measurable changes that have occurred subsequent to the test year, which would
10 require these additional costs to be included in the revenue requirement, as I outline
11 in great detail in my testimony. Finally, the breakdown of the increase in individual
12 expense accounts totals \$245,501. This is an unexplained difference from her total
13 increase to O&M Expenses of \$20,960. This requested increase in O&M Expenses
14 should be completely disallowed.

15
16 O&M Expense Summary

17 **Q. WHAT IS THE TOTAL RECOMMENDED LEVEL OF O&M EXPENSES**
18 **THAT YOU ARE RECOMMENDING FOR PHASE I AND PHASE II**
19 **RATES?**

20 **A.** Based on the adjustments outlined in my testimony, I am recommending O&M
21 Expenses of \$1,546,872 for Phase I and \$1,809,082 for Phase II. The schedules
22 supporting the Phase I and II O&M expenses are Exhibits PWM-2, Schedule 2-A
23 and PWM-3, on Schedules 2-A, respectively.

24

1 Depreciation Expense

2 **Q. WHAT ADJUSTMENTS DO YOU RECOMMEND TO DEPRECIATION**
3 **EXPENSE TO BE USED IN SETTING PHASE I RATES?**

4 A. Consistent with my recommendations to Accumulated Depreciation and
5 Accumulated Amortization of CIAC, I have increased Amortization of CIAC by
6 \$14,003 for Audit Finding 4; I have decreased Depreciation Expense by \$5,489 for
7 Audit Finding 5; I have removed the requested pro forma Depreciation Expense for
8 the wastewater treatment plant expansion by \$196,281 and I have removed the
9 Utility's adjustment to reflect the year-end annualization of Depreciation Expense,
10 which is a reduction of \$4,384. Based on these adjustments, Net Depreciation
11 Expense should be \$104,511 for Phase I rates.

12 **Q. WHAT ADJUSTMENTS DO YOU RECOMMEND TO DEPRECIATION**
13 **EXPENSE TO BE USED IN SETTING PHASE II RATES?**

14 A. Consistent with my recommendations to Phase I Depreciation Expense and
15 Amortization of CIAC Expense, I first increase Amortization of CIAC by \$14,003
16 for Audit Finding 4. Second, I decrease Depreciation Expense by \$5,489 for Audit
17 Finding 5. The third adjustment I make increases the 2014 depreciation expense
18 by \$13,718 to reflect the 2014 year-end balance. Fourth, I add the additional
19 amount of depreciation expense on the WWTP expansion projected costs including
20 the capitalized legal fees for the permit litigation. This results in an increase to
21 depreciation expense of \$67,026 above the Utility's requested pro forma
22 depreciation expense in its MFRs. The fifth and sixth adjustments relate to the
23 vacuum tank depreciation expense and the adjustment to remove the related
24 retirement. Those adjustments to depreciation expense are an increase of \$26,385

1 and a decrease of \$19,789, respectively. For clarity, I made specific adjustments
2 for the WWTP expansion and the vacuum tank replacement, and did not net the
3 adjustments, as was done in the PAA Order.

4
5 **Q. HAVE YOU MADE ADDITIONAL ADJUSTMENTS TO AMORTIZATION**
6 **OF CIAC?**

7 A. Yes. Consistent with the adjustments to CIAC, I first increase the average 2014
8 balance of Amortization of CIAC by \$4,746 to reflect a year-end balance, similar
9 to depreciation expense. Second, I add amortization of \$17,079 for the 2015 and
10 2016 actual additions to CIAC. The third adjustment I make is to reflect the
11 amortization of \$15,421 on the additional 2016 CIAC I project will be collected
12 during the first year of operations of the WWTP expansion.

13 **Q. WHAT NON-USED AND USEFUL ADJUSTMENT IS NECESSARY TO**
14 **DEPRECIATION EXPENSE?**

15 A. I reduce Depreciation Expense by \$130,954 based on the 25% non-used and useful
16 percentage recommended by OPC witness Woodcock. This adjustment is
17 consistent with the adjustment I made to rate base for non-used and useful Plant
18 and Accumulated Depreciation.

19
20 **Q. WHAT IS YOUR ADJUSTED DEPRECIATION EXPENSE FOR PHASE II**
21 **RATES?**

22 A. The net Depreciation Expense for Phase II rates is 224,316. This is a decrease to
23 the Utility's MFR requested Depreciation Expense of \$72,346.

24

1 Taxes Other Than Income (TOTI)

2 **Q. WHAT ARE THE APPROPRIATE AMOUNTS OF TAXES OTHER THAN**
3 **INCOME TAXES TO BE INCLUDED IN SETTING PHASE I RATES?**

4 A. For Phase I Rates, I first make a \$62,863 adjustment to remove the regulatory
5 assessment fees on my test year revenue net adjustment. The second adjustment I
6 make is to reflect the annualization of payroll taxes consistent with the method that
7 I used to adjust Phase I salaries for AWT. I annualized the January through April
8 2016 balance of payroll taxes from the Utility's general ledger and multiplied that
9 balance by 3 to get the 2016 annualized level of payroll taxes. This results in an
10 increase to payroll taxes of \$5,682. The last adjustment I make for Phase I Taxes
11 Other Than Income is to remove the Utility's requested pro forma adjustment to
12 property taxes on the pro forma plant adjustment. This is a decrease of \$35,696.
13 The total adjustment to Phase I Taxes Other Than Income is a net decrease of
14 \$92,878, which results in an adjusted 2014 balance of \$153,029.

15

16 **Q. WHAT ARE THE APPROPRIATE AMOUNTS OF TAXES OTHER THAN**
17 **INCOME TAXES TO BE INCLUDED IN SETTING PHASE II RATES?**

18 A. For Phase II Rates, I first make a \$55,356 adjustment to remove the regulatory
19 assessment fees on my test year revenue net adjustment. Second, I reflect the
20 \$1,875 payroll tax adjustment made in the PAA Order, as I concur with the increase
21 to the Utility's pro forma adjustment to salaries the Commission made. The
22 adjustment to payroll taxes should be a fall-out based on the amount of salaries
23 ultimately approved by the Commission. The third adjustment is an increase to
24 property taxes of \$13,355 to reflect the adjusted pro forma plant that I am including
25 for Phase II Rates. The last adjustment that I make for Phase II Taxes Other Than

1 Income is to remove the \$16,177 in non-used and useful property taxes based on
2 OPC witness Woodcock's used and useful analysis. The total adjustment that I
3 make to Taxes Other Than Income is a decrease of \$56,302, which results in an
4 adjusted 2016 pro forma test year balance of \$189,605.

5

6 Revenue Requirements

7 **Q. WHAT IS THE APPROPRIATE REVENUE REQUIREMENT FOR PHASE**
8 **I RATES?**

9 A. Based on my recommended adjustments to the Phase I rate base, cost of capital and
10 operating expenses, the appropriate revenue requirement for Phase I rates should
11 be \$1,821,639. This represents an increase of \$286,840, or 18.69%, to adjusted
12 2014 test year revenues.

13 **Q. WHAT IS THE APPROPRIATE REVENUE REQUIREMENT FOR PHASE**
14 **II RATES?**

15 A. Based on my recommended adjustments to the Phase II rate base, cost of capital
16 and operating expenses, the appropriate revenue requirement for Phase II rates
17 should be \$2,269,893. This represents an increase of \$568,263, or 33.40%, to
18 adjusted 2016 pro forma test year revenues. My adjustments to Phase II rates are
19 not cumulative from my Phase I rates, which is different from how the revenue
20 increase was presented in the PAA Order.

21

22 Utility's Revised and Unnoticed Revenue Requirement Increase

23 **Q: DID THE UTILITY'S JULY 1, 2016 TESTIMONY, EXHIBITS, AND MFRS**
24 **SUBSTANTIALLY INCREASE ITS ORIGINAL REQUEST FOR RATE**
25 **RELIEF?**

1 A: Yes. As reflected in Exhibit DDS-2, attached to Utility witness Swain's testimony,
2 the Utility increased its requested revenues by \$413,598. On July 1, 2015, the
3 Utility, in its original application and MFRs, requested a revenue requirement of
4 \$2,931,759 (\$1,438,382 or a 96% increase) to account for the new plant expansion
5 project required to meet future wastewater demand related to extraordinary growth,
6 as well as comply with AWT as of January 1, 2016. However, in Ms. Swain's
7 direct testimony, KW increased the projection of its WWTP expansion cost and
8 added a new pro forma estimate of \$615,177 for a vacuum tank replacement, which
9 was not included in its original application. As I testified, the Utility also increased
10 its pro forma O&M expenses by \$224,541, its depreciation expense by \$82,293,
11 and taxes other than income by \$36,386. Lastly, the Utility increased its cost of
12 capital from 8.01% to 8.16%. Together, all of these additional pro forma costs
13 increased the Utility's requested revenue increase from 97% in its original MFRs,
14 by an additional 14.11%. The revised revenue increase included in the Utility's
15 direct testimony is now 126.14%.

16
17 **Q. DO YOU HAVE ANY COMMENTS REGARDING THE UTILITY'S**
18 **ATTEMPT TO INCREASE ITS REQUESTED REVENUES THIS LATE IN**
19 **THE PROCEEDING?**

20 A. Yes, I do. It is inappropriate for the Utility, through its testimony, to seek a rate
21 increase that materially exceeds its request in its original petition. First, other than
22 the treatment plant expansion and vacuum tank replacement, the other pro forma
23 adjustments are unsupported. Second, the Utility has not provided any notice to its
24 customers that it is requested higher revenues, and thus, rates higher than those that

1 were included in the official customer notice of the case. Any revenue increase
2 above the original request should be completely denied.

3
4 **Q. IN YOUR REGULATORY EXPERIENCE, HAVE YOU EVER OBSERVED**
5 **ANY SIMILAR EXAMPLES OF WHEN A UTILITY HAS REQUESTED**
6 **HIGHER REVENUES AFTER IT FILED ITS ORIGINAL PETITION FOR**
7 **A RATE INCREASE AND INITIAL CUSTOMER NOTICE?**

8 A. Yes, I have been involved in at least two cases where this issue arose. The first was
9 a General Development Utilities (GDU) system named Silver Springs Shores²¹.
10 The second was a Utilities, Inc. of Sandalhaven²² case in 2006. While there is no
11 Commission order issued that explains the rationale for suspending or extending
12 these cases, I was personally involved with both cases: first when I was on
13 Commission Staff and the second as OPC Staff. Basically, what transpired in those
14 cases was the utility attempted to revise its revenue requirements subsequently in
15 the docket after the original petition and customer notices had been distributed to
16 customers. The Commission in the GDU case and Commission Staff in the
17 Sandalhaven case stated that, if the change were allowed, it could create a due
18 process violation for the customers.

19 In the GDU case, the Commission dismissed the evidentiary hearing shortly
20 after calling the hearing to order and heard no evidence in the case. I have attached
21 a copy of the hearing transcript as Exhibit PWM-9. It then required the Utility to
22 re-notice the customers, changed the official date of filing, and re-started the

²¹ See Docket No. 870239-WS, In re: Application of General Development Utilities, Inc., Silver Springs Shores Division, for increased water and sewer rates in Marion County.

²² Order No. PSC-07-0865-PAA-SU, issued October 29, 2007, in Docket No. 060285-SU In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.

1 statutory time clock. In the Sandalhaven case, the Staff, Utility, and OPC met and
2 discussed what other options the utility had to rectify the situation. The Utility
3 ultimately decided to re-file its MFRs at a later date to include the additional
4 information to support its revised revenue requirement.

5
6 **Q. WHAT OTHER CONCERNS DO YOU HAVE REGARDING KW'S**
7 **DECISION TO INCREASE ITS REQUESTED REVENUES, EXPENSES**
8 **AND RATE BASE IN THIS RATE PROCEEDING?**

9 A. The post-PAA protest should not be a vehicle for KW to bootstrap new rate increase
10 requests into its original filing, thereby, punishing customers for protesting the
11 PAA Order. Alternatively, KW's expanded rate increase request should be treated
12 as a new rate case, supplanting the Utility's original rate case, and resetting all the
13 statutory timeframes and controlling dates. Ultimately, KW has the burden of proof
14 to show the Commission why it should not be treated as such and that it has
15 complied with all statutory and regulatory requirements, including properly
16 noticing its customers.

17
18 **Q: HOW SHOULD THE COMMISSION TREAT THIS EXPANDED**
19 **REQUEST FOR RATE RELIEF?**

20 A: While I have included the cost of the vacuum tank and additional plant expansion
21 costs in my Phase II rate recommendation, it is better policy for the Commission to
22 deny the Company's request for this additional relief not included in its original
23 PAA rate increase filing. This is especially appropriate if the Commission
24 determines that the Utility failed to comply with the customer notice requirements.

1 Billing Determinants

2 **Q. WHAT ARE THE APPROPRIATE BILLS AND GALLONS TO USE TO**
3 **ESTABLISH PHASE I RATES?**

4 A. It is appropriate to use the PAA Order billing determinants approved in the PAA
5 Order for Phase I rates. Although it is evident that the 2015 and 2016 revenues and
6 billing determinants were higher than those in the 2014 test year, my revenue
7 requirement calculations based on the PAA Order billing determinants are
8 reasonable for setting Phase I rates.

9 **Q. WHAT ARE THE APPROPRIATE BILLS AND GALLONS TO USE TO**
10 **ESTABLISH PHASE II RATES?**

11 A. Consistent with my adjustments to Phase II test year revenues and to comply with
12 the matching principle, the bills and gallons used to calculate the rates should be
13 increased to reflect the projected level of customers that will be online for the first
14 year of operation of the wastewater treatment expansion. I have used the actual
15 increase in 2015 revenues to estimate the number of bills and gallons by customer
16 class as the Utility has refused to provide the restated number of 2015 customers
17 and gallons consistent with the method used by the Commission in the PAA Order.
18 To determine the appropriate 2016 billing determinants, I escalated the 2015 levels
19 that I calculated by 5%, consistent with OPC witness Woodcock's used and useful
20 projection. I would point out that Mr. Woodcock has estimated the consumption
21 level for the pro forma 2016 test year, and then determined the used and useful
22 percentage using a 5-year growth allowance consistent with my adjustments to the
23 test year to year-end 2016. I have reflected my calculations to the 2016 level of
24 bills and gallons on Exhibit PWM-3, Schedule 4-B.

1 Measured Service Rates

2 **Q. BASED ON YOUR RECOMMENDED REVENUE REQUIREMENT AND**
3 **THE PAA ORDER BILLING DETERMINANTS, WHAT RATES HAVE**
4 **YOU CALCULATED FOR PHASE I RATES?**

5 A. I have attached my recommended Phase I rates on Schedule 4-A. Using a base
6 facility charge of \$25.02 and a gallonage charge of \$4.15, a residential customer
7 with a monthly consumption of 4,000 gallons would pay \$41.62 a month under my
8 Phase II rates.

9
10 **Q. BASED ON YOUR ADJUSTED BILLING DETERMINANTS, WHAT ARE**
11 **THE APPROPRIATE RATES FOR KW RESORT'S WASTEWATER**
12 **SYSTEM FOR PHASE II RATES?**

13 A. I have attached my recommended Phase II rates on Schedule 4-A. Using a base
14 facility charge of \$28.06 and a gallonage charge of \$4.65, a residential customer
15 with a monthly consumption of 4,000 gallons would pay \$46.66 a month under my
16 Phase II rates.

17
18 Reuse Rates

19 **Q. WHAT IS THE APPROPRIATE RATE FOR KW'S REUSE SERVICE, AND**
20 **WHAT AMOUNT OF REUSE REVENUES SHOULD BE CONSIDERED**
21 **PART OF THE REVENUE REQUIREMENT?**

22 A. The Utility's requested rate of \$1.34²³ is appropriate to charge for reuse, and is
23 more reasonable than the Commission approved reuse rate of \$0.93 per thousand
24 gallons. Currently, the two largest users of reuse water are the affiliate golf course

²³ See MFR Schedule E-1

1 and Monroe County Detention Center. The water rates in the Florida Keys are
2 substantially higher than rates in other parts of the State and range from a low of
3 \$5.84 per thousand gallons to a high rate of \$11.70. The Florida Keys Aqueduct
4 Authority (FKAA) is the water provider for KW's service territory and FKAA's
5 rate for Reclaimed (Reuse) Water Consumption is 50% of each Potable Rate Block.
6 Thus, for a low level of consumption (0-6,000 gallons), the reuse rate for the FKAA
7 is \$2.92 per thousand gallons.

8 In its PAA Order, the Commission stated that reuse rates are typically
9 market based rather than cost based, which provides an incentive to encourage
10 customers to use the reuse. In its analysis, the Commission explained that a review
11 of reuse rates charged throughout Monroe County listed in the Florida DEP's 2014
12 Reuse Inventory Report, showed that there are only two entities, including KW,
13 that currently charge for reuse and that KW's rate was significantly lower than the
14 other provider. Since the FKAA rate sheet lists reuse, it appears this is the other
15 Utility that provides reuse. KW's requested rate of \$1.34 is reasonable, given the
16 comparable rate of the local water provider. Additionally, I concur with the
17 Commission that no additional charge for testing should be approved. I have
18 attached a copy of the FKAA current water rates as Exhibit PWM-8. In addition,
19 using KW's higher requested reuse rate reduces the burden on the residential and
20 general service customers to achieve the approved revenue requirement. A lower
21 reuse rate has the opposite effect.

22
23 **Q. ARE ANY ADJUSTMENTS NECESSARY TO BE MADE TO THE TEST**
24 **YEAR MISCELLANEOUS SERVICE CHARGES AND REUSE**
25 **REVENUES TO REFLECT THE RATE CHANGES APPROVED BY THE**

1 **COMMISSION WHEN CALCULATING THE REVENUE TO BE**
2 **COLLECTED FROM SERVICE RATES IN PHASE I AND PHASE II**
3 **RATES?**

4 A. Yes, the Commission should use the approved miscellaneous service charges and
5 reuse rate when calculating the amount of revenues to be collected from service
6 rates. This was not done in the PAA Order, which increased the amount of revenues
7 that should be allocated to residential and general service customers, overstating
8 those rates. This is clearly a matching principal issue that should be applied in
9 setting service rates.

10 **Q. ARE YOU RECOMMENDING ANY CHANGES TO THE COMMISSION**
11 **APPROVED MISCELLANEOUS SERVICE CHARGES AND LATE**
12 **PAYMENT CHARGES?**

13 A. The Miscellaneous Service Charges approved by the Commission are reasonable.
14 The initial connection charge and normal reconnection charge should remain at \$15
15 and the premises visit charge should be \$20 for normal hours and \$45 for after
16 hours. I also concur that the Commission-approved Non-Sufficient Funds (NSF)
17 charges are reasonable. However, KW's request to implement a \$9.50 late payment
18 charge should not be approved, as a \$6.50 charge is more reasonable. Lastly, I
19 agree that KW should be authorized to collect a monthly lift station cleaning charge
20 of \$1,462 from the Monroe County Detention Center.

21
22 Phase II Rate Increase Implementation

23 **Q. IF THE COMMISSION APPROVES A PHASE II RATE INCREASE FOR**
24 **KW, WHEN AND UNDER WHAT CIRCUMSTANCES DO YOU BELIEVE**

1 **IT SHOULD BE IMPLEMENTED?**

2 A. In my opinion, it is generally better public policy not to approve Phase II rates at
3 this time, but wait until the new plant is placed into service. Then the Commission
4 can review and approve new rates based on actual cost information instead of cost
5 estimates or projections.

6 However, if the Commission desires to approve Phase II rates now, it should
7 approve the Phase II rates OPC is recommending for approval, and the new Phase
8 II rates should be implemented 30 days after the new plant is placed into service
9 and becomes used and useful. Similar to the PAA Order, the implementation of the
10 Phase II rates should be conditioned upon KW completing the pro forma items with
11 appropriate approvals from DEP, and, once verified by staff, the rates should be
12 effective for service rendered on or after the stamped approval date on the tariff
13 sheet, pursuant to Rule 25-30.475(1), F.A.C. However, if the Utility encounters
14 any unforeseen events that will impede the completion of the Phase II plant items,
15 then KW should immediately notify all parties to this proceeding and the
16 Commission, in advance of the deadline, so as to allow ample time to review
17 whether an extension is appropriate.

18 KW is requesting that the Commission approve and implement a Phase II
19 rate increase prior to the new plant's in-service date and forgo a Phase I rate
20 increase. If the Commission implements a Phase II rate increase prior to the new
21 plant's in-service date, there should be a true-up mechanism, and the Commission
22 should ensure that all substantially affected persons and parties have an appropriate
23 point of entry to test the reasonableness and prudence of costs that will be included
24 in such rates. Further, the Commission should still establish Phase I rates for the
25 purposes of determining what refunds, if any, are owed to customers.

1 **Q SHOULD ANY PORTION OF THE IMPLEMENTED PAA RATES BE**
2 **REFUNDED?**

3 A. Yes, the Commission-approved Phase I PAA rates that were implemented by the
4 Utility were excessive, based on my recommended Phase I revenue requirement
5 calculation. The refund should be applied consistent with the Commission's refund
6 rule and should be credited to customer bills over the same amount of time that the
7 increased rates were collected to offset the initial impact of the Phase II rate
8 increase.

9 Service Availability Policy and Charges

10 **Q. IN THE PAA ORDER, THE COMMISSION DISCONTINUED THE**
11 **COLLECTION OF PLANT CAPACITY CHARGES. DO YOU BELIEVE**
12 **THAT THE UTILITY SHOULD BE ALLOWED TO CONTINUE**
13 **COLLECTING THIS CHARGE FROM FUTURE CUSTOMERS?**

14 A. Yes, I believe that the Utility should be allowed to continue to collect the \$2,700
15 per ERC plant capacity charge. In the PAA Order, the Commission stated that
16 although the Utility did not request a change in its service availability policy or
17 charges, the Commission reviewed the Utility's approved policy and charges, as
18 well its current contribution level and the impact of the pro forma plant on that
19 contribution level. In its Order, the Commission stated that the Utility's
20 contribution level, net CIAC/net plant for 2014 was in excess of 100 percent.
21 Further, with the addition of the PAA Order level of pro forma plant items, the
22 contribution level would be 74 percent, with no additional CIAC from future
23 customers.

1 I disagree that KW's plant capacity charges should be discontinued. The
2 rule that the Commission relies upon to discontinue the collection of plant capacity
3 charges is Rule 25-30.580, F.A.C., entitled: "Guidelines for Designing Service
4 Availability Policy." This rule is sets forth guidelines for determining service
5 availability policy. The rule does not mandate that the collection of CIAC shall
6 cease if utility's net CIAC to plant ratio exceeds 75%. In practice, the Commission
7 has not strictly adhered to these Guidelines for Designing Service Availability
8 Policy, and should not do so because the Utility, Monroe County, and OPC all agree
9 that it should continue.

10 In this case, the guidelines should be acknowledged but the Commission
11 should give the Utility latitude to continue collecting CIAC. Based on my
12 calculations to the pro forma 2016 test year, the Utility's net CIAC to net plant ratio
13 will be 78%; however, KW would likely disagree with my net CIAC to net plant
14 ratio calculation. As I testified earlier, the customer growth for this Utility
15 continues to occur. The older parts of the existing plant and collection system will
16 also continue to need repairs and replacement. These are all reasons to allow KW
17 to continue collecting CIAC. There are also other utilities that have been allowed
18 to continue collecting CIAC when its CIAC ratio to net plant exceeded 75%.²⁴

19 Also, the Commission clearly outlined its policy regarding compliance with
20 the 75% guideline maximum in Order No. PSC-00-0917-SC-WS,²⁵ on page 15.

21 The Order states:

²⁴ See Order No. PSC-93-1771-FOF-WS, issued December 10, 1993, page 5, in Docket No. 930256-WS, In Re: Petition for limited proceeding to implement water conservation plan in Seminole County by Sanlando Utilities Corporation.

²⁵ Order No. PSC-00-0917-SC-WS²⁵, page 15, issued May 9, 2000, in Docket No. 981609-WS, In re: Emergency petition by D.R. Horton Custom Homes, Inc. to eliminate authority of Southlake Utilities, Inc. to collect service availability charges and AFPI charges in Lake County and in Docket No. 980992-WS, In re: Complaint by D.R. Horton Custom Homes, Inc. against Southlake Utilities, Inc. in Lake County regarding collection of certain AFPI charges.

1 According to Rule 25-30.580(1)(a), Florida Administrative Code, a
2 utility's service availability policy shall be designed so that, "The
3 maximum amount of contributions-in-aid-of-construction, net of
4 amortization, should not exceed 75% of the total original cost, net
5 of accumulated depreciation, of the utility's facilities and plant
6 when the facilities and plant are at their designed capacity." A
7 utility's compliance with Rule 25-30.580(1)(a), Florida
8 Administrative Code, depends on the circumstances surrounding a
9 given utility. A utility's current contribution level is not the only
10 factor to consider in determining whether its charges should
11 continue because the rule states that the contribution level should
12 not exceed 75% at a utility's design capacity. Future growth and
13 plant expansion should also be considered. A utility's contribution
14 level at a given point in time could exceed 75% due to the timing
15 of plant expansions and customer growth. As long as the
16 contribution level is not projected to exceed 75% at its designed
17 capacity, a utility would be in compliance with the rule.
18

19 Unless the Commission has a reasonable projection of KW's contribution level at
20 its design capacity, it is premature to discontinue the current plant capacity charges
21 at this time. Based on the above, it is reasonable to allow the Utility to continue
22 collecting the \$2,700 plant capacity charge to future customers.
23

24 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

25 **A.** Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing Direct Testimony of Patricia W.

Merchant, CPA has been furnished by electronic mail on this 14th day of September, 2016, to the following:

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Resumé
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Professional Experience:

March, 2005 to Present

Office of Public Counsel – Chief Legislative Analyst

In my current position, I perform financial and accounting analysis and reviews, and provide testimony, as required, involving utility filings before the Florida Public Service Commission on behalf of the Citizens of the State of Florida.

1981 to February, 2005 - Florida Public Service Commission

2000 to February, 2005

Public Utilities Supervisor – File and Suspend Rate Case Section, Bureau of Rate Filings, Division of Economic Regulation

In this capacity I supervised 5 to 8 regulatory professionals. This section performed financial, accounting, engineering and rate review and evaluation of rate proceedings for large water and wastewater utilities, as well as electric and gas utilities regulated by the Commission. The types of cases included file and suspend rate cases, limited proceedings, overearning investigations, annual report reviews, service availability and tariff filings, rulemaking, and customer complaints. The section reviewed utility filings, requested and reviewed Commission staff audits, and generated and analyzed discovery requests. I coordinated and prepared staff recommendations to the Commission for agenda conferences. I reviewed the analyses and written documentation of all analysts in this section for proper regulatory theory, grammar and accuracy. I also made presentations to customer groups at Commission staff customer meetings for the rate proceedings to which I was assigned. We presented recommendations at agenda conferences, providing responses to comments and questions by other parties and Commissioners. I also prepared and presented testimony, and assisted in the preparation of cross-examination questions for depositions and formal hearings. Additionally, I provided training in regulatory theory for new staff and provided training on regulatory and accounting issues for other analysts at the Commission.

1989 – 2000

Regulatory Analyst Supervisor, Accounting Section, Bureau of Economic Regulation, Division of Water and Wastewater

I supervised 5-7 regulatory accounting analysts. This section performed the same job activities as above specifically for the larger Commission regulated Class A and B water and wastewater companies.

1983 – 1989

Regulatory Analyst – Accounting Bureau, Division of Water and Wastewater

As an accounting analyst, I performed the same job activities as described above for water and wastewater companies in a non-supervisory role.

1981 – 1983

Public Utilities Auditor, Division of Auditing and Financial Analysis

As an auditor in the Tallahassee district of the Commission, I performed financial and accounting audits of electric, gas, telephone, water and wastewater utilities under the Commission's jurisdiction.

Education and Professional Licenses

1981 Bachelor of Science with a major in accounting from Florida State University

1983 Received a Certified Public Accountant license in Florida

List of Cases in which Testimony was Submitted

Dockets Before the Florida Public Service Commission:

Docket 090368 -- Review of the continuing need and costs associated with Tampa Electric Company's 5 Combustion Turbines and Big Bend Rail Facility. (filed testimony; case settled prior to hearing)

080366-GU Petition for rate increase by Florida Public Utilities Company. (filed testimony; case settled prior to hearing)

070304-EI - Petition for rate increase by Florida Public Utilities Company; and
070300-EI - Review of 2007 Electric Infrastructure Storm Hardening Plan filed pursuant to Rule 25-6.0342, F.A.C., submitted by Florida Public Utilities Company. (testified at hearing)

070052-EI - Petition by Progress Energy Florida, Inc. to recover costs of Crystal River Unit 3 Uprate through fuel clause. (testified at hearing)

060162-EI – Petition by Progress Energy Florida, Inc. to recover modular cooling tower costs through the Environmental Cost recovery clause. (filed testimony, stipulated into record)

050958-EI – Petition for approval of new environmental program for cost recovery through Environmental Cost Recovery Clause by Tampa Electric Company. (testified at hearing)

060658-EI - Petition on Behalf of Citizens of the State of Florida to require Progress Energy Florida, Inc. to Refund Customers \$143 million. (filed testimony stipulated into record)

060362-EI - Petition to Recover Natural Gas Storage Project Costs through Fuel Cost Recovery Clause, by Florida Power & Light Company. (testified at hearing)

050045-EI - Petition for Rate Increase by Florida Power & Light Company. (filed testimony, deposed, case settled prior to hearing)

991643-SU - Application for Increase in Wastewater Rates in Seven Springs System in Pasco County by Aloha Utilities, Inc. (testified at hearing)

971663-WS - Application of Florida Cities Water Company, Inc. for a limited proceeding to recover environmental litigation costs. (all testimony and exhibits stipulated into record without hearing)

940847-WS - Application of Ortega Utility Company for increased water and wastewater rates. (testified at hearing)

911082-WS - Water and Wastewater Rule Revisions to Chapter 25-30, Florida Administrative Code. (testified at hearing)

881030-WU - Investigation of Sunshine Utilities of Central Florida rates for possible over earnings. (testified at hearing)

850151-WS - Application of Marco Island Utilities, Inc. for increased water and wastewater rates. (testified at hearing)

850031-WS - Application of Orange/Osceola Utilities, Inc. for increased water and wastewater rates in Osceola County (testified at hearing)

840047-WS - Application of Poinciana Utilities, Inc. for increased water and wastewater rates (testified at hearing)

Cases before the Division of Administrative Hearings:

97-2485RU - Aloha Utilities, Inc., and Florida Waterworks Association, Inc., Petitioners, vs. Public Service Commission, Respondents, and Citizens of the State of Florida, Office of Public Counsel, Intervenors (deposed and testified at hearing)

**KW Resort
Schedule of Wastewater Rate Base
Schedule No. 1-A
Historical Test Year Ended 12/31/14**

**Docket No. 150071-SU
Phase I Rates
Exhibit PWM-2
Page 1 of 9**

Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	PAA Adjust- ments	PAA Adjusted Test Year	OPC Recomm Adjustments	OPC Recomm Rate Base
1 Plant in Service	\$11,925,704	\$3,574,468	\$15,500,172	(\$4,391,708)	\$11,108,464	(\$4,391,708)	\$11,108,464
2 Land and Land Rights	\$375,923	\$0	\$375,923	(\$923)	\$375,000	(\$923)	\$375,000
3 Non-used and Useful Component	\$0	\$0	\$0	\$0	\$0	0	\$0
4 Accumulated Depreciation	(\$5,828,761)	(\$200,666)	(\$6,029,427)	\$194,241	(\$5,835,186)	\$198,625	(\$5,830,802)
5 CIAC	(\$9,946,997)	\$0	(\$9,946,997)	\$297,120	(\$9,649,877)	\$297,120	(\$9,649,877)
6 Amortization of CIAC	\$3,096,094	\$0	\$3,096,094	(\$81,153)	\$3,014,941	(\$81,153)	\$3,014,941
7 CWIP	\$0	\$0	\$0	\$303,099	\$303,099	\$780,571	\$780,571
9 Working Capital Allowance	\$0	<u>\$1,367,232</u>	<u>\$1,367,232</u>	<u>(\$645,964)</u>	<u>\$721,268</u>	<u>(\$1,038,256)</u>	<u>\$328,976</u>
11 Rate Base	<u>(\$378,037)</u>	<u>\$4,741,034</u>	<u>\$4,362,997</u>	<u>(\$4,325,287)</u>	<u>\$37,710</u>	<u>(\$4,235,724)</u>	<u>\$127,273</u>

KW Resort
Adjustments to Rate Base
Schedule No. 1-B
Historical Test Year Ended 12/31/14

Docket No. 150071-SU
Phase I Rates
Exhibit PWM-2
Page 2 of 9

Explanation	PAA Order	OPC Recommended
<u>Plant In Service</u>		
1 Agreed-upon adjustments Audit Finding 1	(\$817,240)	(\$817,240)
2 Remove Pro Forma Plant	(\$3,574,468)	(\$3,574,468)
Total	<u>(\$4,391,708)</u>	<u>(\$4,391,708)</u>
<u>Land</u>		
1 Agreed-upon adjustment Audit Finding No. 3	(\$923)	(\$923)
<u>Non-used and Useful</u>		
	\$0	\$0
<u>Accumulated Depreciation</u>		
1 Agreed-upon adjustments Audit Finding 5	(\$2,040)	(\$2,040)
2 Remove Pro Forma Accumulated Depreciation	\$196,281	\$196,281
3 Remove Year-end Annualization	\$0	\$4,384
Total	<u>\$194,241</u>	<u>\$198,625</u>
<u>CIAC</u>		
1 Agreed-upon adjustments Audit Finding 4	<u>\$297,120</u>	<u>\$297,120</u>
<u>Accumulated Amortization of CIAC</u>		
1 Agreed-upon adjustments Audit Finding 4	(\$81,153)	(\$81,153)
<u>CWIP</u>		
1 Agreed-upon adjustments Audit Finding 2	\$303,099	\$303,135
2 Add Permit Litigation Fees	0	\$477,436
Total	<u>\$303,099</u>	<u>\$780,571</u>
<u>Working Capital</u>		
1 Reflect appropriate cash balance	(\$615,687)	(\$615,687)
2 Acct Rec & Misc. Assets - Audit Finding 7	\$26,645	\$26,645
3 Survey Fees Restated - Audit Finding 3	\$738	\$4,800
4 Other Deferred Debits - Audit Finding 6	\$24,217	\$0
5 Reflect a year of amortization for legal fees	(\$95,487)	\$0
6 To restate Legal Fees as CWIP	\$0	(\$467,625)
7 Reflect appropriate deferred rate case expense	<u>\$13,611</u>	<u>\$13,611</u>
Total	<u>(\$645,964)</u>	<u>(\$1,038,256)</u>

KW Resort
Working Capital Calculation
13-Month Average- Balance Sheet Approach
Schedule 1-C

Docket No. 150071-SU
Phase I Rates
Exhibit PWM-2
Page 3 of 9

<u>Current Assets:</u> <u>Account Title</u>	<u>Average Balance Per Utility 12/31/2014</u>	<u>PAA Order Adjustments</u>	<u>PAA Adjusted Balance 12/31/2014</u>	<u>OPC Recommended Adjustments</u>	<u>OPC Adjusted WCA</u>	<u>Adjusted 2015 Annual Report</u>	<u>OPC Average 2015 Working Capital</u>
Cash	\$877,289	(\$615,687)	\$261,602	(\$615,687)	\$261,602	\$157,269	\$209,435
A/R less Accum Provision for Uncoll Accts	\$54,417	\$0	\$54,417	\$0	\$54,417	\$93,077	\$73,747
A/R Other	\$19,234	\$40,067	\$59,301	\$40,067	\$59,301	\$25,812	\$42,557
Prepayments	\$25,334	\$0	\$25,334	\$0	\$25,334	\$22,912	\$24,123
Materials & Supplies		\$0	\$0	\$0	\$0		\$0
Miscellaneous Current & Accrued Assets	\$13,442	(\$13,422)	\$20	(\$13,422)	\$20	\$0	\$10
Misc Deferred Debits				\$0	\$0		\$0
Other/Proforma	\$467,625	(\$70,532)	\$397,093	(\$462,825)	\$4,800	0	\$2,400
Deferred Rate Case Expense	<u>\$62,400</u>	<u>\$13,611</u>	<u>\$76,011</u>	<u>\$13,611</u>	<u>\$76,011</u>	<u>\$243,070</u>	<u>\$159,540</u>
Total Current Assets and Deferred Debits	<u>\$1,519,741</u>	<u>(\$645,964)</u>	<u>\$873,778</u>	<u>(\$1,038,256)</u>	<u>\$481,485</u>	<u>\$542,140</u>	<u>\$511,812</u>
<u>Current Liabilities:</u>							
Accounts Payable	\$87,182	\$0	\$87,182	\$0	\$87,182	\$147,651	\$117,417
Accrued Taxes	\$28,353	\$0	\$28,353	\$0	\$28,353	\$37,774	\$33,064
Miscellaneous Current & Accrued Liabilities	\$36,974	\$0	\$36,974	\$0	\$36,974	\$34,776	\$35,875
Accrued Interest	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Liabilities and Deferred Credits	<u>\$152,509</u>	<u>\$0</u>	<u>\$152,509</u>	<u>\$0</u>	<u>\$152,509</u>	<u>\$220,201</u>	<u>\$186,355</u>
<u>Net Average Working Capital</u>	<u>\$1,367,232</u>	<u>(\$645,964)</u>	<u>\$721,269</u>	<u>(\$1,038,256)</u>	<u>\$328,976</u>	<u>\$321,939</u>	<u>\$325,457</u>

**KW Resort
Capital Structure-Simple Average
Schedule No. 2
Historical Test Year Ended 12/31/14**

**Docket No. 150071-SU
Phase I Rates
Exhibit PWM-2
Page 4 of 9**

Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost		
Per Utility										
1 Long-term Debt	\$1,248,337	\$0	\$1,248,337	(\$75,868)	\$1,172,469	26.87%	5.37%	1.44%		
2 Short-term Debt		0	\$0		\$0	0.00%	0.00%	0.00%		
3 Preferred Stock		0	\$0	0	\$0	0.00%	0.00%	0.00%		
4 Common Equity	-276,537	3,500,000	\$3,223,463	(195,907)	\$3,027,556	69.39%	9.36%	6.50%		
5 Customer Deposits	162,972	0	\$162,972	0	\$162,972	3.74%	2.00%	0.07%		
6 Deferred Income Taxes		0	\$0	0	\$0	0.00%	0.00%	0.00%		
10 Total Capital	<u>\$1,134,772</u>	<u>\$3,500,000</u>	<u>\$4,634,772</u>	<u>(\$271,775)</u>	<u>\$4,362,997</u>	<u>100.00%</u>		<u>8.01%</u>		
Per OPC Recommendation										
11 Long-term Debt	\$1,248,337	\$0	\$1,248,337	(\$1,214,982)	\$33,355	88.45%	3.58%	3.16%		
12 Short-term Debt		0	\$0	\$0	0	0.00%	0.00%	0.00%		
13 Preferred Stock		0	\$0	\$0	0	0.00%	0.00%	0.00%		
14 Common Equity	-276,537	276,537	\$0	\$0	0	0.00%	11.16%	0.00%		
15 Customer Deposits	162,972	0	\$162,972	(\$158,617)	4,355	11.55%	2.00%	0.23%		
16 Deferred Income Taxes	0	0	\$0	\$0	0	0.00%	0.00%	0.00%		
20 Total Capital	<u>\$1,134,772</u>	<u>\$276,537</u>	<u>\$1,411,309</u>	<u>(\$1,373,599)</u>	<u>\$37,710</u>	<u>100.00%</u>		<u>3.39%</u>		
						LOW	HIGH			
						Return on Equity	<u>10.16%</u>	<u>12.16%</u>		
						Overall Rate of Return	<u>3.39%</u>	<u>3.39%</u>		

KW Resort
Schedule of Wastewater Operating Income
Schedule No. 3-A
Pro Forma Test Year Ended 12/31/16

Docket No. 150071-SU
Phase I Rates
Exhibit PWM-2
Page 5 of 9

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	PAA Adjust- ments	PAA Adjusted Test Year	PAA Revenue Increase	PAA Revenue Requirement	OPC Test Year Adjusts	OPC Adjusted Test Year	OPC Revenue Increase	OPC Revenue Requirement
1 Operating Revenues:	<u>\$1,479,307</u>	<u>\$1,452,452</u>	<u>\$2,931,759</u>	<u>(\$1,376,898)</u>	<u>\$1,554,861</u>	<u>\$683,185</u>	<u>\$2,238,046</u>	<u>(\$1,396,960)</u>	<u>\$1,534,799</u>	<u>\$286,840</u>	<u>\$1,821,639</u>
						43.94%			Col (3)+(8)		Col (9)+(11)
Operating Expenses										18.69%	
2 Operation & Maintenance	<u>\$1,199,672</u>	<u>\$840,042</u>	<u>\$2,039,714</u>	<u>(\$93,311)</u>	<u>\$1,946,403</u>		<u>\$1,946,403</u>	<u>(\$492,842)</u>	<u>\$1,546,872</u>		<u>\$1,546,872</u>
3 Depreciation	<u>95,996</u>	<u>200,666</u>	<u>296,662</u>	<u>(187,767)</u>	<u>108,895</u>		<u>108,895</u>	<u>(\$192,151)</u>	<u>\$104,511</u>		<u>\$104,511</u>
4 Amortization	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>		<u>0</u>	<u>\$0</u>	<u>\$0</u>		<u>\$0</u>
5 Taxes Other Than Income	<u>132,607</u>	<u>113,300</u>	<u>245,907</u>	<u>(95,781)</u>	<u>150,126</u>	<u>30,743</u>	<u>180,869</u>	<u>(\$92,878)</u>	<u>\$153,029</u>	<u>\$12,908</u>	<u>\$165,937</u>
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$0</u>	<u>\$0</u>		<u>\$0</u>
7 Total Operating Expense	<u>\$1,428,275</u>	<u>\$1,154,008</u>	<u>\$2,582,283</u>	<u>(\$376,859)</u>	<u>\$2,205,424</u>	<u>\$30,743</u>	<u>\$2,236,167</u>	<u>(\$777,870)</u>	<u>\$1,804,413</u>	<u>\$12,908</u>	<u>\$1,817,320</u>
8 Operating Income	<u>\$51,032</u>	<u>\$298,444</u>	<u>\$349,476</u>	<u>(\$1,000,039)</u>	<u>(\$650,563)</u>	<u>\$652,442</u>	<u>\$1,879</u>	<u>-\$619,090</u>	<u>-\$269,614</u>	<u>\$273,933</u>	<u>\$4,319</u>
9 Rate Base	<u>(\$378,037)</u>		<u>\$4,362,997</u>		<u>\$37,710</u>		<u>\$37,710</u>		<u>\$127,273</u>		<u>\$127,273</u>
10 Rate of Return	<u>-13.50%</u>		<u>8.01%</u>		<u>-1725.18%</u>		<u>4.98%</u>		<u>-211.84%</u>		<u>3.39%</u>

KW Resort
Adjustments to Net Operating Income
Schedule No. 3-B
Historical Test Year Ended 12/31/14

Docket No. 150071-SU
Phase I Rates
Exhibit PWM-2
Page 6 of 9

Explanation	PAA Order	OPC
<u>Operating Revenues</u>		
1 To remove requested revenue increase	(1,438,382)	(1,438,382)
2 Revenues correction per PAA Order	61,484	0
3 Miscellaneous and Reuse Revenues Audit Finding 9	0	63,051
4 Correction for 2014 Billing Determinants	0	(21,629)
Total	<u>(1,376,898)</u>	<u>(1,396,960)</u>
<u>Operation and Maintenance Expense</u>		
1 Audit Finding 3-Cont Svc-Other Survey Fees	1,200	1,200
2 Audit Finding 6 - Deferred Expenses	(7,497)	0
3 Audit Finding 10 - Agreed-upon adjustments	(4,512)	(4,512)
4 Audit Finding 11 - Agreed-upon adjustments	(6,276)	(6,276)
5 Remove Accounting Fees for Annual Report restatement	0	(11,678)
6 PAA Order Test Year Adj- Accounting	(12,350)	(12,350)
7 PAA Order Test Year Adj- Engineering	(653)	(653)
8 PAA Order Test Year Adj- Management Fee	(60,000)	(60,000)
9 Capitalize Permit Litigation Fees to CWIP	0	(103,917)
10 Test Year Adj -Pro Forma Expense	(10,028)	(301,461)
11 Rate Case Expense Amortization	6,805	6,805
Total	<u>(93,311)</u>	<u>(492,842)</u>
<u>Depreciation Expense - Net</u>		
1 Audit Finding No. 4	14,003	\$14,003
2 Audit Finding No. 5	(5,489)	(5,489)
3 Proforma Depreciation Expense	(196,281)	(196,281)
4 Remove Year-end Annualization	0	(4,384)
Total	<u>(187,767)</u>	<u>(192,151)</u>
<u>Taxes Other Than Income</u>		
1 to remove RAFs on adjustments above	(61,960)	(62,863)
2 Pro forma payroll taxes	1,875	5,682
3 Pro Forma Property taxes	(35,696)	(35,696)
Total	<u>(95,781)</u>	<u>(92,878)</u>

KW Resort
Pro Forma AWT O&M Expense Adjustment
Schedule No. 3-C
Historical Test Year Ended 12/31/14

Docket No. 150071-SU
Phase I Rates
Exhibit PWM-2
Page 7 of 9

Line No.	Account No. and Name	Total Annual	Adj. Adj.	Adj. Total Annual	Actual 2016 Annualized	OPC Specific Adjustment	OPC Recomm O&M Expense
1	701 Salaries & Wages - All	\$590,900	\$155,996	\$746,896	\$713,287		\$713,287
3	704 Employee Pensions & Benefits	\$92,825	\$42,762	\$135,587	\$138,823		\$138,823
5	711 Sludge Removal Expense	\$39,394	\$109,334	\$148,728	\$106,376		\$106,376
6	715 Purchased Power	\$146,711	\$42,900	\$189,611	\$147,653		\$147,653
8	718 Chemicals	\$32,330	\$224,741	\$257,071	\$148,811		\$148,811
9	720 Materials & Supplies	\$43,885	\$60	\$43,945	\$25,720		\$25,720
10	731 Contractual Services - Engr.	\$7,270	\$7,535	\$14,805	\$3,803	(\$653)	\$3,150
11	732 Contractual Services - Acct.	\$11,550	\$14,212	\$25,762	\$26,250	(\$12,350)	\$13,900
12	733 Contractual Services - Legal	\$2,328	\$1,609	\$3,937	\$5,388		\$5,388
13	734 Contractual Services - Mgmt. Fees	\$60,000	\$0	\$60,000	\$60,000	(\$60,000)	\$0
14	735 Contractual Services - Testing	\$16,975	\$20,673	\$37,648	\$13,438		\$13,438
15	736 Contractual Services - Other	\$28,410	\$37,045	\$65,455	\$65,675	\$1,200	\$66,875
16	741 Rental of Building/Real Prop.	\$1,100		\$1,100	\$0		\$0
18	750 Transportation Expenses	\$24,109		\$24,109	\$24,944		\$24,944
20	757 Insurance - General Liability	\$35,948	\$2,752	\$38,700	\$85,972	(\$44,785)	\$41,187
21	758 Insurance - Workman's Comp.	\$20,729	\$25,555	\$46,284	\$24,271		\$24,271
23	760 Advertising Expense	\$2,764	(\$1,564)	\$1,200	\$0		\$0
24	766 Reg. Comm. Exp. - Rate Case Amo.	\$0	\$31,200	\$31,200	\$0	\$38,005	\$38,005
25	767 Reg. Comm. Exp. - Other	\$0		\$0			\$0
27	775 Miscellaneous Expenses	\$42,443	\$125,232	\$167,675	\$45,832	(\$10,788)	\$35,044
28							
29	TOTAL	\$1,199,671	\$840,042	\$2,039,714	\$1,636,243	(\$89,371)	\$1,546,872
	OPC Adjustments to O&M Expenses-Other			(191,381)			\$2,039,714
	Utility O&M Pre AWT Adjustment			\$1,848,333			(191,381)
	OPC AWT AWT Pro Forma						(301,461)
	Total OPC O&M Expenses						<u>\$1,546,872</u>

**KW Resort
Wastewater Rate Schedule
Schedule No. 4-A
Pro Forma Test Year Ended 12/31/16**

**Docket No. 150071-SU
Phase I Rates
Exhibit PWM-2
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	Utility Current Rates	Utility Requested Rates	PAA Order Phase II Rates	PAA Order Phase II Rates	OPC Phase I Rates
<u>Residential Service (10,000 Cap)</u>					
All Meter Sizes	\$17.81	\$35.09	\$31.66	\$35.37	\$25.02
Charge per 1,000 gallons - Residential	\$3.87	\$7.62	\$5.25	\$5.86	\$4.15
<u>General Service</u>					
Base Facility Charge by Meter Size					
5/8" x 3/4"	\$17.81	\$35.09	\$31.66	\$35.37	\$25.02
1"	\$44.53	\$87.72	\$79.15	\$88.43	\$62.55
1-1/2"	\$89.05	\$175.43	\$158.30	\$176.85	\$125.10
2"	\$142.47	\$280.67	\$253.28	\$282.96	\$200.16
3"	\$284.95	\$561.35	\$506.56	\$565.92	\$400.32
4"	\$445.24	\$877.12	\$791.50	\$884.25	\$625.50
6"	\$890.49	\$1,754.27	\$1,583.00	\$1,768.50	\$1,251.00
8"	\$1,602.86	\$3,157.63	\$2,532.80	\$2,829.60	\$2,001.60
8" Turbo	\$2,048.10	\$4,034.76	\$2,849.40	\$3,183.30	\$2,251.80
Charge per 1,000 gallons - General Service	\$4.64	\$9.14	\$6.30	\$7.04	\$4.98
<u>Reuse Service</u>					
Per 1,000 gallons	\$0.68	\$1.34	\$0.93	\$0.93	\$1.34
<u>Private Lift Station Owners</u>					
5/8" x 3/4"	\$17.81	\$35.09	\$25.33	\$28.30	\$20.02
1"	\$44.53	\$87.72	\$63.32	\$70.74	\$50.04
1-1/2"	N/A	N/A	\$126.64	\$141.48	\$100.08
2"	\$142.47	\$280.67	\$202.62	\$226.37	\$160.13
3"	N/A	N/A	\$405.25	\$452.74	\$320.26
4"	N/A	N/A	\$633.20	\$707.40	\$500.40
6"	N/A	N/A	\$1,266.40	\$1,414.80	\$1,000.80
8"	N/A	N/A	\$2,026.24	\$2,263.68	\$1,601.28
Charge per 1,000 gallons - General Service	\$4.64	\$9.14	\$6.30	\$7.04	\$4.98
<u>Bulk Wastewater Rate</u>					
Safe Harbor Marina	\$917.11	\$3,280.11	N/A	N/A	N/A
South Stock Island Marinas	\$244.43	\$481.53	N/A	N/A	N/A
Charge per 1,000 gallons - Bulk Wastewater	\$4.64	\$9.14	N/A	N/A	N/A
<u>Swimming Pools</u>					
Large	\$105.75	\$207.54	N/A	N/A	N/A
Small	\$31.31	\$61.68	N/A	N/A	N/A
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>					
4,000 Gallons	\$33.29	\$65.57	\$52.66	\$58.81	\$41.62
6,000 Gallons	\$41.03	\$80.81	\$63.16	\$70.53	\$49.92
10,000 Gallons	\$56.51	\$111.29	\$84.16	\$93.97	\$66.52

KW Resort
Test Year Revenue & Billing Determinants
Schedule No. 4-B
Historical Test Year Ended 12/31/14

Docket No. 150071-SU
Phase I Rates
Exhibit PWM-2
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Class / Meter Size	Test Year Bills	Meter Equivalent Factor	ERCs	Test Year Consolidated Gallons	Test Year Revenue Check				Adjusted Test Year Revenues
					BFC	Gal	BFC	Gal	
1 Residential: 5/8" x 3/4"	19,174	1.0	19,174	70,508,000	\$17.81	\$3.87	\$341,489	\$272,866	\$614,355
2 General: 5/8" x 3/4"	1,837	1.0	1,837	39,484,000	\$17.81	\$4.64	\$32,717	\$183,206	
3 1"	82	2.5	205	9,044,000	\$44.53	\$4.64	\$3,651	\$41,964	
4 1 1/2"	48	5.0	240	1,300,000	\$89.05	\$4.64	\$4,274	\$6,032	
5 2"	58	8.0	464	47,739,000	\$142.48	\$4.64	\$8,264	\$221,509	
6 3"	0	16.0	0	0,000	\$284.96	\$4.64	\$0	\$0	
7 4"	12	25.0	300	12,582,000	\$445.25	\$4.64	\$5,343	\$58,380	
8 6"	12	50.0	600	19,802,000	\$890.50	\$4.64	\$10,686	\$91,881	
9 8"	0	80.0	0	2,741,000	\$1,424.80	\$4.64	\$0	\$12,718	
10 8" Turbo	12	90.0	1,080	10,138,000	\$1,602.90	\$4.64	\$19,235	\$47,040	
11 5/8" x 3/4" PLS	36	0.8	29	0,000	\$14.25	\$4.64	\$513	\$0	
12 1" PLS	36	2.0	72	0,000	\$35.62	\$4.64	\$1,282	\$0	
13 1 1/2" PLS	36	4.0	144	0,000	\$71.24	\$4.64	\$2,565	\$0	
14 2" PLS	60	6.4	384	0,000	\$113.98	\$4.64	\$6,839	\$0	
15 3" PLS	0	12.8	0	0,000	\$227.97	\$4.64	\$0	\$0	
16 4" PLS	0	20.0	0	0,000	\$356.20	\$4.64	\$0	\$0	
17 6" PLS	36	40.0	1,440	0,000	\$712.40	\$4.64	\$25,646	\$0	
18 8" PLS	12	64.0	768	0,000	\$1,139.84	\$4.64	\$13,678	\$0	
19 Total General Service	<u>2,277</u>		<u>7,563</u>	<u>142,830,000</u>			<u>\$134,693</u>	<u>\$662,731</u>	<u>\$797,425</u>
20 Totals	<u>21,451</u>		<u>26,737</u>	<u>213,338,000</u>			<u>\$476,182</u>	<u>\$935,597</u>	<u>\$1,411,780</u>
21 Revenues From Rates		\$1,411,780							
22 Miscellaneous & Rent Revenue		\$72,619							
23 Reuse Revenues		\$50,400							
24 Total OPC Recommended Revenues		\$1,534,799							
25 Total PAA Phase I Revenues		\$1,554,861							
26 Total Difference From PAA Order Phase I		(\$20,062)							

**K W Resort
Schedule of Wastewater Rate Base
Schedule No. 1-A
Pro Forma Test Year Ended 12/31/16**

**Docket No. 150071-SU
Phase II Rates
Exhibit PWM-3
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Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	PAA Adjust- ments	PAA Adjusted Test Year	OPC Recomm Adjustments	OPC Recomm Rate Base
1 Plant in Service	\$11,925,704	\$3,574,468	\$15,500,172	(\$909,735)	\$14,590,437	592,393	\$15,182,830
2 Land and Land Rights	\$375,923	\$0	\$375,923	(\$923)	\$375,000	(\$923)	\$374,077
3 Non-used and Useful Components	\$0	\$0	\$0	(\$1,244,082)	(\$1,244,082)	(\$1,632,646)	(\$1,632,646)
4 Accumulated Depreciation	(\$5,828,761)	(\$200,666)	(\$6,029,427)	(\$193,329)	(\$6,222,756)	(\$847,421)	(\$6,876,848)
5 CIAC	(\$9,946,997)	\$0	(\$9,946,997)	\$297,120	(\$9,649,877)	(\$770,292)	(\$10,717,289)
6 Amortization of CIAC	\$3,096,094	\$0	\$3,096,094	(\$81,153)	\$3,014,941	\$849,131	\$3,945,225
7 CWIP	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8 Advances for Construction	\$0	\$0	\$0	\$0	\$0	\$0	\$0
9 Working Capital Allowance	\$0	<u>\$1,367,232</u>	<u>\$1,367,232</u>	<u>(\$741,450)</u>	<u>\$625,782</u>	<u>(\$1,038,258)</u>	<u>\$328,974</u>
11 Rate Base	<u>(\$378,037)</u>	<u>\$4,741,034</u>	<u>\$4,362,997</u>	<u>(\$2,873,552)</u>	<u>\$1,489,445</u>	<u>(\$2,848,016)</u>	<u>\$604,323</u>

K W Resort
Adjustments to Rate Base
Schedule No. 1-B
Pro Forma Test Year Ended 12/31/16

Docket No. 150071-SU
Phase II Rates
Exhibit PWM-3
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Explanation	PAA Order	OPC Recommended
<u>Plant In Service</u>		
1 Agreed-upon adjustments Audit Finding 1	(\$817,240)	(\$817,240)
2 Pro forma plant Phase I adjustment	(\$3,574,468)	\$0
3 Increase average 2014 balance to year-end	\$0	\$88,027
4 Pro forma plant adjustment to WWTP expansion	\$3,481,973	\$1,202,968
5 Pro forma plant adjustment to vacuum tank Replacement	\$0	\$474,552
6 Vacuum tank retirement (75% of plant additon)	\$0	(\$355,914)
Total	<u>(\$909,735)</u>	<u>\$592,393</u>
<u>Land</u>		
1 Survey fees removal Audit Finding 3	(\$923)	(\$923)
Total	<u>(\$1,244,082)</u>	<u>(\$1,632,646)</u>
<u>Non-used and Useful</u>		
<u>Accumulated Depreciation</u>		
1 Agreed-upon adjustments Audit Finding 5	(\$2,040)	(\$2,040)
2 Increase average 2014 balance to year-end	\$0	(\$183,207)
3 Increase accumulated depreciation for 2 years	\$0	(\$924,677)
4 Pro forma plant adjustment to WWTP expansion	(\$191,289)	(\$67,026)
5 Pro forma -lant adjustment to vacuum tank replacement	\$0	(\$26,385)
6 Vacum tank retirement (75% of plant additon)	\$0	\$355,914
Total	<u>(\$193,329)</u>	<u>(\$847,421)</u>
<u>CIAC</u>		
1 Agreed-upon adjustments Audit Finding 4	\$297,120	\$297,120
2 Increase average 2014 balance to year-end	\$0	(\$136,012)
3 2015 and 2016 Actual CIAC Additions	\$0	(\$489,468)
4 Projected additional 2016 CIAC	\$0	(\$441,931)
Total	<u>\$297,120</u>	<u>(\$770,292)</u>
<u>Accumulated Amortization of CIAC</u>		
1 Agreed-upon adjustments Audit Finding 4	(\$81,153)	(\$81,153)
2 Increase average 2014 balance to year-end	\$0	\$204,033
3 Increase accumulated amortization for 2 years	\$0	\$682,928
4 2015 and 2016 Actual CIAC Additions	\$0	\$27,903
5 Projected additional 2016 Accum Amort of CIAC	\$0	\$15,421
Total	<u>(\$81,153)</u>	<u>\$849,131</u>
<u>Working Capital</u>		
1 Reflect appropriate cash balance to include in working capital.	(\$615,687)	(\$615,687)
2 Acct Rec & Misc. Assets - Audit Finding 7	\$26,645	\$26,645
3 Survey fees restated - Audit Finding 3	\$738	\$4,800
4 Other Deferred Debits - Audit Finding 6	\$24,217	\$0
5 Capitalized permit litigation fees to Plant	(\$190,974)	(\$467,627)
6 Reflect appropriate deferred rate case expense.	\$13,611	\$13,611
Total	<u>(\$741,450)</u>	<u>(\$1,038,258)</u>

K W Resort
Used and Useful Calculations
Schedule No. 1-C
Pro Forma Test Year Ended 12/31/16

Docket No. 150071-SU
Phase II Rates
Exhibit PWM-3
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Wastewater Treatment Plant Accounts	Year End Plant	Year End OPC	Pro Forma Plant	Year End OPC	Depr. Rates	Year End Acc Depr	Year End OPC	Year End OPC	Year End Staff
Acct. No.	Per MFRs Sch A-6	Recom. Adjustments	Plant Adjust	Adjusted Balance		Per MFRs Sch A-10	Recom. Adjustments	Pro Forma Adjustments	Adjusted Balance
ACCOUNT NAME									
Treatment and Disposal Plant									
354.4 Structures & Improvements	\$673,398	(\$127,746)	\$0	\$545,652	3.13%	(\$292,129)	\$14,520		(\$277,609)
380.4 Treatment and Disposal Equipment	\$4,227,014	(\$60,565)	\$4,691,942	\$8,858,391	5.56%	(\$2,485,194)	(\$60,565)	(\$260,872)	(\$2,806,631)
381.4 Plant Sewers	\$28,762	\$0	\$85,494	\$114,256	2.86%	(\$7,291)	\$0	(\$2,445)	(\$9,736)
389.4 Other Plant & Miscellaneous Eqt.	<u>\$44,203</u>	<u>\$0</u>	<u>\$0</u>	<u>\$44,203</u>	5.56%	(\$24,101)	(\$19,646)		(\$43,747)
Total	<u>\$4,973,377</u>	<u>(\$188,311)</u>	<u>\$4,777,436</u>	<u>\$9,562,502</u>		<u>(\$2,808,715)</u>	<u>(\$65,690)</u>	<u>(\$263,317)</u>	<u>\$6,026,479</u>
Wastewater Treatment Plant Accounts	Year End Depr Exp	Year End OPC	Year End OPC	OPC Non-UU %	Non-UU Adj to Plant	Non-UU Adj to Acc. Depr	Non-UU Adj to Depr Exp	Non-UU Adj to Prop Tax	
Acct. No.	Per Utility	Recom. Adjustments	Adjusted Balance						
ACCOUNT NAME									
Treatment and Disposal Plant									
354.4 Structures & Improvements	\$21,077	(\$3,998)	\$17,079	25%	\$138,659	(\$70,545)	\$4,340		
380.4 Treatment and Disposal Equipment	\$235,022	\$257,505	\$492,527	25%	\$2,251,068	(\$713,213)	\$125,159		
381.4 Plant Sewers	\$823	\$2,445	\$3,268	25%	\$29,034	(\$2,474)	\$830		
389.4 Other Plant & Miscellaneous Eqt.	\$2,458	\$0	\$2,458	25%	\$11,233	(\$11,117)	\$625		
Total	<u>\$259,380</u>	<u>\$255,951</u>	<u>\$515,331</u>	<u>14.59%</u>	<u>\$2,429,995</u>	<u>(\$797,349)</u>	<u>\$130,954</u>	<u>(\$16,177)</u>	
Total Plant in Service						<u>15,556,907</u>			
Ratio of Non-Used & Useful Plant to Total Plant						<u>25.41%</u>			

K W Resort
Cost of Capital Schedule
Schedule No. 3
Pro Forma Test Year Ended 12/31/16

Docket No. 150071-SU
Phase II Rates
Exhibit PWM-3
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Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost		
Per Utility										
1 Long-term Debt	\$1,248,337	\$0	\$1,248,337	(\$75,868)	\$1,172,469	26.87%	5.37%	1.44%		
2 Short-term Debt	\$0	\$0	\$0		\$0	0.00%	0.00%	0.00%		
3 Preferred Stock	\$0	\$0	\$0	0	\$0	0.00%	0.00%	0.00%		
4 Common Equity	(\$276,537)	\$3,500,000	\$3,223,463	(195,907)	\$3,027,556	69.39%	9.36%	6.50%		
5 Customer Deposits	\$162,972	\$0	\$162,972	0	\$162,972	3.74%	2.00%	0.07%		
6 Deferred Income Taxes	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%		
10 Total Capital	<u>\$1,134,772</u>	<u>\$3,500,000</u>	<u>\$4,634,772</u>	<u>(\$271,775)</u>	<u>\$4,362,997</u>	<u>100.00%</u>		<u>8.01%</u>		
Per OPC Recommendation										
11 Long-term Debt	\$1,248,337	\$3,500,000	\$4,748,337	(\$4,164,067)	\$584,270	96.68%	3.58%	3.46%		
12 Short-term Debt	\$0	\$0	\$0	\$0	0	0.00%	0.00%	0.00%		
13 Preferred Stock	\$0	\$0	\$0	\$0	0	0.00%	0.00%	0.00%		
14 Common Equity	(\$276,537)	\$276,537	\$0	\$0	0	0.00%	11.16%	0.00%		
15 Customer Deposits	\$162,972	\$0	\$162,972	(\$142,919)	\$20,053	3.32%	2.00%	0.07%		
16 Deferred Income Taxes	\$0	0	\$0	\$0	\$0	0.00%	0.00%	0.00%		
20 Total Capital	<u>\$1,134,772</u>	<u>\$3,776,537</u>	<u>\$4,911,309</u>	<u>(\$4,306,986)</u>	<u>\$604,323</u>	<u>100.00%</u>		<u>3.53%</u>		
						LOW	HIGH			
						RETURN ON EQUITY	<u>10.16%</u>	<u>12.16%</u>		
						OVERALL RATE OF RETURN	<u>3.53%</u>	<u>3.53%</u>		

K W Resort
Schedule of Wastewater Operating Income
Schedule No. 3-A
Pro Forma Test Year Ended 12/31/16

Docket No. 150071-SU
Phase II Rates
Exhibit PWM-3
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Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	PAA Adjust- ments	PAA Adjusted Test Year	PAA Revenue Increase	PAA Revenue Requirement	OPC Test Year Adjusts	OPC Adjusted Test Year	OPC Revenue Increase	OPC Revenue Requirement
1 Operating Revenues:	#####	#####	#####	#####	#####	\$931,043	\$2,485,904	#####	\$1,701,630	\$568,263	\$2,269,893
						59.88%				33.40%	
Operating Expenses											
2 Operation & Maintenance	#####	\$840,042	#####	(\$93,311)	#####		\$1,946,403	(\$230,632)	\$1,809,082		\$1,809,082
3 Depreciation	95,996	200,666	296,662	(102,588)	194,074		194,074	(\$72,346)	#####		\$224,316
4 Amortization	0		0		0		0	\$0	\$0		\$0
5 Taxes Other Than Income	132,607	113,300	245,907	(71,244)	174,663	41,897	216,560	(\$56,302)	\$189,605	\$25,572	\$215,177
6 Income Taxes	0	0	0	0	0	0	0	\$0	\$0		\$0
7 Total Operating Expense	#####	#####	#####	(\$267,143)	#####	\$41,897	\$2,357,037	(\$359,280)	\$2,223,003	\$25,572	\$2,248,575
8 Operating Income	\$51,032	\$298,444	\$349,476	#####	(\$760,279)	\$889,146	\$128,867	(\$870,849)	(\$521,373)	\$542,691	\$21,318
9 Rate Base	(\$378,037)		#####		#####		\$1,489,445	#####	\$604,323		\$604,323
10 Rate of Return	-13.50%		8.01%		-51.04%		8.65%		-86.27%		3.53%

Explanation	PAA Order	OPC Recommended
<u>Operating Revenues</u>		
1 To remove requested revenue increase	(\$1,438,382)	(\$1,438,382)
2 Revenues per PAA Order	\$61,484	\$0
3 Miscellaneous and Reuse Revenues Audit Finding 9	0	63,052
4 Correction for PAA 2014 Billing Determinants	\$0	(\$21,629)
5 Reflect Projected 2015 and 2016 Customer Growth	\$0	\$141,178
6 Projected Miscellaneous Service Charges	\$0	\$13,802
Projected Reuse Consumption	\$0	\$11,850
Total	<u>(\$1,376,898)</u>	<u>(\$1,230,129)</u>
<u>Operation and Maintenance Expense</u>		
1 Audit Finding 3-Cont Svc-Other Survey Fees	\$1,200	\$1,200
2 Audit Finding 6	(\$7,497)	\$0
3 Audit Finding 10	(\$4,512)	(\$4,512)
4 Audit Finding 11	(\$6,276)	(\$6,276)
5 Pro Forma Expense Adjustment	(\$10,028)	(\$10,028)
6 PAA Order Test Year Adj- Accounting	(\$12,350)	(\$12,350)
7 PAA Order Test Year Adj- Engineering	(\$653)	(\$653)
8 PAA Order Test Year Adj- Management Fee	(\$60,000)	(\$60,000)
9 Rate Case Expense Amortization	\$6,805	\$6,805
10 Capitalize Last Stand Legal Fees to CWIP	\$0	(\$103,917)
11 Reduce 2016 Sludge, Purchased Power, Chemicals & M&S	\$0	(\$29,223)
12 Remove amortization of accounting fees-Annual Report restatement	\$0	(\$11,678)
13 Total	<u>(\$93,311)</u>	<u>(\$230,632)</u>
<u>Depreciation Expense - Net</u>		
1 Audit Finding 4 CIAC Test Year Amortization	\$14,003	\$14,003
2 Audit Finding 5 Depreciation Expense	(\$5,489)	(\$5,489)
3 Proforma Depreciation Expense	(\$196,281)	\$0
4 Increase average 2014 Depreciation Expense to year-end	\$0	\$13,718
5 Pro Forma Plant Phase II Adjustment to WWTP Expansion	\$191,289	\$67,026
6 Pro Forma Plant Phase II Adjustment to Air-Vac Replacement	\$0	\$26,385
7 Vacuum Tank Retirement (75% of plant additon)	\$0	(\$19,789)
8 Increase average 2014 balance to year-end CIAC Amortization	\$0	(\$4,746)
9 2015 and 2016 Actual CIAC Additions	\$0	(\$17,079)
10 Projected Additional 2016 Amortization of CIAC	\$0	(\$15,421)
11 Non-Used and Useful Depreciation Adjustment	<u>(\$106,110)</u>	<u>(\$130,954)</u>
Total	<u>(\$102,588)</u>	<u>(\$72,346)</u>
<u>Taxes Other Than Income</u>		
1 to remove RAFs on adjustments above	(\$61,960)	(\$55,356)
2 Pro forma payroll taxes	\$1,875	\$1,875
3 Pro Forma Property taxes	(\$3,821)	\$13,355
4 Non-used and Useful Property Taxes	<u>(\$7,338)</u>	<u>(\$16,177)</u>
Total	<u>(\$71,244)</u>	<u>(\$56,302)</u>

**K W Resort
Miscellaneous & Reuse Revenues
Schedule No. 3-C
Pro Forma Test Year Ended 12/31/16**

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Phase II Rates
Exhibit PWM-3C
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Miscellaneous Revenues & Reuse	2014 Per Utility	PAA Order Adjustments	2014 PAA Balance	2015 General Ledger	OPC Projection Adjustments	OPC Adjusted 2015	OPC Adjustment to 2014
42110 MCDC Income	\$0	\$19,550	\$19,550	\$19,625	(\$2,006)	\$17,619	
42120 Water Testing	\$0	\$19,500	\$19,500	\$19,500	(\$19,500)	\$0	
42600 Miscellaneous Income	\$0	\$22,849	\$22,849	\$26,238	\$1,312	\$27,550	
53400 Rents from Sewer Property	\$2,100	\$0	\$2,100	\$1,200	\$60	\$1,260	
53610 Connect/Disconnect	\$3,450	\$0	\$3,450	\$0	\$0	\$0	
53640 New Connection Administration	<u>\$5,170</u>	<u>\$0</u>	<u>\$5,170</u>	<u>\$38,088</u>	<u>\$1,904</u>	<u>\$39,992</u>	
	<u>\$10,720</u>	<u>\$61,899</u>	<u>\$72,619</u>	<u>\$104,651</u>	<u>(\$18,230)</u>	<u>\$86,421</u>	<u>\$13,802</u>

Reuse Revenue Calculation	2014	Audit Adjustment	Audit 2014	2015	2016 Escalation	2016	OPC Adjustment to 2014
Gallons	72,423	1,695	74,118	85,571	5%	89,850	
TY gallonage rate	<u>\$0.68</u>	<u>\$0.68</u>	<u>\$0.68</u>	<u>\$0.68</u>		<u>\$0.68</u>	
TY Rev Req for Reuse	<u>\$49,248</u>	<u>\$1,153</u>	<u>\$50,400</u>	<u>\$58,188</u>		<u>\$61,098</u>	<u>\$10,697</u>
OPC Reuse	<u>\$1.34</u>			<u>\$1.34</u>		<u>\$1.34</u>	
2014 Reuse Adjust Rev Req	\$97,047			\$114,665		\$120,398	
2015 Reuse Gallons Inceas	13,148						
2015 Reuse Gallons % Increase over 2014	18%						

Source: MFR Schedule E-2
PSC Staff Audit Report Finding 9
KW 2015 Annual Report
KW Response to OPC POD 8, General Ledger Balance 12/31/15

**KW Resort
Wastewater Rate Schedule
Schedule No. 4-A
Pro Forma Test Year Ended 12/31/16**

**Docket No. 150071-SU
Phase II Rates
Exhibit PWM-3
Page 8 of 9**

	Utility Current Rates	Utility Requested Rates	PAA Order Phase I Rates	PAA Order Phase II Rates	OPC Phase I Rates	OPC Phase II Rates
<u>Residential Service (10,000 Gallon Cap)</u>						
All Meter Sizes	\$17.81	\$35.09	\$31.66	\$35.37	\$25.02	\$28.06
Charge per 1,000 gallons - Residential	\$3.87	\$7.62	\$5.25	\$5.86	\$4.15	\$4.65
<u>General Service (Base Facility Charge by Meter Size)</u>						
5/8" x 3/4"	\$17.81	\$35.09	\$31.66	\$35.37	\$25.02	\$28.06
1"	\$44.53	\$87.72	\$79.15	\$88.43	\$62.55	\$70.15
1-1/2"	\$89.05	\$175.43	\$158.30	\$176.85	\$125.10	\$140.30
2"	\$142.47	\$280.67	\$253.28	\$282.96	\$200.16	\$224.48
3"	\$284.95	\$561.35	\$506.56	\$565.92	\$400.32	\$448.96
4"	\$445.24	\$877.12	\$791.50	\$884.25	\$625.50	\$701.50
6"	\$890.49	\$1,754.27	\$1,583.00	\$1,768.50	\$1,251.00	\$1,403.00
8"	\$1,602.86	\$3,157.63	\$2,532.80	\$2,829.60	\$2,001.60	\$2,244.80
8" Turbo	\$2,048.10	\$4,034.76	\$2,849.40	\$3,183.30	\$2,251.80	\$2,525.40
Charge per 1,000 gallons - General Service	\$4.64	\$9.14	\$6.30	\$7.04	\$4.98	\$5.58
<u>Reuse Service</u>						
Per 1,000 gallons	\$0.68	\$1.34	\$0.93	\$0.93	\$1.34	\$1.34
<u>Private Lift Station Owners</u>						
5/8" x 3/4"	\$17.81	\$35.09	\$25.33	\$28.30	\$20.02	\$22.45
1"	\$44.53	\$87.72	\$63.32	\$70.74	\$50.04	\$56.12
1-1/2"	N/A	N/A	\$126.64	\$141.48	\$100.08	\$112.24
2"	\$142.47	\$280.67	\$202.62	\$226.37	\$160.13	\$179.58
3"	N/A	N/A	\$405.25	\$452.74	\$320.26	\$359.17
4"	N/A	N/A	\$633.20	\$707.40	\$500.40	\$561.20
6"	N/A	N/A	\$1,266.40	\$1,414.80	\$1,000.80	\$1,122.40
8"	N/A	N/A	\$2,026.24	\$2,263.68	\$1,601.28	\$1,795.84
Charge per 1,000 gallons - General Service	\$4.64	\$9.14	\$6.30	\$7.04	\$4.98	\$5.58
<u>Bulk Wastewater Rate</u>						
Safe Harbor Marina	\$917.11	\$3,280.11	N/A	N/A	N/A	N/A
South Stock Island Marinas	\$244.43	\$481.53	N/A	N/A	N/A	N/A
Charge per 1,000 gallons - Bulk Wastewater	\$4.64	\$9.14	N/A	N/A	N/A	N/A
<u>Swimming Pools</u>						
Large	\$105.75	\$207.54	N/A	N/A	N/A	N/A
Small	\$31.31	\$61.68	N/A	N/A	N/A	N/A
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>						
4,000 Gallons	\$33.29	\$65.57	\$52.66	\$58.81	\$41.62	\$46.66
6,000 Gallons	\$41.03	\$80.81	\$63.16	\$70.53	\$49.92	\$55.96
10,000 Gallons	\$56.51	\$111.29	\$84.16	\$93.97	\$66.52	\$74.56

FILE COPY
5-19-2014

RE# 126800-000000
Florida Keys Linen Company, LLC
5341 5th Ave, Stock Island, FL 33040

Addendum to December 6, 2012 UTILITY AGREEMENT

This Addendum to December 6, 2012 UTILITY AGREEMENT ("Addendum") is an addendum to the UTILITY AGREEMENT a contract between KW Resort Utilities Corp., a Florida Corporation, having its offices at 6630 Front Street, Key West Florida 33040 (Service Company) and Florida Keys Linen Company LLC, having its office(s) located at 5341 5th Ave Stock Island FL 33040 (Developer) which is dated December 6, 2012 ("UTILITY AGREEMENT") and shall become effective as of today, May 20, 2014. The UTILITY AGREEMENT is attached and made a part of this document.

NOW, THEREFORE, in consideration of Ten Dollars (\$10.00), and the mutual covenants and agreements hereinafter set forth, and intending to be legally bound thereby, notwithstanding any terms in the UTILITY AGREEMENT to the contrary, Service Company and Developer agree as follows:

1. The parties agree that wherever there is any conflict between this Addendum and the UTILITY AGREEMENT, the provisions of this Addendum will control and the UTILITY AGREEMENT will be construed accordingly.
2. Developer acknowledges that because of business expansion the water usage is over and above the amount reserved in paragraph 6b of the UTILITY AGREEMENT. Developer has supplied Service Company accesses to information necessary to determine the number of ERC's that correspond to the increased use of the property. From this information it has been determined 84.62 additional ERC's are required for the business expansion that has occurred on the property. The determination of the additional ERC's is more particularly described in Exhibit D attached hereto and incorporated herein.
3. Developer shall pay to Service Company a reservation fee (Capacity Reservation Fee), in the amount of Two Thousand Seven Hundred (\$2,700.00) dollars per E.R.C. connection to be reserved by Developer to serve the commercial enterprise within the commercial structure/s on the Property (individually, a Connection, collectively, the Connections). ERC's assigned to the property must remain with the property and, as such, are non-transferrable to other property.
4. Service Company shall allow Developer to pay the owed Capacity Reservation Fee according to Payment Schedule A. (on Page 2) provided the 12 payments are each paid in full, and are not late under the terms and conditions as set forth in paragraph 5 of this Addendum to December 6, 2012 UTILITY AGREEMENT.

Payment Schedule A.

Payment No.	Payment Date	Payment Amount
1	May 15, 2014	\$14,539.50
2	Aug 15, 2014	\$14,539.50
3	Nov 15, 2014	\$14,539.50
4	Feb 15, 2015	\$14,539.50
5	May 15, 2015	\$14,539.50
6	Aug 15, 2015	\$14,539.50
7	Nov 15, 2015	\$14,539.50
8	Feb 15, 2016	\$14,539.50
9	May 15, 2016	\$14,539.50
10	Aug 15, 2016	\$14,539.50
11	Nov 15, 2016	\$14,539.50
12	Feb 15, 2017	\$14,539.50

5. Should Florida Keys Linen Company, LLC fail to make any of the 12 payments on **Payment Schedule A**, KW Resort Utilities Corp. may refuse service as a result of non-payment and may demand payment for the entire balance of Total Capacity Due be paid in a lump sum prior to service being restored. If payment is not received on the Payment Date or before the Payment Date, the payment shall be considered late. In the event of a late payment, KW Resort Utilities Corp may refuse service as a result of late payment and may require the entire balance of Total Capacity Due be paid in a lump sum prior to service being restored. Additionally, KW Resort Utilities Corp. may place an interest charge on late payments equal to 10% per annum.
6. Developer agrees to pay Service Company's attorney's fees for any professional legal services due to the non-payment or late payment as defined in Paragraph 5.
7. Service Company shall be entitled to collect a monthly fee from Developer for treatment of the wastewater corresponding to the additional flow generated from the redevelopment. Applicable fees, rates, and charges shall be paid to Service Company by the Developer in accordance with paragraph 5a of the UTILITY AGREEMENT.

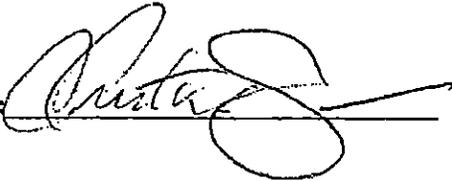
IN WITNESS WHEREOF, Service Company and Developer have executed this Addendum
as of May 20, 2014.

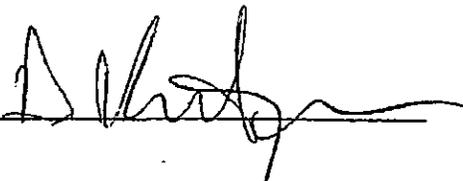
SERVICE COMPANY:

DEVELOPER:

KW Resort Utilities Corp.

Florida Keys Linen Company LLC

By: 

By: 

Print Name: Christopher A. Johnson

Print Name: D. KUNTZMANN

Title: President

Title: CO/PRESIDENT

Address: 6630 Front Street

Address: 5341 5th Ave

Key West, FL 33040

Stock Island, FL 33040

STATE OF FLORIDA)
) ss.
COUNTY OF MONROE)

The foregoing instrument was acknowledged before me this 19 day of MAY
2014, by DIDIER KUNTZMANN, as CO/PRESIDENT, FLORIDA KEYS LINEN CO, LLC
a Florida corporation, on behalf of said corporation. He/she is personally known to me or who has
produced _____ as identification.

My Commission Expires:

NOTARY PUBLIC-STATE OF FLORIDA
Judi L. Irizarry
Commission # EE070830
Expires: MAR. 22, 2015
BONDED THRU ATLANTIC BONDING CO., INC.

STATE OF FLORIDA)
) ss.
COUNTY OF MONROE)

The foregoing instrument was acknowledged before me this 19 day of MAY
2014, by CHRISTOPHER JOHNSON as PRESIDENT - KW RESORT UTILITIES
a Florida corporation, on behalf of said corporation. He/she is personally known to me or who has
produced _____ as identification.

My Commission Expires:

NOTARY PUBLIC-STATE OF FLORIDA
Judi L. Irizarry
Commission # EE070830
Expires: MAR. 22, 2015
BONDED THRU ATLANTIC BONDING CO., INC.



KW Resort Utilities, Corp.

6630 Front Street
 Key West, FL 33040
 10 305.295.3301
 FAX 305.295.0143
 www.kwru.com

Exhibit D - ERC Calculation Sheet

Project Name Keys Linen Company, LLC
Didier Kuntzmann & Dybek Egamberdiev
Property Address 5341 5th Avenue, Stock Island FL 33040
RE # (s) 126800-000000
Calculation used: **Water Usage History** or **F.A.C. Chapter 64E-6**

Original Capacity for Florida Keys Linen from 12/06/2012
 The 4 MFS125 w/ recycling system process requires: ((3054 gal/day) / (250gal/ERC)) = 12.22 ERC

Pursuant to the Utility Agreement dated December 6th, 2012 by and between Florida Keys Linen Company, LLC and KW Resort Utilities, Corp (KWRU), Florida Keys Linen has exceeded the reserved capacity pursuant to paragraph 5(b) by 21,156.0 GPD. This figure is based upon the average of the highest 3 months flows within the last 3 years, which is the industry standard. Since December 2012 there was an increase in water used by Florida Keys Linen, and therefore, the capacity fee needs to be adjusted to reflect this increase in use. Thus, Florida Keys Linen is required to pay an additional capacity fee for its use equal to \$228,474.00. The calculations are as follows:

May 2014 FCAA Read = 23,275.86 gpd
 April 2014 FCAA Read = 25,675.00 gpd
 March 2014 FCAA Read = 23,682.14 gpd

Highest FCAA 3 month average = 24,211.00 gallons/day
 (24,211.00 gallons/day ACTUAL USE) – (3,055 gallons/day PURCHASED 12.22 EDU) = 21,156.00 gallons/day OWED
 (21,156.00 gallons/day OWED) / (250 gallons/day) = 84.62 EDU OWED
 (84.62 EDU's OWED) x (\$2,700 per EDU) = \$228,474.00 OWED

1.0 ERC was previously purchased by MPA of KW Limited Partnership (check#11076). This 1.0 ERC remains and captures bathroom use for employees and this effluent is tied into a valve pit and is separate from the linen washing machine and recycle system discharge which goes into a dedicated buffer tank. This 1.0 ERC remains with the property and was paid by MPA and no additional monies are due for this 1.0 ERC.

Original Linen ERC	12.22	12/6/2012 Paid
Expansion ERC	84.62	5/14/2014 *
Total ERC's =	96.84	

 NK
 Initial and date

Signature

* March 10, 2014 KWRU received check #1541 in the amount of \$54,000

FLORIDA KEYS LINEN COMPANY LLC

5341 5TH AVENUE
KEY WEST, FL 33040
305-396-7905

81-275-829

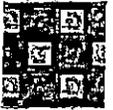
DATE 5/19/14

PAY
TO THE
ORDER OF

KBRU

\$14,539.50

FOURTEEN THOUSAND FIVE HUNDRED THIRTY NINE ⁵⁰/₁₀₀ DOLLARS



FOR

[Handwritten Signature]



FLORIDA KEYS LINEN COMPANY LLC
5341 5TH AVENUE
KEY WEST, FL 33040
305-396-7906

FOR US ONLY Check Paid
in Full to the Order of

81-275-829

DATE 5/19/14

PAY TO THE ORDER OF KARU

FOURTEEN THOUSAND FIVE HUNDRED THIRTY NINE ⁵⁰/₁₀₀ \$14539.50 DOLLARS



[Signature]



FOR _____



K W Resort Utilities Corp

Pro Forma Adjustments to Operations & Maintenance Expenses

Increase due to changes in operations due to upgrade to AWT standards.	Adjustments	Description
701 Salary & Wages	\$ 155,996.00	Project salary expense due to new requirements minus 2014 actual expense *
704 Employee Pension & Benefits	42,762.00	Employee Benefits on additional salaries.
7048100 Employee Relations	\$ 630.00	
7048200 Employee Benefit/Health	36,132.00	
7048300 Employee Training	6,000.00	
711 Sludge Disposal	109,334.00	Additional sludge disposal due to plant expansion minus actual 2014 expense *
715 Purchased Power	42,900.00	Additional due to plant expansion *
718 Chemicals	224,741.00	
7180500 Chemicals	224,065.00	Additional chemicals due to plant expansion minus actual 2014 expense *
7180510 Supplies	676.00	
720 Materials & Supplies	60.00	
731 Contractual Services - Engineer	4,730.00	Additional due to plant expansion
735 Contractual Services - Testing	20,673.00	Additional testing due to plant expansion *
736 Contractual Services Other	28,557.00	Additional due to plant expansion
7360200 Vacuum Stn Repairs & Maint	6,065.00	
7360330 Vacuum Collection Sys	8,859.00	
7360410 Lift Stations Cleaning	919.00	
7360420 Lift Stations Repair & Maintenance	504.00	
7360430 Pumps & Panels	6,323.00	
7360520 Equipment Repair & Maintenance	360.00	
7360540 Generator Maintenance	21.00	
7360600 Grounds and Office Maintenance	(29.00)	
7360610 Plant Repair or Maintenance	5,535.00	
757 Insurance - Gen Liab	2,752.00	
758 Work Comp Insurance	25,555.00	Additional insurance due to additional salaries
760 Advertising	(1,564.00)	
775 Miscellaneous Expense	9,638.00	Additional expenses due to plant expansion
7750510 Utilities	156.00	
7750820 Postage	634.00	
7750821 Courier	3,595.00	
7750822 Payroll Admin Costs	2,281.00	
7750830 Telephone & Fax	1,858.00	
7750850 Dues & Subscriptions	109.00	
7750880 Computer	59.00	
7750900 Reimbursed Admin Expenses	1,083.00	
7750500 Sanitation	(137.00)	
775 Deferred Expense	103,917.00	To amortize legal fees of \$519,585 over 5 years. Cost incurred to defend 5 year permit renewal
Total Proforma Adjustments to O & M	<u>\$ 770,051.00</u>	

* See attached supporting documentation

701 Salary and Wages Estimated

	Salary Amount	2014
Wastewater Plant Operator New Staffing Requirement goes into effect Jan 1, 2016 additional hours = 1248 hours per year additional	\$ 62,000	
Collection Tech	\$ 42,000	
and sludge processing 1/2 year for 2016	\$ 52,000	
		2014
		Actual Expense
		\$ 590,900.23

	2015
mid yr hire	\$ 31,000.00
mid yr hire	\$ 21,000.00
	\$ 52,000.00
2014 Actual	\$ 590,900.23
2 Additional Employees ONLY for half the year	\$ 52,000.00
salary increase allowance 1.18%	\$ 6,995.77
2015 Total	\$ 649,896.00

	2016
full year	\$ 62,000
full year	\$ 42,000
full year	\$ 52,000
Total Salary Expense New Staffing	\$ 156,000
2014	\$ 590,900
Additional Payroll	\$ 156,000
2016 Total	\$ 746,900.23

711 Sludge Disposal

Estimated Sludge Disposal Per Weiler Memo May 29,2015		\$148,728.16
less	2014 Actual	<u>\$ 39,394.00</u>
	Adjustment	\$109,334.16

WEILER ENGINEERING CORPORATION



6805 OVERSEAS HIGHWAY | MARATHON | FL 33050
TEL (305) 289-4161 | FAX(305) 289-4162

201 WEST MARION AVENUE - SUITE 1306 | PUNTA GORDA | FL 33950
TEL 941-505-1760 | FAX 941-505-1702 | WWW.WEILERENGINEERING.ORG

MEMORANDUM

To: Christopher Johnson
From: Ed Castle, PE
Date: May 29, 2015
Re: 2016 Sludge Cost Estimates

I have estimated the quantity of sludge to be hauled from KWRU in 2016 under the following assumptions.

- Total Flow to WWTP: 0.550 MGD AADF
- Irrigation flow to KWGC: 0.300 MGD AADF
- Effluent discharged to wells: 0.250 MGD AADF
- Phosphorus removal at all times regardless of destination of effluent
- Drying beds will be used to their maximum capacity
- A mobile centrifuge will be brought in as needed to augment drying bed capacity, estimated 4X per year

Based on these assumptions, the following quantities and costs are estimated:

- 527,528 gallons of liquid sludge will need to be processed in the centrifuge at a cost of **\$72,757.79 annually**.
- 243 tons of sludge cake will need to be hauled at a cost of **\$75,970.37 annually**.
- Estimated total annual cost: **\$148,728.16**

The attached spreadsheet summarized the calculations in more detail. I will be happy to explain the calculations if you wish.

2016 Solids Budget for KWRU

Assumptions:

Average 550,000 GPD treated, alum added for TP removal

Drying Bed Limit:

		.55 mgd w/ alum	Total
Dry tons/yr, 2016		99	99

.45 MGD
66 Dry tons.

Drying bed sludge @ 85% solids, tons	78	wet tons to be hauled from drying beds
Centrifuge sludge @ 20% solids, tons	165	wet tons to be hauled from centrifuge
Total	243	wet tons to be hauled

527,578 gallons per year to be processed by centrifuge @ 1.5% solids

1,055,156 gallons per year poured onto drying beds @ 1.5% solids

Dewatering cost assumptions:
Need to dewater 4 times/year
Mobilization cost \$5,000 per trip
Processing cost \$0.10/ gallon

Dewatering Cost Estimate

Gallons/trip	131,894
Mobilization	\$5,000.00
Processing	\$13,189.45
Cost/trip	\$18,189.45

Cost/yr **\$72,757.79**

Hauling & Disposal Cost Estimate

Cost/ton	\$313.09
Tons of Cake	243

Cost/yr **\$75,970.37**

TOTAL \$148,728.16

PLANT POWER expense with Addition of .350 MGD WWTP



715 2016 Plant Power Estimated Expense

Cost of Plant Power Purchased in 2014	\$	129,151.97
Plus the power requirement of new .350MGD plant online July 1, 2016	\$	<u>42,877.35</u>
	\$	172,029.32

Power Expense Estimate for .350 MGD WWTP

Electrical Equipment .350 MGD Plant

Using Horsepower, Amp Draws, Estimated Run times per Edward R. Castle P.E., Weiler Engineering Corp.

	kWhr per Annum	Keys Energy Current Rate @\$0.1027 per kWhr
	835,002	\$ 85,754.71

Additional Plant will require \$ 85,754.71 per year

Assume plant is up and running mid year \$ 42,877.35 for 6 months

EXPENSE	CHARGE	AMOUNT	DESCRIPTION	
5	28,875.00		28,875.00	total other items
			12,000.00	2014
			16,875.00	total other items
6	31,226.10	31,226.10	31,226.10	256,305.29

Cost Per Gallon	Total Annual gallons	Ratio to 650MGD	
2.74	34009.4	93.18	Sodium Hypochlorite = 100 GPD
3.45	27396.5	75.08	Sodium Hydroxide = 144 GPD
2.65	11808.8	32.35	Glycerine = 116 GPD
			Alum = 50 GPD

PDR

G. DISINFECTION (calculations based on four chlorine contact chambers in two basins)

The Chlorine Contact Chamber is required to provide a minimum contact period of 15 minutes at design peak hourly flow or the maximum pumping rate. The facility has flow equalization, which will result in using a peaking factor of 1.5 instead of 4.

Detention time = V/Q

Volume = 11,489 gal per basin, 5,745 gal per chamber, 22,978 gal total

Flow = $Q_{PHF} = 1,273,500 \text{ gpd}$ or 885 gpm or 53,063 gph

$\Theta = V/Q = 0.25 \text{ hr}$

$V_{\text{REQUIRED}} = (0.25 \text{ hr})(53,063 \text{ gph}) = 13,266 \text{ gal}$

22,978 gal > 13,266 gal therefore size is Adequate

@ 75% Operation (1 of 4 chambers off line) = 17,234 gal > 13,266 gal

22,978 gal/53,063 gph = 26 min. detention time with all 4 in service

17,234 gal/53,063 gph = 19.5 min. detention time with 3 of 4 in service

H. SODIUM HYPOCHLORITE SYSTEM

1 pound per day (ppd) chlorine gas = 1 gpd of 12.5% Trade NaOCl

Min. Total Residual Chlorine (TRC) = 1.0 mg/L

Avg. chlorine ppd in recent years (based on 0.343 MGD Flow) = 38.8 ppd

$\text{Cl}_2 \text{ Dosage} = (38.8 \text{ ppd}) / ((8.34 \text{ lb/day}) / (343 \text{ MGD})) = 14 \text{ mg/L}$

$\text{Cl}_2 \text{ Dosage rate, in ppd for design flow} = (.849 \text{ MGD})(8.34 \text{ lb/gal})(14 \text{ mg/L}) = 99.2 \text{ ppd}$

Gallons of 12.5% NaOCl needed per day = $(99.2 \text{ ppd Cl}_2)(1 \text{ gpd } 12.5\% \text{ NaOCl} / 1 \text{ ppd Cl}_2)$
= 99.2 gal/day

With 1.5 safety factor = $(99.2 \text{ gal/day})(1.5) = 148.8 \text{ gal/day}$

Min. Tank size needed: $(148.8 \text{ gal/day})(15^{**} \text{ days}) = 2,500 \text{ gal}$

Tank will be opaque for UV protection and rated for exterior use

* Dosage rate based on average feed rate of chlorine gas needed to satisfy chlorine demand and maintain desired TRC.

** Due to short shelf life of the sodium hypochlorite solution, a tank that allows for only 15 days of storage will be used instead of 30 days to prevent degradation of the sodium hypochlorite solution.

PDR

I. PHOSPHORUS REMOVAL

ALUM	$Al_2(SO_4)_3 \cdot 18H_2O$
ALUM STRENGTH	48.5%
DENSITY OF ALUM SOL'N	11.2 lb/gal
MOLECULAR WT. OF ALUM	594.0
MOLECULAR WT. OF ALUMINUM	26.98
MOLECULAR WEIGHT OF P	30.97

STEP 1 WEIGHT OF ALUMINUM REQUIRED PER UNIT OF PHOSPHORUS

A. THEORETICAL DOSAGE 1 MOLE AL PER 1 MOLE P
ALUMINUM REQUIRED = (MW AL/MW P)
= (26.98/30.97)
= 0.87 lb AL/lb P

STEP 2 WEIGHT OF ALUMINUM AVAILABLE PER GALLON OF ALUM

A. Weight of alum per gallon of solution
= 0.485 X 11.2 lb/gal = 5.43 lb/gal

B. Weight of Aluminum per gallon
= 5.43 lb/gal * (2 * 26.98/594.0) = 0.493 lb/gal

STEP 3 POUNDS OF P IN INFLUENT
= mg/L P * FLOW, MGD * 8.34
= 8 * 0.849 * 8.34
= 56.6 lbs influent phosphorus

STEP 4 AMOUNT OF ALUM SOLUTION REQUIRED PER LB OF PHOSPHORUS

Alum Dosage = (0.87 lb AL/lb P) * (1 GAL ALUM SOL/0.493 lb AL)
= 1.76 GAL ALUM SOLUTION/lb P
= 1.76 * 28.3 lb
= 49.8 gallons of alum solution required for 0.849 MGD facility capacity

Since significant biological uptake of phosphorus occurs in the activated sludge process, the clarifier influent will have significantly less than the 8 mg/l used in the dosing calculations, providing a safety factor in the designed dosing rate.

Min. tank size needed: (49.8 gal/day) (30 days) = 1,494 gal tank

Tank will be opaque for UV protection and rated for exterior use

PDR

J. GLYCERIN

Solution used will be 70% Glycerin as provided by manufacturer

Glycerin BOD: 870,000 mg/L

7 lb BOD = 1 gal Glycerin

Dissolved Oxygen (D.O.) going into anoxic zone = 2 mg/L

Influent NH_4 = 40 mg/L

NH_4 to NO_3 = $(62/17)(40 \text{ mg/l}) = 146 \text{ mg/L } NO_3$

Oxygen present = $((16 \times 3)/(62))(146 \text{ mg/L}) + 2(8.34 \text{ lb/gal})(0.849 \text{ MGD}) = 814 \text{ lbs/day}$

Glycerin solution needed per day: $(814 \text{ lb D.O.})/(7 \text{ lb/gal glycerin}) = 116.3 \text{ gal/day}^*$

Min. tank size needed: $(116.3 \text{ gal/day})(15 \text{ days}) = 1744.50 \text{ gal}$

* There is no safety factor being used for glycerin need because the tanks have been oversized to allow for endogenous decay which provides an additional carbon source.

K. ALKALINITY DOSING

Strength	50%
Density of Solution	12.76 lb/gallon
Molecular Weight NaOH	39.997
Molecular Weight Na	22.98
Molecular Weight OH	17.00

Weight of NaOH = $0.5 \times 12.76 \text{ lb/gal}$
= 6.38 lbs lb/gal

OH per gallon = $6.38 \times (17.00/39.997)$
= 2.71 lbs

Pounds of NH_4 per day = $(40 \text{ mg/L})(8.34 \text{ lb/gal})(0.849 \text{ MGD})$
= 283 lbs

Pounds of $CaCO_3$ needed per day = $(283 \text{ lbs})(7.07 \text{ lbs } CaCO_3 / \text{lb } NH_4)$
= 2,001 lbs

Pounds of H_2O per day = $(120 \text{ mg/L})(8.34 \text{ lb/gal})(0.849 \text{ MGD})$
= 850 lbs

Pounds of $CaCO_3$ added per day = $2001 - 850 = 1,151 \text{ lbs}$

Milliequivalent weights of $CaCO_3$: 50 mg/meq
NaOH: 40 mg/meq

Pounds of NaOH per day = $(40/50)(1,151 \text{ lbs}) = 921 \text{ lbs}$

During nitrification/denitrification in aeration basins there is release of some alkalinity so no safety factor will be used

PDR

Min. tank size needed: $((921 \text{ lbs} * 2) / (12.76 \text{ lb/gal})) * 30 \text{ days} = 4,331 \text{ gal}$

Tank will be opaque for UV protection and rated for exterior use

The theoretical dose is 1 mole NaOH per 1 mg/L alkalinity. The above calculations are based on assumptions regarding the alkalinity concentration needed and may change accordingly. All chemical feed pumps will be sized to accommodate any variables encountered.

FDEP Sampling Parameters after Expansion

Parameter	Frequency	Cost	Annual Cost
Effluent			
Well Monitoring Requirements			
Biological Oxygen Demand (CBOD)	Weekly	\$ 25.00	\$1,300.00
Suspended Solids (TSS)	Weekly	\$ 25.00	\$1,300.00
Fecal Coliform	Weekly	\$ 25.00	\$1,300.00
Chlorine Test (TRC)	5 days/week	\$330 / year	\$330.00
Total Nitrogen	Weekly	\$ 35.00	\$1,820.00
Total Phosphorus	Weekly	\$ 20.00	\$1,040.00
Reuse Monitoring Requirements			
Suspended Solids (TSS)	Daily	\$ 25.00	\$9,125.00
Fecal Coliform	Daily	\$ 25.00	\$9,125.00
Chlorine Residual (TRC)	Continuous	\$70/month	\$840.00
Giardia	Every 5 yrs	\$ 1,050.00	\$1,050.00
Cryptosporidium	Every 5 yrs	\$ 2,310.00	\$2,310.00
Influent			
Biological Oxygen Demand (CBOD)	Weekly	\$ 25.00	\$1,300.00
Suspended Solids (TSS)	Weekly	\$ 25.00	\$1,300.00
Total			\$32,140.00

Courier			
Daily Pick up	7 days/week	\$ 27.50	\$10,037.50
Fuel Surcharge	Estimated	\$1300 /year	\$1,300.00
Total			\$11,337.50

Process Control			
4 tests per day per plant (3 Plants, 4 testing basins)			
Ortho P			\$ 2,095.00
Nitrogen			\$1,860.00
Ammonia			\$5,306.00
Alkalinity			\$2,375.00
Total			\$11,636.00

CLASS "A" OR "B"

WATER AND/OR WASTEWATER UTILITIES
(Gross Revenue of More Than \$200,000 Each)

ANNUAL REPORT

OF

SU336-15-AR

KW Resort Utilities Corp

Exact Legal Name of Respondent

OFFICIAL COPY
Public Service Commission
Do Not Remove From This Office

168-S

Certificate Number(s)

Submitted To The

STATE OF FLORIDA

PUBLIC SERVICE COMMISSION

FOR THE

YEAR ENDED

31-Dec-15

RECEIVED
FLORIDA PUBLIC SERVICE
COMMISSION
2016 JUL -5 AM 10: 50
DIVISION OF
REGULATIONS & FINANCE

GENERAL INSTRUCTIONS

1. Prepare this report in conformity with the 1996 National Association of Regulatory Utility Commissioners Uniform System of Accounts for Water and/or Wastewater Utilities (USOA).
2. Interpret all accounting words and phrases in accordance with the USOA.
3. Complete each question fully and accurately, even if it has been answered in a previous annual report. Enter the word "None" where it truly and completely states the fact.
4. For any question, section, or page which is not applicable to the respondent, enter the words "Not Applicable". Do not omit any pages.
5. Where dates are called for, the month and day should be stated as well as the year.
6. All schedules requiring dollar entries should be rounded to the nearest dollar unless otherwise specifically indicated.
7. Complete this report by means which result in a permanent record, such as by computer or typewriter.
8. If there is not enough room on any schedule, an additional page or pages may be added; provided the format of the added schedule matches the format of the schedule with not enough room. Such a schedule should reference the appropriate schedules, state the name of the utility, and state the year of the report.
9. If it is necessary or desirable to insert additional statements for the purpose of further explanation of schedules, such statement should be made at the bottom of the page or an additional page inserted. Any additional pages should state the name of the utility, the year of the report, and reference the appropriate schedule.
10. For water and wastewater utilities with more than one rate group and/or system, water and wastewater pages should be completed for each rate group and/or system group. These pages should be grouped together and tabbed by rate group and/or system.
11. All other water and wastewater operations not regulated by the Commission and other regulated industries should be reported as "Other than Reporting Systems".
12. Financial information for multiple systems charging rates which are covered under the same tariff should be reported as one system. However, the engineering data must be reported by individual system.
13. For water and wastewater utilities with more than one system, one (1) copy of workpapers showing the consolidation of systems for the operating sections, should be filed with the annual report.
14. The report should be filled out in quadruplicate and the original and two copies returned by March 31, of the year following the date of the report. The report should be returned to:

**Florida Public Service Commission
Division of Water and Wastewater
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0873**

The fourth copy should be retained by the utility.

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Listing of Wastewater System Groups	S-1	Contributions In Aid of Construction	S-7
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Wastewater Operating Statement	S-3	Wastewater Utility Expense Accounts	S-9
Wastewater Utility Plant Accounts	S-4	Wastewater Operating Revenue	S-10
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Analysis of Entries in Wastewater Depreciat Reserve	S-6	Wastewater Treatment Plant Information	S-12
		Other Wastewater System Information	S-13

EXECUTIVE SUMMARY

YEAR OF REPORT 31-Dec-15

UTILITY NAME: KW Resort Utilities Corp

CERTIFICATION OF ANNUAL REPORT

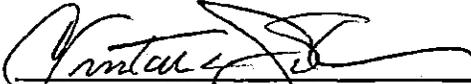
I HEREBY CERTIFY, to the best of my knowledge and belief:

- | | | | | | |
|---|--------------------------|----|-------------------------------------|--------------------------|---|
| <table border="0"> <tr> <td>YES</td> <td>NO</td> </tr> <tr> <td><input checked="" type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table> | YES | NO | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <p>1. The utility is in substantial compliance with the Uniform System of Accounts prescribed by the Florida Public Service Commission.</p> |
| YES | NO | | | | |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | | |
| <table border="0"> <tr> <td>YES</td> <td>NO</td> </tr> <tr> <td><input checked="" type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table> | YES | NO | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <p>2. The utility is in substantial compliance with all applicable rules and orders of the Florida Public Service Commission.</p> |
| YES | NO | | | | |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | | |
| <table border="0"> <tr> <td>YES</td> <td>NO</td> </tr> <tr> <td><input checked="" type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table> | YES | NO | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <p>3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the the financial statement of the utility.</p> |
| YES | NO | | | | |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | | |
| <table border="0"> <tr> <td>YES</td> <td>NO</td> </tr> <tr> <td><input checked="" type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table> | YES | NO | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <p>4. The annual report fairly represents the financial condition and results of operations of the respondent for the period presented and other information and statements presented in the the report as to the business affairs of the respondent are true, correct and complete for the period for which it represents.</p> |
| YES | NO | | | | |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | | |

Items Certified			
1.	2.	3.	4.

 (Signature of Chief Executive Officer of the utility) *

1.	2.	3.	4.
X	X	X	X


 (Signature of Chief Financial Officer of the utility) *

* Each of the four items must be certified YES or NO. Each item need not be certified by both officers. The items being certified by the officer should be indicated in the appropriate area to the left of the signature.

NOTICE: Section 837.06, Florida Statutes, provides that any person who knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his duty shall be guilty of a misdemeanor of the second degree.

YEAR OF REPORT 31-Dec-15

ANNUAL REPORT OF

KW Resort Utilities Corp County: **Monroe**
 (Exact Name of Utility)

List below the exact mailing address of the utility for which normal correspondence should be sent:

KW Resort Utilities Corp
6630 Front Street
Key West, Florida 33040

Telephone: (305) 295-3301

E Mail Address: Chris@kwru.com

WEB Site: www.kwru.com

Sunshine State One-Call of Florida, Inc. Member Number KW1229

Name and address of person to whom correspondence concerning this report should be addressed:

Christopher Johnson
6630 Front Street
Key West, FL 33040

Telephone: 305 295-3301

List below the address of where the utility's books and records are located:

KW Resort Utilities Corp
6630 Front Street
Key West, Florida 33040

Telephone: 305 295-3301

List below any groups auditing or reviewing the records and operations:

Jeffrey E. Allen, CPA

Date of original organization of the utility: 01/01/1972

Check the appropriate business entity of the utility as filed with the Internal Revenue Service

Individual Partnership Sub S Corporation 1120 Corporation

List below every corporation or person owning or holding directly or indirectly 5% or more of the voting securities of the utility:

	Name	Percent Ownership
1.	<u>William Smith Jr</u>	<u>70%</u>
2.	<u>Alexander Smith</u>	<u>10%</u>
3.	<u>Barton Smith</u>	<u>10%</u>
4.	<u>Leslie Johnson</u>	<u>10%</u>
5.	_____	_____
6.	_____	_____
7.	_____	_____
8.	_____	_____

YEAR OF REPORT
31-Dec-15

UTILITY NAME: KW Resort Utilities Corp

COMPANY PROFILE

Provide a brief narrative company profile which covers the following areas:

- A. Brief company history.
- B. Public services rendered.
- C. Major goals and objectives.
- D. Major operating divisions and functions.
Current and projected growth patterns.
- F. Major transactions having a material effect on operations.

- A. K W Resort Utilites Corporation was formed for the purpose of taking possession of a sewage treatment facility located on Stock Island, Florida from a trustee of the Court. Possession was taken on January 1, 1985. The Stock of the Utility was sold to WS Utility, Inc. August 13, 1998.
- B. K W Resort Utilities Corporation provides wastewater treatment services to the residential area of Stock Island, Florida in the immediate vicinity of the treatment plant.
- C. K W Resort Utilities Corporation's goal is to provide a fair return on investment to its stockholders while providing quality wastewater treatment services to its customers
- D. The Utility provides wastewater treatment services only
- E. KW Resort Utilities expects growth in the economy, the hospitality sector remains active and has been since 2011. The Utility is constucting a .350 MGD train to bring total treatment capacity to .849 MGD once complete. This expansion including the legal challenge to DEP Permit modification will cost \$5,300,000 to \$5,500,000.
- F. The expansion including the legal challenge to DEP Permit modification will cost \$5,300,000 to \$5,500,000. A \$400,000 to \$500,000 vacuum vessel replacement project will be completed in Fiscal 2016. These large projects require months of legal, survey, engineering, geotech, etc. and the expenses occur months/years before the date of completion. Major expense was incurred in 2015 for the Utility's large Capital Projects.

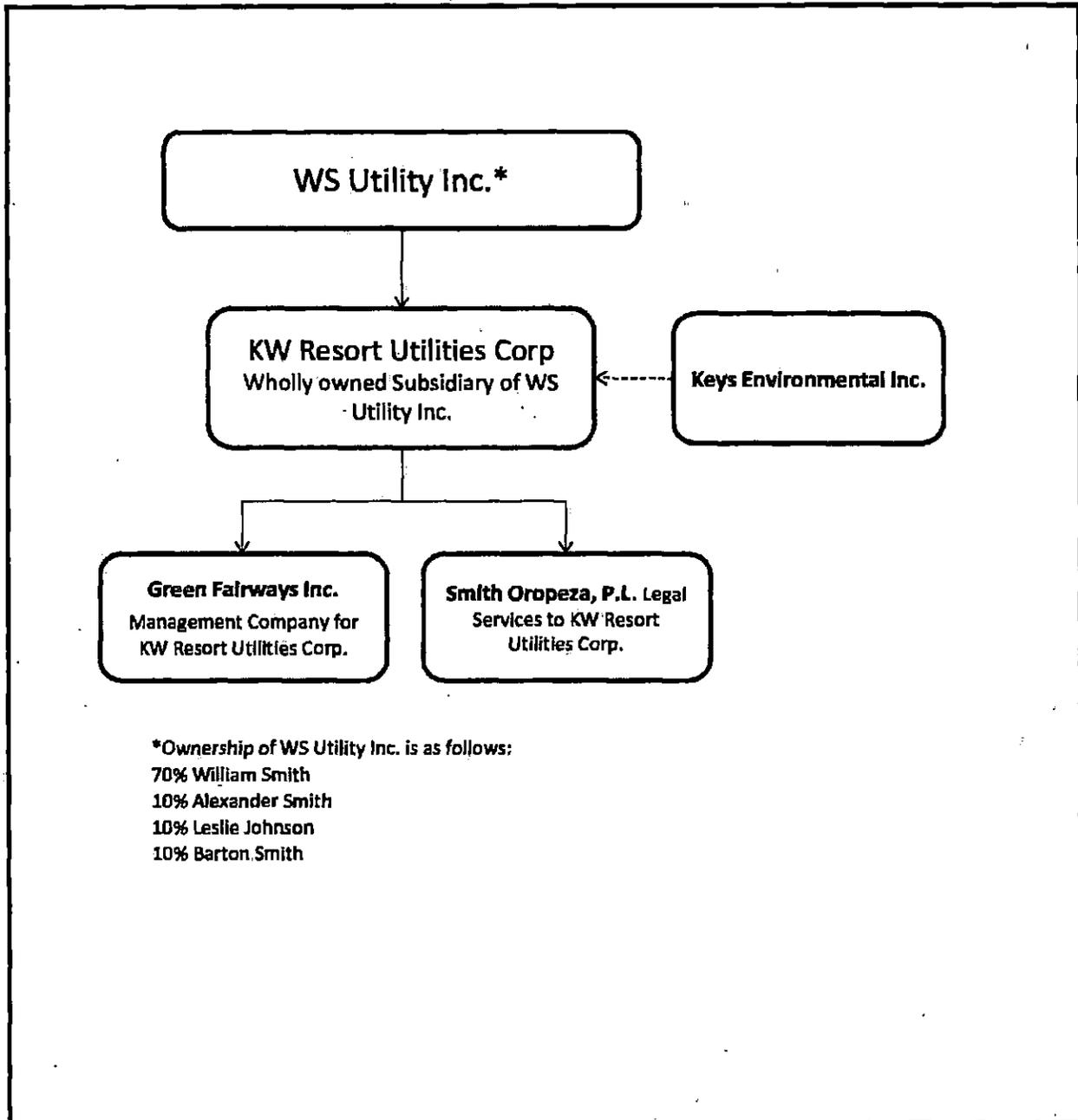
YEAR OF REPORT
31-Dec-15

UTILITY NAME: KW Resort Utilities Corp

PARENT / AFFILIATE ORGANIZATION CHART

Current as of 12/31/2015

Complete below an organizational chart that show all parents, subsidiaries and affiliates of the utility.
The chart must also show the relationship between the utility and affiliates listed on E-7, E-10(a) and E-10(b).



UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

COMPENSATION OF OFFICERS

For each officer, list the time spent on respondent as an officer compared to time spent on total business activities and the compensation received as an officer from the respondent.			
NAME (a)	TITLE (b)	% OF TIME SPENT AS OFFICER OF THE UTILITY (c)	OFFICERS' COMPENSATION (d)
Christopher Johnson	President	100	\$147,456
Gwen Smith	Board Secretary	Annual Meeting as needed	0
Gregory Wright	Vice President	100	\$ 71,049

COMPENSATION OF DIRECTORS

For each director, list the number of director meetings attended by each director and the compensation received as a director from the respondent.			
NAME (a)	TITLE (b)	NUMBER OF DIRECTORS' MEETINGS ATTENDED (c)	DIRECTORS' COMPENSATION (d)
William L. Smith, Jr	Director, Chairman	1	\$500
Alexander Smith	Director	1	\$500
Barton W. Smith	Director	1	\$500
Gwenn Smith	Board Secretary	As needed	\$0

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

AFFILIATION OF OFFICERS AND DIRECTORS

For each of the officials listed on page E-6, list the principle occupation or business affiliations or connections with any other business or financial organizations, firms, or partnerships. For purposes of this part, an official will be considered to have an affiliation with any business or financial organization, firm or partnership in which he is an officer, director, trustee, partner, or a person exercising similar functions.

NAME (a)	PRINCIPLE OCCUPATION OR BUSINESS AFFILIATION (b)	AFFILIATION OR CONNECTION (c)	NAME AND ADDRESS OF AFFILIATION OR CONNECTION (d)
William L. Smith, Jr.	President	WS Utility, Inc.	10 South Lasalle Street Suite 2660 Chicago, IL 60603
	President	Green Fairways Inc.	10 South Lasalle Street Suite 2660 Chicago, IL 60603
	Partner	Smith Hemmesch Burke & Kaczynski	10 South Lasalle Street Suite 2660 Chicago, IL 60603
	Member	Benicia Partners LLC	10 South Lasalle Street Suite 2660 Chicago, IL 60603
	Manager	Courtland Court LLC	10 South Lasalle Street Suite 2660 Chicago, IL 60603
	Manager	Smith & Smith	10 South Lasalle Street Suite 2660 Chicago, IL 60603
	Member	Antioch Golf LLC	2280 White Oak Circle Ste 100 Aurora, IL 60502
	Member	Rail Golf LLC	10 South Lasalle Street Suite 2660 Chicago, IL 60603
	Member	Dear Creek Golf LLC	25055 S. Western Ave. University Park, IL 60484
	Managing Member	Gulf County Land LLC	10 South Lasalle Street Suite 2660 Chicago, IL 60603
Barton Smith	Manager	900 Commerce LLC	10 South Lasalle Street Suite 2660 Chicago, IL 60603
	Manager	Smith Oropeza FL	138-142 Simonton St. Key West, FL 33030
	Managing Member	Sunset Marina LLC	5555 College Road Key West, FL 33040
	Owner	Stock Island Holdings, LLC	5555 College Road Key West, FL 33040
	Member	Mobile Home Holdings Suncrest, LLC	5555 College Road Key West, FL 33040
	Member	Mobile Home Holdings Coco, LLC	5555 College Road Key West, FL 33040
	Member	Mobile Homes Holdings, LLC	5555 College Road Key West, FL 33040
	Member	Pelagic Property Management, LLC	5555 College Road Key West, FL 33040
Christopher Johnson	President	Keys Environmental Inc.	1212 Von Phister St. Key West FL 33040
	Managing Member	Johnson Constructors LLC	1212 Von Phister St. Key West FL 33040
	Trustee (Chairman)	Key West Rotary Club Foundation Inc.	819 Peacock Plaza #822 Key West, FL 33040
Alexander Smith	Manager	ACS 216 Harbor Place LLC	107 Front Street 216 Key West, FL 33040
	Member	Mobile Home Holdings Coco, LLC	5555 College Road Key West, FL 33040
	Member	Mobile Homes Holdings, LLC	5555 College Road Key West, FL 33040
	Member	RLAPB, LLC	393 ADDISON ROAD RIVERSIDE, IL 605460000
	Member	Stock Island Holdings, LLC	5555 College Road Key West, FL 33040
	Member	Mobile Home Holdings Suncrest, LLC	5555 College Road Key West, FL 33040

FINANCIAL SECTION

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

**COMPARATIVE BALANCE SHEET
ASSETS AND OTHER DEBITS**

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	PREVIOUS YEAR (d)	CURRENT YEAR (e)
UTILITY PLANT				
101-106	Utility Plant	F-7	\$ 12,505,981	\$ 13,191,652
	Less: Accumulated Depreciation and Amortization	F-8	(6,055,721)	(6,486,118)
Net Plant			\$ 6,450,260	\$ 6,705,534
114-115	Utility Plant Acquisition adjustment (Net)	F-7	-	-
116 *	Other Utility Plant Adjustments		-	-
Total Net Utility Plant			\$ 6,450,260	\$ 6,705,534
OTHER PROPERTY AND INVESTMENTS				
121	Nonutility Property	F-9	\$ -	\$ -
122	Less: Accumulated Depreciation and Amortization		-	-
Net Nonutility Property			\$ -	\$ -
123	Investment In Associated Companies	F-10	-	-
124	Utility Investments	F-10	-	-
125	Other Investments	F-10	-	-
126-127	Special Funds	F-10	-	-
Total Other Property & Investments			\$ -	\$ -
CURRENT AND ACCRUED ASSETS				
131	Cash		\$ 818,918	\$ 157,269
132	Special Deposits	F-9		204,268
133	Other Special Deposits	F-9		-
134	Working Funds			-
135	Temporary Cash Investments			-
141-144	Accounts and Notes Receivable, Less Accumulated Provision for Uncollectible Accounts	F-11	87,289	118,889
145	Accounts Receivable from Associated Companies	F-12		
146	Notes Receivable from Associated Companies	F-12		
151-153	Material and Supplies			
161	Stores Expense			
162	Prepayments		21,094	22,912
171	Accrued Interest and Dividends Receivable			
172 *	Rents Receivable			
173 *	Accrued Utility Revenues			
174	Misc. Current and Accrued Assets	F-12	13,125	15,458
Total Current and Accrued Assets			\$ 940,425	\$ 518,796

* Not Applicable for Class B Utilities

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

**COMPARATIVE BALANCE SHEET
 ASSETS AND OTHER DEBITS**

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	PREVIOUS YEAR (d)	CURRENT YEAR (e)
DEFERRED DEBITS				
181	Unamortized Debt Discount & Expense	F-13	\$ -	\$ -
	Extraordinary Property Losses	F-13		
183	Preliminary Survey & Investigation Charges		32,590	43,431
184	Clearing Accounts		-	
185 *	Temporary Facilities		-	
186	Misc. Deferred Debits	F-14	92,745	243,070
187 *	Research & Development Expenditures			
190	Accumulated Deferred Income Taxes		-	
Total Deferred Debits			\$ 125,335	\$ 286,501
TOTAL ASSETS AND OTHER DEBITS			\$ 7,516,020	\$ 7,510,831

* Not Applicable for Class B Utilities

NOTES TO THE BALANCE SHEET

The space below is provided for important notes regarding the balance sheet.

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT
31-Dec-15

**COMPARATIVE BALANCE SHEET
 EQUITY CAPITAL AND LIABILITIES**

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	PREVIOUS YEAR (d)	CURRENT YEAR (e)
EQUITY CAPITAL				
201	Common Stock Issued	F-15	\$ 1,000	1,000
	Preferred Stock Issued	F-15		
202, 205 *	Capital Stock Subscribed			
203, 206 *	Capital Stock Liability for Conversion			
207 *	Premium on Capital Stock			
209 *	Reduction in Par or Stated Value of Capital Stock			
210 *	Gain on Resale or Cancellation of Reacquired Capital Stock			
211	Other Paid - In Capital		258,302	258,302
212	Discount On Capital Stock			
213	Capital Stock Expense			
214-215	Retained Earnings	F-16	(1,040,799)	(1,060,134)
216	Reacquired Capital Stock			
218	Proprietary Capital (Proprietorship and Partnership Only)		-	-
Total Equity Capital			\$ (781,497)	\$ (800,832)
LONG TERM DEBT				
221	Bonds	F-15	-	-
222 *	Reacquired Bonds		-	-
223	Advances from Associated Companies	F-17		
224	Other Long Term Debt	F-17	373,571	328,316
Total Long Term Debt			\$ 373,571	328,316
CURRENT AND ACCRUED LIABILITIES				
231	Accounts Payable		44,945	147,651
232	Notes Payable	F-18		
233	Accounts Payable to Associated Companies	F-18		
234	Notes Payable to Associated Companies	F-18	852,903	852,903
235	Customer Deposits		169,866	188,607
236	Accrued Taxes		36,672	37,774
237	Accrued Interest	F-19		
238	Accrued Dividends			
239	Matured Long Term Debt			
240	Matured Interest			
241	Miscellaneous Current & Accrued Liabilities	F-20	36,677	34,776
Total Current & Accrued Liabilities			\$ 1,141,063	1,261,711

* Not Applicable for Class B Utilities

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT
31-Dec-15

**COMPARATIVE BALANCE SHEET
 EQUITY CAPITAL AND LIABILITIES**

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	PREVIOUS YEAR (d)	CURRENT YEAR (e)
DEFERRED CREDITS				
251	Unamortized Premium On Debt	F-13	\$ -	\$ -
	Advances For Construction	F-20	-	-
253	Other Deferred Credits	F-21	-	-
255	Accumulated Deferred Investment Tax Credits		-	-
Total Deferred Credits			\$ -	\$ -
OPERATING RESERVES				
261	Property Insurance Reserve		\$ -	\$ -
262	Injuries & Damages Reserve		-	-
263	Pensions and Benefits Reserve		-	-
265	Miscellaneous Operating Reserves		-	-
Total Operating Reserves			\$ -	\$ -
CONTRIBUTIONS IN AID OF CONSTRUCTION				
271	Contributions in Aid of Construction	F-22	\$ 10,083,009	\$ 10,382,466
272	Accumulated Amortization of Contributions in Aid of Construction	F-22	(3,300,127)	(3,660,830)
Total Net C.I.A.C.			\$ 6,782,882	\$ 6,721,636
ACCUMULATED DEFERRED INCOME TAXES				
281	Accumulated Deferred Income Taxes - Accelerated Depreciation		\$ -	\$ -
282	Accumulated Deferred Income Taxes - Liberalized Depreciation		-	-
283	Accumulated Deferred Income Taxes - Other		-	-
Total Accumulated Deferred Income Tax.			\$ -	\$ -
TOTAL EQUITY CAPITAL AND LIABILITIES			\$ 7,516,020	\$ 7,510,831

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

COMPARATIVE OPERATING STATEMENT

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	PREVIOUS YEAR (d)	CURRENT YEAR * (e)
UTILITY OPERATING INCOME				
	Operating Revenues	F-3(b)	\$ 1,479,307	\$ 1,659,247
469, 530	Less: Guaranteed Revenue and AFPI	F-3(b)		
Net Operating Revenues			\$ 1,479,307	\$ 1,659,247
401	Operating Expenses	F-3(b)	\$ 1,199,672	\$ 1,402,438
403	Depreciation Expense:	F-3(b)	\$ 446,717	\$ 430,397
	Less: Amortization of CIAC	F-22	(350,721)	(360,703)
Net Depreciation Expense			\$ 95,996	\$ 69,694
406	Amortization of Utility Plant Acquisition Adjustment	F-3(b)	-	-
407	Amortization Expense (Other than CIAC)	F-3(b)	-	-
408	Taxes Other Than Income	W/S-3	132,607	141,366
409	Current Income Taxes	W/S-3	-	-
410.10	Deferred Federal Income Taxes	W/S-3	-	-
410.11	Deferred State Income Taxes	W/S-3	-	-
411.10	Provision for Deferred Income Taxes - Credit	W/S-3	-	-
412.10	Investment Tax Credits Deferred to Future Periods	W/S-3	-	-
412.11	Investment Tax Credits Restored to Operating Income	W/S-3	-	-
Utility Operating Expenses			\$ 1,428,275	\$ 1,613,498
Net Utility Operating Income			\$ 51,032	\$ 45,749
469, 530	Add Back: Guaranteed Revenue and AFPI	F-3(b)	-	-
413	Income From Utility Plant Leased to Others		-	-
414	Gains (losses) From Disposition of Utility Property		-	-
420	Allowance for Funds Used During Construction		-	-
Total Utility Operating Income [Enter here and on Page F-3(c)]			\$ 51,032	\$ 45,749

* For each account, Column e should agree with Columns f, g and h on F-3(b)

COMPARATIVE OPERATING STATEMENT (Cont'd)

WATER SCHEDULE W-3 * (f)	WASTEWATER SCHEDULE S-3 * (g)	OTHER THAN REPORTING SYSTEMS (h)
\$ _____	\$ 1,659,247	\$ -
\$ _____	\$ 1,659,247	\$ -
\$ _____	\$ 1,402,438	\$ -
_____	430,397 (360,703)	-
\$ _____	\$ 69,694	\$ -
_____	-	-
_____	-	-
_____	141,366	-
_____	-	-
_____	-	-
_____	-	-
_____	-	-
_____	-	-
\$ _____	\$ 1,613,498	\$ -
\$ _____	\$ 45,749	\$ -
_____	-	-
_____	-	-
_____	-	-
_____	-	-
\$ _____	\$ 45,749	\$ -

* Total of Schedules W-3 / S-3 for all rate groups.

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

COMPARATIVE OPERATING STATEMENT (Cont'd)

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	PREVIOUS YEAR (d)	CURRENT YEAR (e)
Total Utility Operating Income [from page F-3(a)]			\$ 51,032	\$ 45,749
OTHER INCOME AND DEDUCTIONS				
415	Revenues-Merchandising, Jobbing, and Contract Deductions		\$ -	\$ -
416	Costs & Expenses of Merchandising Jobbing, and Contract Work		-	-
419	Interest and Dividend Income		88,845	-
421	Nonutility Income		39,050	1,199
426	Miscellaneous Nonutility Expenses		22,779	-
Total Other Income and Deductions			\$ 150,674	\$ 1,199
TAXES APPLICABLE TO OTHER INCOME				
408.2	Taxes Other Than Income		\$ -	\$ -
409.2	Income Taxes		-	-
410.2	Provision for Deferred Income Taxes		-	-
411.2	Provision for Deferred Income Taxes - Credit		-	-
412.2	Investment Tax Credits - Net		-	-
412.3	Investment Tax Credits Restored to Operating Income		-	-
Total Taxes Applicable To Other Income			\$ -	\$ -
INTEREST EXPENSE				
427	Interest Expense	F-19	\$ 67,500	\$ 66,283
428	Amortization of Debt Discount & Expense	F-13	-	-
429	Amortization of Premium on Debt	F-13	-	-
Total Interest Expense			\$ 67,500	\$ 66,283
EXTRAORDINARY ITEMS				
433	Extraordinary Income		\$ -	\$ -
434	Extraordinary Deductions		-	-
409.3	Income Taxes, Extraordinary Items		-	-
Total Extraordinary Items			\$ -	\$ -
NET INCOME			<u>\$ 134,206</u>	<u>\$ (19,335)</u>

Explain Extraordinary Income:

NONE

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

SCHEDULE OF YEAR END RATE BASE

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	WATER UTILITY (d)	WASTEWATER UTILITY (e)
	Utility Plant In Service	F-7	\$	\$ 13,191,652
	Less:			
	Nonused and Useful Plant (1)			
108	Accumulated Depreciation	F-8	-	(6,486,118)
110	Accumulated Amortization	F-8	-	-
271	Contributions In Aid of Construction	F-22	-	(10,382,466)
252	Advances for Construction	F-20	-	-
Subtotal			\$	\$ (3,676,932)
272	Add: Accumulated Amortization of Contributions in Aid of Construction	F-22	-	3,660,830
Subtotal			\$	\$ (16,102)
	Plus or Minus:			
114	Acquisition Adjustments (2)	F-7	-	-
115	Accumulated Amortization of Acquisition Adjustments (2)	F-7	-	-
	Working Capital Allowance (3)			298,595
	Other (Specify):			
RATE BASE			\$	\$ 282,493
NET UTILITY OPERATING INCOME			\$	\$ 45,749
ACHIEVED RATE OF RETURN (Operating Income / Rate Base) (4)				16.19%

NOTES :

- (1) Estimate based on the methodology used in the last rate proceeding.
- (2) Include only those Acquisition Adjustments that have been approved by the Commission.
- (3) Calculation consistent with last rate proceeding.
 In absence of a rate proceeding, Class A utilities will use the Balance Sheet Method and Class B Utilities will use the One-eighth Operating and Maintenance Expense Method.
- (4) ROR after interest expense is -7.27%.

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

**SCHEDULE OF CURRENT COST OF CAPITAL
 CONSISTENT WITH THE METHODOLOGY USED IN THE LAST RATE PROCEEDING (1)**

CLASS OF CAPITAL (a)	DOLLAR AMOUNT (2) (b)	PERCENTAGE OF CAPITAL (c)	ACTUAL COST RATES (3) (d)	WEIGHTED COST (c x d) (e)
Common Equity	\$ _____	_____	_____	_____
Preferred Stock	_____	_____	_____	_____
Long Term Debt	328,316	23.97%	7.36%	1.76%
Short Term Debt	_____	_____	_____	_____
Customer Deposits	188,607	23.97%	6.00%	1.44%
Tax Credits - Zero Cost	_____	_____	_____	_____
Tax Credits - Weighted Cost	_____	_____	_____	_____
Deferred Income Taxes	_____	_____	_____	_____
Other - Note Payable- Assoc Company	852,903	62.26%	6.50%	4.05%
Total	\$ 1,369,826	100.00%		7.25%

1 If the utility's capital structure is not used, explain which capital structure is used.

2 Should equal amounts on Schedule F-6, Column (g).

3 Mid-point of the last authorized Return On Equity or current leverage formula if none has been established.

Must be calculated using the same methodology used in the last rate proceeding using current annual report year end amounts and cost rates.

APPROVED RETURN ON EQUITY

Current Commission Return on Equity:	<u>12.67%</u>
Commission order approving Return on Equity:	<u>Docket No. 070293-SU</u>

APPROVED AFUDC RATE

COMPLETION ONLY REQUIRED IF AFUDC WAS CHARGED DURING YEAR

Current Commission Approved AFUDC rate:	<u>None</u>
Commission order approving AFUDC rate:	_____

If any utility capitalized any charge in lieu of AFUDC (such as interest only), state the basis of the charge, an explanation as to why AFUDC was not charged and the percentage capitalized.

YEAR OF REPORT
31-Dec-15

UTILITY NAME:

KW Resort Utilities Corp

**SCHEDULE OF CAPITAL STRUCTURE ADJUSTMENTS
 CONSISTENT WITH THE METHODOLOGY USED IN THE LAST RATE PROCEEDING**

CLASS OF CAPITAL (a)	PER BOOK BALANCE (b)	NON-UTILITY ADJUSTMENTS (c)	NON-JURISDICTIONAL ADJUSTMENTS (d)	OTHER (1) ADJUSTMENTS SPECIFIC (e)	OTHER (1) ADJUSTMENTS PRO RATA (f)	CAPITAL STRUCTURE (g)
Common Equity	\$ (800,832)	\$		800,832	\$	\$ -
Preferred Stock						
Long Term Debt	328,316					328,316
Short Term Debt						
Customer Deposits	188,607					188,607
Tax Credits - Zero Cost						
Tax Credits - Weighted Cost						
Deferred Inc. Taxes						
Other - Notes Payable Assoc. Co	852,903					852,903
Total	\$ 568,994	\$		800,832	\$ -	\$ 1,369,826

(1) Explain below all adjustments made in Columns (e) and (f):

Adjustment to eliminate negative equity

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT
31-Dec-15

**UTILITY PLANT
 ACCOUNTS 101 - 106**

ACCT. (a)	DESCRIPTION (b)	WATER (c)	WASTEWATER (d)	OTHER THAN REPORTING SYSTEMS (e)	TOTAL (f)
101	Plant Accounts: Utility Plant In Service	\$ _____	\$ 13,191,652	\$ _____	\$ 13,191,652
102	Utility Plant Leased to Other	_____	_____	_____	-
103	Property Held for Future Use	_____	_____	_____	-
104	Utility Plant Purchased or Sold	_____	_____	_____	-
105	Construction Work in Progress	_____	_____	_____	-
106	Completed Construction Not Classified	_____	_____	_____	-
	Total Utility Plant	\$ _____	\$ 13,191,652	\$ -	\$ 13,191,652

**UTILITY PLANT ACQUISITION ADJUSTMENTS
 ACCOUNTS 114 AND 115**

Report each acquisition adjustment and related accumulated amortization separately.
 For any acquisition adjustments approved by the Commission, include the Order Number.

ACCT. (a)	DESCRIPTION (b)	WATER (c)	WASTEWATER (d)	OTHER THAN REPORTING SYSTEMS (e)	TOTAL (f)
114	Acquisition Adjustment	\$ _____	N/A	_____	_____
		_____	_____	_____	_____
		_____	_____	_____	_____
	Total Plant Acquisition Adjustments	\$ -	\$ -	\$ -	\$ -
115	Beginning Bal	\$ _____	\$ _____	\$ _____	\$ -
	Accumulated Amortization	_____	_____	_____	_____
		_____	_____	_____	_____
		_____	_____	_____	_____
	Total Accumulated Amortization	\$ -	\$ -	\$ -	\$ -
	Net Acquisition Adjustments	\$ -	\$ -	\$ -	\$ -

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

ACCUMULATED DEPRECIATION (ACCT. 108) AND AMORTIZATION (ACCT. 110)

DESCRIPTION (a)	WATER (b)	WASTEWATER (c)	OTHER THAN REPORTING SYSTEMS (d)	TOTAL (e)
ACCUMULATED DEPRECIATION				
Account 108				
Balance first of year	\$	\$ 6,055,721	\$ -	\$ 6,055,721
Credit during year:				
Accruals charged to:				
Account 108.1 (1)	\$	\$ 430,397	\$	\$ 430,397
Account 108.2 (2)	-	-	-	-
Account 108.3 (2)	-	-	-	-
Other Accounts (specify):	-	-	-	-
Restate Accumulated Depreciation	-	-	-	-
Salvage	-	-	-	-
Other Credits (Specify):	-	-	-	-
Total Credits	\$ -	\$ 430,397	\$ -	\$ 430,397
Debits during year:				
Book cost of plant retired	-	-	-	-
Cost of Removal	-	-	-	-
Other Debits (specify):	-	-	-	-
Total Debits	\$ -	\$ -	\$ -	\$ -
Balance end of year	\$ -	\$ 6,486,118	\$ -	\$ 6,486,118
ACCUMULATED AMORTIZATION				
Account 110				
Balance first of year	\$			
Credit during year:				
Accruals charged to:				
Account 110.2 (2)	\$ -	\$ -	\$ -	\$ -
Other Accounts (specify):	-	-	-	-
Total credits	\$ -	\$ -	\$ -	\$ -
Debits during year:				
Book cost of plant retired	-	-	-	-
Other debits (specify):	-	-	-	-
Total Debits	\$ -	\$ -	\$ -	\$ -
Balance end of year	\$ -	\$ -	\$ -	\$ -

- 1 Account 108 for Class B utilities.
- 2 Not applicable for Class B utilities.
- 3 Account 110 for Class B utilities.

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

**REGULATORY COMMISSION EXPENSE
 AMORTIZATION OF RATE CASE EXPENSE (ACCOUNTS 666 AND 766)**

DESCRIPTION OF CASE (DOCKET NO.) (a)	EXPENSE INCURRED DURING YEAR (b)	CHARGED OFF DURING YEAR	
		ACCT. (d)	AMOUNT (e)
_____	\$ _____	_____	\$ _____
_____	_____	_____	_____
_____	_____	_____	_____
Total	\$ <u>0</u>	_____	\$ <u>0</u>

NONUTILITY PROPERTY (ACCOUNT 121)

Report separately each item of property with a book cost of \$25,000 or more included in Account 121.

Other Items may be grouped by classes of property.

DESCRIPTION (a)	BEGINNING YEAR (b)	ADDITIONS (c)	REDUCTIONS (d)	ENDING YEAR BALANCE (e)
NONE	\$ _____	\$ _____	\$ _____	\$ _____ -
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Total Nonutility Property	\$ _____	\$ _____	\$ _____	\$ _____ -

SPECIAL DEPOSITS (ACCOUNTS 132 AND 133)

Report hereunder all special deposits carried in Accounts 132 and 133.

DESCRIPTION OF SPECIAL DEPOSITS (a)	YEAR END BOOK COST (b)
SPECIAL DEPOSITS (Account 132): _____ _____	_____ _____
Total Special Deposits	\$ <u>-</u>
OTHER SPECIAL DEPOSITS (Account 133): NONE _____ _____	\$ _____ _____
Total Other Special Deposits	\$ <u>-</u>

YEAR OF REPORT 31-Dec-15

UTILITY NAME: KW Resort Utilities Corp

INVESTMENTS AND SPECIAL FUNDS
ACCOUNTS 123 - 127

Report hereunder all investments and special funds carried in Accounts 123 through 127.

DESCRIPTION OF SECURITY OR SPECIAL FUND (a)	FACE OR PAR VALUE (b)	YEAR END BOOK COST (c)
N/A	\$ _____	\$ _____
Total Investment in Associated Companies		\$ _____
UTILITY INVESTMENTS (Account 124):		
N/A	\$ _____	\$ _____
Total Utility Investment		\$ _____
OTHER INVESTMENTS (Account 125):		
N/A	\$ _____	\$ _____
Total Other Investment		\$ _____
SPECIAL FUNDS (Class A Utilities: Accounts 126 and 127; Class B Utilities: Account 127):		
N/A		\$ _____
Total Special Funds		\$ _____

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

ACCOUNTS AND NOTES RECEIVABLE - NET
ACCOUNTS 141 - 144

Report hereunder all accounts and notes receivable included in Accounts 141, 142, and 144. Amounts included in
 Amounts included in Accounts 142 and 144 should be listed individually.

DESCRIPTION (a)		TOTAL (b)
CUSTOMER ACCOUNTS RECEIVABLE (Account 141):		
Water	\$ _____	
Wastewater	_____ 103,077	
Other	_____	
Total Customer Accounts Receivable		\$ 103,077
OTHER ACCOUNTS RECEIVABLE (Account 142):		
Other Miscellaneous	\$ 15,126	
Escrow Deposits	4,187	
Due From Monroe County	5,999	
Total Other Accounts Receivable		\$ 25,312
NOTES RECEIVABLE (Account 144):		
Employee Loans/Advances	\$ 500	
Total Notes Receivable		\$ 500
Total Accounts and Notes Receivable		\$ 128,889
ACCUMULATED PROVISION FOR UNCOLLECTIBLE ACCOUNTS (Account 143)		
Balance first of year	\$ (10,000)	
Provision for uncollectibles for current year	\$ _____	
Collection of accounts previously written off	_____	
Utility Accounts	_____	
Others	_____	
Total Additions		\$ _____
Deduct accounts written off during year:		
Utility Accounts	_____	
Others	_____	
Total accounts written off		\$ -
Balance end of year		\$ (10,000)
TOTAL ACCOUNTS AND NOTES RECEIVABLE - NET		<u>\$ 118,889</u>

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES
ACCOUNT 145

Report each account receivable from associated companies separately.

DESCRIPTION (a)	TOTAL (b)
NONE	\$ _____

Total	\$ <u> 0</u>

NOTES RECEIVABLE FROM ASSOCIATED COMPANIES
ACCOUNT 146

Report each note receivable from associated companies separately.

DESCRIPTION (a)	INTEREST RATE (b)	TOTAL (c)
NONE	%	\$ _____
	%	_____
	%	_____
	%	_____
	%	_____
	%	_____
	%	_____
	%	_____
	%	_____
	%	_____
Total		\$ <u> -</u>

MISCELLANEOUS CURRENT AND ACCRUED ASSETS
ACCOUNT 174

DESCRIPTION - Provide itemized listing (a)	BALANCE END OF YEAR (b)
Utility deposits (Water and electric)	\$ 13,125

Total Miscellaneous Current and Accrued Assets	\$ <u> 13,125</u>

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

**UNAMORTIZED DEBT DISCOUNT AND EXPENSE AND PREMIUM ON DEBT
 ACCOUNTS 181 AND 251**

Report the net discount and expense or premium separately for each security issue.

DESCRIPTION (a)	AMOUNT WRITTEN OFF DURING YEAR (b)	YEAR END BALANCE (c)
UNAMORTIZED DEBT DISCOUNT AND EXPENSE (Account 181):	\$ _____	\$ _____
_____	_____	_____
_____	_____	_____
_____	_____	_____
Total Unamortized Debt Discount and Expense	\$ _____	\$ _____
UNAMORTIZED PREMIUM ON DEBT (Account 251):	\$ _____	\$ _____
N/A	_____	_____
_____	_____	_____
_____	_____	_____
Total Unamortized Premium on Debt	\$ _____	\$ _____

**EXTRAORDINARY PROPERTY LOSSES
 ACCOUNT 182**

Report each item separately.

DESCRIPTION (a)	TOTAL (b)
N/A	\$ _____
_____	_____
_____	_____
Total Extraordinary Property Losses	\$ _____

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

**MISCELLANEOUS DEFERRED DEBITS
 ACCOUNT 186**

DESCRIPTION - Provide Itemized listing (a)	AMOUNT WRITTEN OFF DURING YEAR (b)	YEAR END BALANCE (c)
DEFERRED RATE CASE EXPENSE (Class A Utilities: Account 186.1)		
Deferred Rate Case Expenses - 2014	\$ -	\$ 243,070
Total Deferred Rate Case Expense	\$ -	\$ 243,070
OTHER DEFERRED DEBITS (Class A Utilities: Account 186.2):		
None	\$ -	\$ -
Total Other Deferred Debits	\$ -	\$ -
REGULATORY ASSETS (Class A Utilities: Account. 186.3):		
None	\$ -	\$ -
Total Regulatory Assets	\$ -	\$ -
TOTAL MISCELLANEOUS DEFERRED DEBITS	\$ -	\$ 243,070

UTILITY NAME:

KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

**CAPITAL STOCK
 ACCOUNTS 201 AND 204***

DESCRIPTION (a)	RATE (b)	TOTAL (c)
COMMON STOCK		
Par or stated value per share	1.00	1.00
Shares authorized		1,000
Shares issued and outstanding		1,000
Total par value of stock issued		1,000
Dividends declared per share for year	None	None
REFERRED STOCK		
Par or stated value per share		
Shares authorized		
Shares issued and outstanding		
Total par value of stock issued		
Dividends declared per share for year	None	None

* Account 204 not applicable for Class B utilities.

**BONDS
 ACCOUNT 221**

DESCRIPTION OF OBLIGATION (INCLUDING DATE OF ISSUE AND DATE OF MATURITY) (a)	INTEREST		PRINCIPAL AMOUNT PER BALANCE SHEET (d)
	ANNUAL RATE (b)	FIXED OR VARIABLE * (c)	
N/A	%		\$ -
	%		
	%		
	%		
	%		
	%		
	%		
	%		
	%		
Total			\$ -

* For variable rate obligations, provide the basis for the rate. (i.e., prime + 2%, etc.)

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

STATEMENT OF RETAINED EARNINGS

- 1 Dividends should be shown for each class and series of capital stock. Show amounts as dividends per share.
- 2 Show separately the state and federal income tax effect of items shown in Account No. 439.

ACCT. NO. (a)	DESCRIPTION (b)	AMOUNTS (c)
215	Unappropriated Retained Earnings: Balance Beginning of Year	\$ (1,040,799)
439	Changes to Account: Adjustments to Retained Earnings (requires Commission approval prior to use): Credits: _____	\$ _____
	Total Credits:	\$ -
	Miscellaneous Prior Period Corrections	\$ _____
	Total Debits:	\$ -
435	Balance Transferred from Income {income/(loss)}	\$ (19,335)
436	Appropriations of Retained Earnings: _____	_____
	Total Appropriations of Retained Earnings	\$ -
437	Dividends Declared: Preferred Stock Dividends Declared _____	_____
438	Common Stock Dividends Declared _____	_____
	Total Dividends Declared	\$ -
215	Year end Balance	\$ (1,060,134)
214	Appropriated Retained Earnings (state balance and purpose of each appropriated amount at year end): _____	_____
214	Total Appropriated Retained Earnings	\$ _____
Total Retained Earnings		\$ \$ (1,060,134)
Notes to Statement of Retained Earnings:		

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

NOTES PAYABLE
ACCOUNTS 232 AND 234

DESCRIPTION OF OBLIGATION (INCLUDING DATE OF ISSUE AND DATE OF MATURITY) (a)	INTEREST		PRINCIPAL AMOUNT PER BALANCE SHEET (d)
	ANNUAL RATE (b)	FIXED OR VARIABLE * (c)	
NOTES PAYABLE (Account 232): NONE			\$
	%		
	%		
	%		
	%		
	%		
	%		
	%		
	%		
	%		
	%		
Total Account 232.			\$
NOTES PAYABLE TO ASSOC. COMPANIES (Account 234): WS Utilities	6.00 %	F	\$ 852,903
	%		
	%		
	%		
	%		
	%		
	%		
	%		
	%		
	%		
Total Account 234			\$ 852,903

* For variable rate obligations, provide the basis for the rate. (i.e., prime + 2%, etc.)

ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES
ACCOUNT 233

Report each account payable separately.

DESCRIPTION (a)	TOTAL (b)
N/A	\$
Total	\$

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

**ACCRUED INTEREST AND EXPENSE
 ACCOUNTS 237 AND 427**

DESCRIPTION OF DEBIT (a)	BALANCE BEGINNING OF YEAR (b)	INTEREST ACCRUED DURING YEAR		INTEREST PAID DURING YEAR (e)	BALANCE END OF YEAR (f)
		ACCT. DEBIT (c)	AMOUNT (d)		
ACCOUNT NO. 237.1 - Accrued Interest on Long Term Debt BB&T	\$ _____		\$ 14,314	\$ 14,314	\$ _____
			-		-
Total Account 237.1	\$ -		\$ 14,314	\$ 14,314	\$ -
ACCOUNT NO. 237.2 - Accrued Interest on Other Liabilities					
WS Utilities	\$ _____		\$ _____	\$ _____	\$ -
WLS Capital			51,174	51,174	-
Escrow Deposit Interest			795	795	-
Total Account 237.2	\$ -	\$ -	\$ 51,969	\$ 51,969	\$ -
Total Account 237 (1)	\$ -	\$ -	\$ 66,283	\$ 66,283	\$ -
INTEREST EXPENSED:					
Total accrual Account 237			\$ 66,283		
Net Interest Expensed to Account No. 427 (2)			\$ 66,283		

(1) Must agree to F-2 (a), Beginning and Ending Balance of Accrued Interest.

(2) Must agree to F-3 (c), Current Year Interest Expense

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

**MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES
 ACCOUNT 241**

DESCRIPTION - Provide itemized listing (a)	BALANCE END OF YEAR (b)
Deferred Income - Residential	\$ 28,841
CitiBusiness/Advantage	5,935
Total Miscellaneous Current and Accrued Liabilities	\$ <u>34,776</u>

**ADVANCES FOR CONSTRUCTION
 ACCOUNT 252**

NAME OF PAYOR * (a)	BALANCE BEGINNING OF YEAR (b)	DEBITS		CREDITS (e)	BALANCE END OF YEAR (f)
		ACCT. DEBIT (c)	AMOUNT (d)		
	\$ 0		\$	\$	\$ -
Total	\$		\$	\$	\$ -

* Report advances separately by reporting group, designating water or wastewater in column (a).

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

**OTHER DEFERRED CREDITS
 ACCOUNT 253**

DESCRIPTION - Provide itemized listing (a)	AMOUNT WRITTEN OFF DURING YEAR (b)	YEAR END BALANCE (c)
NONE	\$ _____	\$ _____ -
	\$ _____	\$ _____
	\$ _____	\$ _____
	\$ _____	\$ _____
Total Regulatory Liabilities	\$ _____	\$ _____ -
OTHER DEFERRED LIABILITIES (Class A Utilities: Account 253.2):	\$ _____	\$ _____ -
	\$ _____	\$ _____
	\$ _____	\$ _____
	\$ _____	\$ _____
	\$ _____	\$ _____
	\$ _____	\$ _____
	\$ _____	\$ _____
Total Other Deferred Liabilities	\$ _____	\$ _____ -
TOTAL OTHER DEFERRED CREDITS	\$ _____	\$ _____ -

YEAR OF REPORT 31-Dec-15

UTILITY NAME: KW Resort Utilities Corp

**CONTRIBUTIONS IN AID OF CONSTRUCTION
 ACCOUNT 271**

DESCRIPTION (a)	WATER (W-7) (b)	WASTEWATER (S-7) ** (c)	W & WW OTHER THAN SYSTEM REPORTING (d)	TOTAL (e)
Balance first of year	\$ N/A	\$ 10,083,009	\$ _____	\$ 10,083,009
Add credits during year:	\$ _____	\$ 310,187	\$ -	\$ 310,187
Less debit charged during the year	\$ _____	\$ (10,730)	\$ -	\$ (10,730)
Total Contribution In Aid of Construction	\$ _____	\$ 10,382,466	\$ -	\$ 10,382,466

**ACCUMULATED AMORTIZATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION
 ACCOUNT 272**

DESCRIPTION (a)	WATER (W-8(a)) (b)	WASTEWATER (S-8(a)) (c)	W & WW OTHER THAN SYSTEM REPORTING (d)	TOTAL (e)
Balance first of year	\$ N/A	\$ 3,300,127	\$ -	\$ 3,300,127
Debits during the year:	\$ _____	\$ 360,703	\$ -	\$ 360,703
Credits during the year	\$ _____	\$ -	\$ -	\$ -
Total Accumulated Amortization of Contributions In Aid of Construction	\$ _____	\$ 3,660,830	\$ -	\$ 3,660,830

WATER OPERATION SECTION

The Company is a wastewater service only, therefore this section has been omitted.

**WASTEWATER
OPERATION
SECTION**

YEAR OF REPORT 31-Dec-15

UTILITY NAME: KW Resort Utilities Corp

SYSTEM NAME / COUNTY : KW Resort Utilities / Monroe

SCHEDULE OF YEAR END WASTEWATER RATE BASE

ACCT. NO. (a)	ACCOUNT NAME (b)	REFERENCE PAGE (c)	WASTEWATER UTILITY (d)
101	Utility Plant In Service	S-4A	\$ 13,191,652
	Less:		
	Nonused and Useful Plant (1)		
108	Accumulated Depreciation	S-6B	6,486,118
110	Accumulated Amortization	F-8	-
271	Contributions In Aid of Construction	S-7	10,382,466
252	Advances for Construction	F-20	
Subtotal			\$ (3,676,932)
	Add:		
272	Accumulated Amortization of Contributions in Aid of Construction	S-8A	\$ 3,660,830
Subtotal			\$ (16,102)
	Plus or Minus:		
114	Acquisition Adjustments (2)	F-7	-
115	Accumulated Amortization of Acquisition Adjustments (2)	F-7	-
	Working Capital Allowance (3)		298,595
	Other (Specify):		-
WASTEWATER RATE BASE			\$ 282,493
WASTEWATER OPERATING INCOME		S-3	\$ 45,749
ACHIEVED RATE OF RETURN (Wastewater Operating Income / Wastewater Rate Base) (4)			16.19%

NOTES (1) Estimate based on the methodology used in the last rate proceeding.

(2) Include only those Acquisition Adjustments that have been approved by the Commission.

(3) Calculation consistent with last rate proceeding.

In absence of a rate proceeding, Class A utilities will use the Balance Sheet Method and Class B Utilities will use the One-eighth Operating and Maintenance Expense Method.

(4) ROR after interest expense is -7.27%.

UTILITY NAME: KW Resort Utilities Corp
 SYSTEM NAME / COUNTY : KW Resort Utilities / Monroe

YEAR OF REPORT 31-Dec-15

WASTEWATER OPERATING STATEMENT

ACCT. NO.	ACCOUNT NAME (b)	REFERENCE PAGE (c)	WASTEWATER UTILITY (d)
	UTILITY OPERATING INCOME		
400	Operating Revenues	S-9B	\$ 1,659,247
530	Less: Guaranteed Revenue (and AFPI)	S-9A	
	Net Operating Revenues		\$ 1,659,247
401	Operating Expenses	S-10A	\$ 1,402,438
403	Depreciation Expense	S-6A	430,397
	Less: Amortization of CIAC	S-8A	(360,703)
	Net Depreciation Expense		\$ 69,694
406	Amortization of Utility Plant Acquisition Adjustment	F-7	-
407	Amortization Expense (Other than CIAC)	F-8	-
	Taxes Other Than Income		
408.1	Utility Regulatory Assessment Fee		72,125
408.11	Property Taxes		14,267
408.12	Payroll Taxes		53,836
408.13	Other Taxes and Licenses		1,138
408	Total Taxes Other Than Income		\$ 141,366
409.1	Income Taxes		
410.1	Deferred Federal Income Taxes		
410.11	Deferred State Income Taxes		
411.1	Provision for Deferred Income Taxes - Credit		-
412.1	Investment Tax Credits Deferred to Future Periods		
412.11	Investment Tax Credits Restored to Operating Income		-
	Utility Operating Expenses		\$ 1,613,498
	Utility Operating Income		\$ 45,749
	Add Back:		
530	Guaranteed Revenue (and AFPI)	S-9A	\$ -
413	Income From Utility Plant Leased to Others		-
414	Gains (losses) From Disposition of Utility Property		
420	Allowance for Funds Used During Construction		
	Total Utility Operating Income		\$ 45,749

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

SYSTEM NAME / COUNTY : KW Resort Utilities / Monroe

WASTEWATER UTILITY PLANT ACCOUNTS

ACCT. NO. (a)	ACCOUNT NAME (b)	PREVIOUS YEAR (c)	ADDITIONS (d)	RETIREMENTS (e)	CURRENT YEAR (f)
351	Organization	\$			
352	Franchises *	92,864			92,864
353	Land and Land Rights	381,000			381,000
354	Structures and Improvements	673,398	620,619		1,294,017
355	Power Generation Equipment	208,358	9,286		217,644
360	Collection Sewers - Force	3,760,680	2,400		3,763,080
361	Collection Sewers - Gravity	1,203,239	2,862		1,206,101
362	Spccial Collecting Structures				
363	Services to Customers	97,440			97,440
364	Flow Measuring Devices				
365	Flow Measuring Installations	2,675			2,675
366	Reuse Services				
367	Reuse Meters and Meter Installations				
370	Receiving Wells	875,899	238		876,137
371	Pumping Equipment	332,703	6,242		338,945
374	Reuse Distribution Reservoirs				
375	Reuse Transmission and Distribution System	316,298			316,298
380	Treatment and Disposal Equipment	4,227,014	22,341		4,249,355
381	Plant Sewers	28,762			28,762
382	Outfall Sewer Lines				
389	Other Plant Miscellaneous Equipment	44,203			44,203
390	Office Furniture and Equipment	21,596	9,683		31,279
391	Transportation Equipment	98,559	12,000		110,559
392	Stores Equipment	1,862			1,862
393	Tools, Shop and Garage Equipment	29,393			29,393
394	Laboratory Equipment	21,191			21,191
395	Power Operated Equipment	88,847			88,847
396	Communication Equipment				
397	Miscellaneous Equipment				
398	Other Tangible Plant				
Total Wastewater Plant		\$ 12,505,981	\$ 685,671	\$ 0	\$ 13,191,652

NOTE: Any adjustments made to reclassify property from one account to another must be footnoted.

YEAR OF REPORT
31-Dec-15

UTILITY NAME: KW Resort Utilities Corp

SYSTEM NAME / COUNTY : KW Resort Utilities / Monroe

WASTEWATER UTILITY PLANT MATRIX

ACCT. NO.	ACCOUNT NAME (b)	.1	.2	.3	.4	.5	.6	.7
		INTANGIBLE PLANT (g)	COLLECTION PLANT (h)	SYSTEM PUMPING PLANT (i)	TREATMENT AND DISPOSAL (j)	RECLAIMED WASTEWATER TREATMENT PLANT (k)	RECLAIMED WASTEWATER DISTRIBUTION PLANT (l)	GENERAL PLANT (m)
351	Organization	\$ -	\$	\$	\$	\$	\$	\$
352	Franchises	92,864						
353	Land and Land Rights				381,000			
354	Structures and Improvements				1,294,017			
355	Power Generation Equipment				217,644			
360	Collection Sewers - Force		3,763,080					
361	Collection Sewers - Gravity		1,206,101					
362	Special Collecting Structures							
363	Services to Customers		97,440					
364	Flow Measuring Devices		2,675					
365	Flow Measuring Installations							
366	Reuse Services							
367	Reuse Meters and Meter Installations							
370	Receiving Wells			876,137				
371	Pumping Equipment			338,945				
374	Reuse Distribution Reservoirs							
375	Reuse Transmission and Distribution System						316,298	
380	Treatment and Disposal Equipment				4,249,355			
381	Plant Sewers				28,762			
382	Outfall Sewer Lines							
389	Other Plant Miscellaneous Equipment				44,203			
390	Office Furniture and Equipment							31,279
391	Transportation Equipment							110,559
392	Stores Equipment							1,862
393	Tools, Shop and Garage Equipment							29,393
394	Laboratory Equipment							21,191
395	Power Operated Equipment							88,847
396	Communication Equipment							
397	Miscellaneous Equipment							
398	Other Tangible Plant							
Total Wastewater Plant		\$ 92,864	\$ 5,069,296	\$ 1,215,082	\$ 6,214,981	\$ -	\$ 316,298	\$ 283,131

NOTE: Any adjustments made to reclassify property from one account to another must be footnoted.

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

SYSTEM NAME / COUNTY : KW Resort Utilities / Monroe

BASIS FOR WASTEWATER DEPRECIATION CHARGES

ACCT. NO. (a)	ACCOUNT NAME (b)	AVERAGE SERVICE LIFE IN YEARS (c)	AVERAGE NET SALVAGE IN PERCENT (d)	DEPRECIATION RATE APPLIED IN PERCENT (100% - d) / c (e)
351	Organization			
352	Franchises	40		2.50%
354	Structures and Improvements	30		3.33%
355	Power Generation Equipment	20		5.00%
360	Collection Sewers - Force	30		3.33%
361	Collection Sewers - Gravity	30		3.33%
362	Special Collecting Structures			
363	Services to Customers	38		2.63%
364	Flow Measuring Devices			
365	Flow Measuring Installations			
366	Reuse Services			
367	Reuse Meters and Meter Installations			
370	Receiving Wells	25		4.00%
371	Pumping Equipment	10		10.00%
375	Reuse Transmission and Distribution System	43		2.33%
380	Treatment and Disposal Equipment	30		3.33%
381	Plant Sewers	35		2.86%
382	Outfall Sewer Lines			
389	Other Plant Miscellaneous Equipment	10		10.00%
390	Office Furniture and Equipment	10 / 6		10% / 16.67%
391	Transportation Equipment	10		10.00%
392	Stores Equipment			
393	Tools, Shop and Garage Equipment	10		10.00%
394	Laboratory Equipment	15		6.67%
395	Power Operated Equipment	12		8.33%
396	Communication Equipment			
397	Miscellaneous Equipment			
398	Other Tangible Plant			
Wastewater Plant Composite Depreciation Rate *				

* If depreciation rates prescribed by this Commission are on a total composite basis, entries should be made on this line only.

UTILITY NAME: **KW Resort Utilities Corp**

YEAR OF REPORT
31-Dec-15

SYSTEM NAME / COUNTY : **KW Resort Utilities / Monroe**

ANALYSIS OF ENTRIES IN WASTEWATER ACCUMULATED DEPRECIATION

ACCT. NO. (a)	ACCOUNT NAME (b)	BALANCE AT BEGINNING OF YEAR (c)	ACCRUALS (d)	OTHER CREDITS ** (e)	TOTAL CREDITS (d + e) (f)
301	Organization	\$	\$		
302	Franchises	35,934	2,322		2,322
354	Structures and Improvements	292,129	43,352		43,352
355	Power Generation Equipment	61,976			-
360	Collection Sewers - Force	1,891,523	125,396		125,396
361	Collection Sewers - Gravity	383,262	27,714		27,714
362	Special Collecting Structures				
363	Services to Customers	17,667	2,564		2,564
364	Flow Measuring Devices	2,674			-
365	Flow Measuring Installations				
366	Reuse Services				
367	Reuse Meters and Meter Installations				
370	Receiving Wells	355,480	29,201		29,201
371	Pumping Equipment	244,011	9,509		9,509
375	Reuse Transmission and Distribution System	81,199	7,356		7,356
380	Treatment and Disposal Equipment	2,485,194	165,214		165,214
381	Plant Sewers	7,291	822		822
382	Outfall Sewer Lines				
389	Other Plant Miscellaneous Equipment	24,101			-
390	Office Furniture and Equipment	22,797	1,216		1,216
391	Transportation Equipment	48,939	6,974		6,974
392	Stores Equipment	671	103		103
393	Tools, Shop and Garage Equipment	25,214	1,758		1,758
394	Laboratory Equipment	10,523	1,413		1,413
395	Power Operated Equipment	65,136	5,483		5,483
396	Communication Equipment				
397	Miscellaneous Equipment				
398	Other Tangible Plant				
Total Depreciable Wastewater Plant in Service		\$ 6,055,721	\$ 430,397	\$ -	\$ 430,397

Use () to denote reversal entries.
 Beginning Balances Restated

YEAR OF REPORT 31-Dec-15

UTILITY NAME: KW Resort Utilities Corp

SYSTEM NAME / COUNTY : KW Resort Utilities / Monroe

ANALYSIS OF ENTRIES IN WASTEWATER ACCUMULATED DEPRECIATION

ACCT. NO. (a)	ACCOUNT NAME (b)	PLANT RETIRED (g)	SALVAGE AND INSURANCE (h)	COST OF REMOVAL AND OTHER CHARGES (i)	TOTAL CHARGES (g-h+i) (j)	BALANCE AT END OF YEAR (c+f-j) (k)
	Organization	\$				
302	Franchises				-	38,256
354	Structures and Improvements					335,481
355	Power Generation Equipment					61,976
360	Collection Sewers - Force					2,016,919
361	Collection Sewers - Gravity					410,976
362	Special Collecting Structures					
363	Services to Customers					20,231
364	Flow Measuring Devices					2,674
365	Flow Measuring Installations					
366	Reuse Services					
367	Reuse Meters and Meter Installations					
370	Receiving Wells					384,681
371	Pumping Equipment					253,520
375	Reuse Transmission and Distribution System					88,555
380	Treatment and Disposal Equipment					2,650,408
381	Plant Sewers					8,113
382	Outfall Sewer Lines					
389	Other Plant Miscellaneous Equipment					24,101
390	Office Furniture and Equipment					24,013
391	Transportation Equipment					55,913
392	Stores Equipment					774
393	Tools, Shop and Garage Equipment					26,972
394	Laboratory Equipment					11,936
395	Power Operated Equipment					70,619
396	Communication Equipment					
397	Miscellaneous Equipment					
398	Other Tangible Plant					
Total Depreciable Wastewater Plant in Service		\$	\$	\$	\$	\$ 6,486,118

* Specify nature of transaction.
 Use () to denote reversal entries.

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT
31-Dec-15

SYSTEM NAME / COUNTY : KW Resort Utilities / Monroe

WASTEWATER CIAC SCHEDULE "A"

ADDITIONS TO CONTRIBUTIONS IN AID OF CONSTRUCTION RECEIVED FROM CAPACITY,
 MAIN EXTENSION AND CUSTOMER CONNECTION CHARGES RECEIVED DURING THE YEAR

DESCRIPTION OF CHARGE	NUMBER OF CONNECTIONS (b)	CHARGE PER CONNECTION (c)	AMOUNT (d)
Islander Estates: 1,2,5,6,9,10,11,13,15,21	10	1,800.00	18,000
El Mocho	2.88	2,700.00	7,776
Bama I	4.10	2,700.00	11,070
Oceanside Investors	24.85	2,700.00	67,104
Stock Island Marina Phase II	24.03	2,700.00	64,872
Islander Village	24	1,636.18	39,269
5570 Third Ave (Wells Fargo)	9.587	2,700.00	25,885
Key West Transportation (City of KW)	3.95	2,700.00	10,674
Florida Keys Linen Co LLC			14,539
Florida Keys Linen Co LLC			14,539
Florida Keys Linen Co LLC			14,539
Florida Keys Linen Co LLC			14,539
Sunset Marina Docks			7,380
Total Credits			\$ 310,187

ACCUMULATED AMORTIZATION OF WASTEWATER CONTRIBUTIONS IN AID OF CONSTRUCTION

DESCRIPTION (a)	WASTEWATER (b)
Balance first of year	\$ 3,300,127
Debits during the year:	
Accruals charged to Account 272	\$ 360,703
Other debits (specify):	
Total debits	\$ 360,703
Total credits	\$ -
Balance end of year	\$ 3,660,830

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

SYSTEM NAME / COUNTY : KW Resort Utilities / Monroe

WASTEWATER OPERATING REVENUE

ACCT. NO.	DESCRIPTION (b)	BEGINNING YEAR NO. CUSTOMERS * (c)	YEAR END NUMBER OF CUSTOMERS * (d)	AMOUNTS (e)
WASTEWATER SALES				
Flat Rate Revenues:				
521.1	Residential Revenues			\$ _____
521.2	Commercial Revenues			_____
521.3	Industrial Revenues			_____
521.4	Revenues From Public Authorities			_____
521.5	Multiple Family Dwelling Revenues			_____
521.6	Other Revenues			_____
521	Total Flat Rate Revenues	-	-	\$ _____
Measured Revenues:				
522.1	Residential Revenues	1,548	1,644	630,455
522.2	Commercial Revenues	513	177	864,453
522.3	Industrial Revenues			_____
522.4	Revenues From Public Authorities			_____
522.5	Multiple Family Dwelling Revenues			_____
522	Total Measured Revenues	2,061	1,821	\$ 1,494,908
523	Revenues From Public Authorities			_____
524	Revenues From Other Systems			_____
525	Interdepartmental Revenues			_____
Total Wastewater Sales		<u>2,061</u>	<u>1,821</u>	\$ <u>1,494,908</u>
OTHER WASTEWATER REVENUES				
530	Guaranteed Revenues			\$ _____
531	Sale of Sludge			_____
532	Forfeited Discounts			_____
534	Rents From Wastewater Property			1,200
535	Interdepartmental Rents			_____
536	Other Wastewater Revenues (Including Allowance for Funds Prudently Invested or AFPI)			104,951
Total Other Wastewater Revenues				\$ 106,151

* Customer is defined by Rule 25-30.210(1), Florida Administrative Code.

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

SYSTEM NAME / COUNTY KW Resort Utilities / Monroe

WASTEWATER OPERATING REVENUE

ACCT. NO.	DESCRIPTION (b)	BEGINNING YEAR NO. CUSTOMERS * (c)	YEAR END NUMBER OF CUSTOMERS * (d)	AMOUNTS (e)
RECLAIMED WATER SALES				
Flat Rate Reuse Revenues:				
540.1	Residential Reuse Revenues			\$
540.2	Commercial Reuse Revenues			
540.3	Industrial Reuse Revenues			
540.4	Reuse Revenues From Public Authorities			
540.5	Other Revenues			
540	Total Flat Rate Reuse Revenues			\$ -
Measured Reuse Revenues:				
541.1	Residential Reuse Revenues			
541.2	Commercial Reuse Revenues	2	2	58,188
541.3	Industrial Reuse Revenues			
541.4	Reuse Revenues From Public Authorities			
541	Total Measured Reuse Revenues	2	2	\$ 58,188
544	Reuse Revenues From Other Systems			
Total Reclaimed Water Sales				\$ 58,188
Total Wastewater Operating Revenues				\$ 1,659,247

* Customer is defined by Rule 25-30.210(1), Florida Administrative Code.

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT
31-Dec-15

SYSTEM NAME / COUNTY : KW Resort Utilities / Monroe

WASTEWATER UTILITY EXPENSE ACCOUNT MATRIX

ACCT. NO. (a)	ACCOUNT NAME (b)	CURRENT YEAR (c)	.1 COLLECTION EXPENSES- OPERATIONS (d)	.2 COLLECTION EXPENSES- MAINTENANCE (e)	.3 PUMPING EXPENSES - OPERATIONS (f)	.4 PUMPING EXPENSES - MAINTENANCE (g)	.5 TREATMENT & DISPOSAL EXPENSES - OPERATIONS (h)	.6 TREATMENT & DISPOSAL EXPENSES - MAINTENANCE (i)
701	Salaries and Wages - Employees	\$ 427,879	\$					
703	Salaries and Wages - Officers, Directors and Majority Stockholders	218,505						
704	Employee Pensions and Benefits	112,902						
710	Purchased Sewage Treatment							
711	Sludge Removal Expense	36,777					36,777	
715	Purchased Power	145,781			15,697		130,084	
716	Fuel for Power Purchased							
718	Chemicals	89,146					89,146	
720	Materials and Supplies	27,506	14,444					
731	Contractual Services-Engineering	2,896						
732	Contractual Services - Accounting	31,650						
733	Contractual Services - Legal	7,461						
734	Contractual Services - Mgt. Fees	60,000						
735	Contractual Services - Testing	22,615					22,615	
736	Contractual Services - Other	74,367						
741	Rental of Building/Real Property	100						
742	Rental of Equipment	528						
750	Transportation Expenses	25,972						
756	Insurance - Vehicle							
757	Insurance - General Liability	41,178						
758	Insurance - Workman's Comp.	22,355						
759	Insurance - Other							
760	Advertising Expense	631						
766	Regulatory Commission Expenses - Amortization of Rate Case Expense							
767	Regulatory Commission Exp.-Other							
770	Bad Debt Expense							
775	Miscellaneous Expenses	54,189						
Total Wastewater Utility Expenses		\$ 1,402,438	\$ 14,444	\$ -	\$ 15,697	\$ -	\$ 278,622	\$ -

YEAR OF REPORT
31-Dec-15

UTILITY NAME: KW Resort Utilities Corp

SYSTEM NAME / COUNTY : KW Resort Utilities / Monroe

WASTEWATER UTILITY EXPENSE ACCOUNT MATRIX

ACCT. NO. (a)	ACCOUNT NAME (b)	.7 CUSTOMER ACCOUNTS EXPENSE (j)	.8 ADMIN. & GENERAL EXPENSES (k)	.9 RECLAIMED WATER TREATMENT EXPENSES-OPERATIONS (l)	.10 RECLAIMED WATER TREATMENT EXPENSES-MAINTENANCE (m)	.11 RECLAIMED WATER DISTRIBUTION EXPENSES-OPERATIONS (n)	.12 RECLAIMED WATER DISTRIBUTION EXPENSES-MAINTENANCE (o)
701	Salaries and Wages - Employees	\$	427,879	\$			
703	Salaries and Wages - Officers, Directors and Majority Stockholders		218,505				
704	Employee Pensions and Benefits		112,902				
710	Purchased Sewage Treatment						
711	Sludge Removal Expense						
715	Purchased Power						
716	Fuel for Power Purchased						
718	Chemicals						
720	Materials and Supplies		13,062				
731	Contractual Services-Engineering		2,896				
732	Contractual Services - Accounting		31,650				
733	Contractual Services - Legal		7,461				
734	Contractual Services - Mgt. Fees		60,000				
735	Contractual Services - Testing						
736	Contractual Services - Other		74,367				
741	Rental of Building/Real Property		100				
742	Rental of Equipment		528				
750	Transportation Expenses		25,972				
756	Insurance - Vehicle						
757	Insurance - General Liability		41,178				
758	Insurance - Workman's Comp.		22,355				
759	Insurance - Other						
760	Advertising Expense		631				
766	Regulatory Commission Expenses - Amortization of Rate Case Expense						
767	Regulatory Commission Exp.-Other						
770	Bad Debt Expense						
775	Miscellaneous Expenses		54,189				
Total Wastewater Utility Expenses		\$ -	\$ 1,093,675	\$ -	\$ -	\$ -	\$ -

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

SYSTEM NAME / COUNTY : KW Resort Utilities / Monroe

CALCULATION OF THE WASTEWATER SYSTEM METER EQUIVALENTS

METER SIZE (a)	TYPE OF METER (b)	EQUIVALENT FACTOR (c)	NUMBER OF METERS (d)	TOTAL NUMBER OF METER EQUIVALENTS (c x d) (e)
Residential 5/8"		1.0	1,644	1,644
5/8"	Displacement	1.0	147	147
3/4"	Displacement	1.5		0
1"	Displacement	2.5	10	25
1 1/2"	Displacement or Turbine	5.0	3	15
2"	Displacement, Compound or Turbine	8.0	10	80
3"	Displacement	15.0		0
3"	Compound	16.0		0
3"	Turbine	17.5		0
4"	Displacement or Compound	25.0	1	25
4"	Turbine	30.0		0
6"	Displacement or Compound	50.0	4	200
6"	Turbine	62.5		0
8"	Compound	80.0	1	80
8"	Turbine	90.0	1	90
10"	Compound	115.0		0
10"	Turbine	145.0		0
12"	Turbine	215.0		0
Total Wastewater System Meter Equivalents				2,306

CALCULATION OF THE WASTEWATER SYSTEM EQUIVALENT RESIDENTIAL CONNECTIONS

Provide a calculation used to determine the value of one wastewater equivalent residential connection (ERC).

Use one of the following methods:

(a) If actual flow data are available from the preceding 12 months, divide the total annual single family residence (SFR) gallons sold by the average number of single family residence customers for the same period and divide the result by 365 days.

(b) If no historical flow data are available, use:

$$ERC = (\text{Total SFR gallons treated (Omit 000)} / 365 \text{ days} / 280 \text{ gallons per day})$$

For wastewater only utilities:

Subtract all general use and other non residential customer gallons from the total gallons treated.

Divide the remainder (SFR customers) by 365 days to reveal single family residence customer gallons per day

NOTE: Total gallons treated includes both treated and purchased treatment.

ERC Calculation:	84,168,400 / avg SFR customers 1644 / 365 days =	140
	(total gallons treated)	

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

SYSTEM NAME / COUNTY KW Resort Utilities / Monroe

WASTEWATER TREATMENT PLANT INFORMATION

Provide a separate sheet for each wastewater treatment facility

Permitted Capacity	499,999		
Basis of Permit Capacity (1)	AADF		
Manufacturer	Davco/US Filter		
Type (2)	AWT		
Hydraulic Capacity	749,999		
Average Daily Flow	462,000		
Total Gallons of Wastewater Treated	168,529,000		
Method of Effluent Disposal	Golf Course/ Reuse		

(1) Basis of permitted capacity as stated on the Florida DEP WWTP Operating Permit (i.e. average annual daily flow, etc.)

(2) Contact stabilization, advanced treatment, etc.

UTILITY NAME: KW Resort Utilities Corp

YEAR OF REPORT 31-Dec-15

SYSTEM NAME / COUNTY KW Resort Utilities / Monroe

OTHER WASTEWATER SYSTEM INFORMATION

Furnish information below for each system. A separate page should be supplied where necessary.	
1. Present number of ERCs* now being served	<u>3,300.00</u> <u>AADE/140gal/ERC</u>
2. Maximum number of ERCs* which can be served	<u>3,564 at 100% Capacity</u>
3. Present system connection capacity (in ERCs*) using existing lines	<u>6,071</u> at <u>.850 MGD</u>
4. Future connection capacity (in ERCs*) upon service area buildout	<u>6,071</u>
5. Estimated annual increase in ERCs*	<u>231</u>
6. Describe any plans and estimated completion dates for any enlargements or improvements of this system <u>The utility is engaging in the construction of a WWTP expansion of .350MGD which will increase capacity to .849MGD when certified complete. Plant is scheduled to be on line in the First Quarter 2017.</u>	
7. If the utility uses reuse as a means of effluent disposal, attach a list of the reuse end users and the amount of reuse provided to each, if known. <u>Key West Golf Club: 36.192 MG; Monroe County Detention Center: 1.683 MG</u>	
8. If the utility does not engage in reuse, has a reuse feasibility study been completed? <u>N/A</u> If so, when? _____	
9. Has the utility been required by the DEP or water management district to implement reuse? <u>N/A</u> If so, what are the utility's plans to comply with this requirement? _____	
10. When did the company last file a capacity analysis report with the DEP? <u>April 2, 2012</u>	
11. If the present system does not meet the requirements of DEP rules:	
a. Attach a description of the plant upgrade necessary to meet the DEP rules.	
b. Have these plans been approved by DEP? <u>N/A</u>	
c. When will construction begin? _____	
d. Attach plans for funding the required upgrading.	
e. Is this system under any Consent Order with DEP? <u>No</u>	
12. Department of Environmental Protection ID # <u>FLA014951-258748</u>	

* An ERC is determined based on the calculation on S-11.

Reconciliation of Revenue to
 Regulatory Assessment Fee Revenue
 Wastewater Operations

YEAR OF REPORT 31-Dec-15

UTILITY NAME: KW Resort Utilities Corp

(A)	(B)	(C)	(D)
Accounts	Gross Wastewater Revenues per Sch S-9	Gross Wastewater Revenues per RAF Return	Difference (B)-(C)
Gross Revenues:			
Total Flat-Rate Revenues ⁽¹⁾	-	341,079	(341,079)
Total Measured Revenues	1,494,908	1,153,829	341,079
Revenues from Public Authorities			
Revenues from Other Systems			
Interdepartmental Revenues			
Total Other Wastewater Revenues ⁽²⁾	106,151	49,687	56,464
Reclaimed Water Sales	58,188	58,188	0
Total Wastewater Operating Revenue	1,659,247	1,602,783	56,464
Less: Expense for Purchased Wastewater from FPSC Regulated Utility			
Net Wastewater Operating Revenues	1,659,247	1,602,783	56,464
Reconciliation:			
⁽¹⁾ Utility income from residential base rate reported on RAF as Flat Rate Revenues.			
⁽²⁾ Utility Income misclassified as non-utility income in error and therefore not included on RAF.			
Instructions:			
For the current year, reconcile the gross wastewater revenues reported on Schedule F-3 with the gross wastewater revenues reported on the company's regulatory assessment fee return. Explain any differences reported in column (d).			

MORTGAGE

Wall Street Journal prime rate

By Bankrate.com

Updated 9/7/2016

Prime rate, federal funds rate, COFI

	This week	Month ago	Year ago
WSJ Prime Rate	3.50	3.50	3.25

What it means: The initials stand for The Wall Street Journal, which surveys large banks and publishes the consensus prime rate. The Journal surveys the 30 largest banks, and when three-quarters of them (23) change, the Journal changes its rate, effective on the day the Journal publishes the new rate. It's the most widely quoted measure of the prime rate, which is the rate at which banks will lend money to their most-favored customers. The prime rate will move up or down in lock step with changes by the Federal Reserve Board.

How it's used: The prime rate is an important index used by banks to set rates on many consumer loan products, such as credit cards or auto loans. If you see that the prime rate has gone up, your variable credit card rate will soon follow.

[Back to leading rates page.](#)

Read more: <http://www.bankrate.com/rates/interest-rates/wall-street-prime-rate.aspx#ixzz4JhFXx2NE>

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FLORIDA KEYS AQUEDUCT AUTHORITY SUMMARY OF WATER RATES, FEES & CHARGES

MONTHLY FEES & CHARGES

BASE FACILITY CHARGE 48-208.004

Meter Size	Effective 10/01/2015
5/8" x 3/4" Meter	\$ 13.90
1" Meter	34.74
1 1/2" Meter	69.48
2" Meter	111.16
3" Meter	208.42
4" Meter	344.85
6" Meter	696.05
8" Meter	1,111.52

CONSUMPTION CHARGE 48-208.004

Per Thousand Gallons, billed in 100 gallon increments

Meter Size	Block	Consumption Block	Effective 10/01/2015
5/8" x 3/4" Meter	1	0 - 6,000 gallons	\$5.84 ptg
	2	6,001 - 12,000 gallons	8.52 ptg
	3	12,001 - 30,000 gallons	9.56 ptg
	4	30,001 - 50,000 gallons	10.66 ptg
	5	Over 50,000 gallons	11.70 ptg
1" Meter	1	0 - 15,000 gallons	\$5.84ptg
	2	15,001 - 30,000 gallons	8.52 ptg
	3	30,001 - 75,000 gallons	9.56 ptg
	4	75,001 - 125,000 gallons	10.66 ptg
	5	Over 125,000 gallons	11.70 ptg
1 1/2" Meter	1	0 - 30,000 gallons	\$5.84 ptg
	2	30,001 - 60,000 gallons	8.52 ptg
	3	60,001 - 150,000 gallons	9.56 ptg
	4	150,001 - 250,000 gallons	10.66 ptg
	5	Over 250,000 gallons	11.70 ptg
2" Meter	1	0 - 48,000 gallons	\$5.84 ptg
	2	48,001 - 96,000 gallons	8.52 ptg
	3	96,001 - 240,000 gallons	9.56 ptg
	4	240,001 - 400,000 gallons	10.66 ptg
	5	Over 400,000 gallons	11.70 ptg

3" Meter	1	0 - 90,000 gallons	\$5.84 ptg
	2	90,001 - 180,000 gallons	8.52 ptg
	3	180,001 - 450,000 gallons	9.56 ptg
	4	450,001 - 750,000 gallons	10.66 ptg
	5	over 750,000 gallons	11.70 ptg
4" Meter	1	0 - 150,000 gallons	\$5.84 ptg
	2	150,001 - 300,000 gallons	8.52 ptg
	3	300,001 - 750,000 gallons	9.56 ptg
	4	750,001 - 1,250,000 gallons	10.66 ptg
	5	over 1,250,000 gallons	11.70 ptg
6" Meter	1	0 - 300,000 gallons	\$5.84 ptg
	2	300,001 - 600,000 gallons	8.52 ptg
	3	600,001 - 1,500,000 gallons	9.56 ptg
	4	1,500,001 - 2,500,000 gallons	10.66 ptg
	5	over 2,500,000 gallons	11.70 ptg
8" Meter	1	0 - 480,000 gallons	\$5.84 ptg
	2	480,001 - 960,000 gallons	8.52 ptg
	3	960,001 - 2,400,000 gallons	9.56 ptg
	4	2,400,001 - 4,000,000 gallons	10.66 ptg
	5	over 4,000,000 gallons	11.70 ptg

RECLAIMED WATER CONSUMPTION CHARGE 48-401
 Per Thousand Gallons, billed in 100 gallon increments

50% of each Potable Rate Block (see Consumption Charge Chart above)

FIRE SERVICE MONTHLY RATE 48-208.004

Line Size	Effective 10/01/15
2"	\$ 10.22
3"	19.16
4"	31.88
6"	63.86
8"	102.15
10"	146.83
12"	197.91

MISCELLANEOUS WATER FEES AND CHARGES 48-208

Item	Section/Explanation	Amount
Tapping Fee 48-208.001(3)	(Meter Installation Fee) 5/8" x 3/4" Meter 5/8" x 3/4" Meter (T-10) 1" Meter 1 1/2" Meter 2" Meter 2" Compound Meter and larger meters	\$ 885.00 1,000.00 1,160.00 2,060.00 2,575.00 Actual Cost
Service Charge 48-208.001(6)	Business Hours After Hours, Weekends, Holidays	\$ 20.00 \$ 60.00
GPD Guarantee Payment Deposit 48-208.002(1)(2)	All new and re-established accounts is based on meter size	5/8".....\$90.00 1".....\$150.00 1 1/2".....\$300.00 2".....\$500.00 2 1/2".....\$700.00 3".....\$1,000.00 4".....\$3,500.00
Water Main Unit Cost Standard 48-208.003	Water Main Size: 2" Cost per lineal foot 4" cost per lineal foot 6" cost per lineal foot 8" cost per lineal foot 10" cost per lineal foot 12" cost per lineal foot	\$17.00 plf 25.00 plf 30.00 plf 51.00 plf 54.00 plf 64.00 plf
Non-Access Charge 48-208.001(8)	When meters cannot be read because they are covered by debris, vehicles, etc.	\$ 20.00
Tampering Charge 48-208.001(5)	1. Investigation Charge-Unauthorized Turn-on 2. Tampering Charge 3. Tampering Charge - Repeat Occurrence	\$ 75.00 150.00 300.00
Delinquent Account Charge 48-208.001(7)	Charge assessed when the account is not paid by the due date shown on the bill. (Not charged on balances of \$5.00 or less.)	Greater of: \$ 4.00 or 10% of outstanding balance
Plan Review Fee 48-208.005(3)	All construction requiring watermain extensions (aka: Watermain Permit Application Fee)	\$ 360.00 Plus \$10 per 100 feet after the 1 st 100 feet
Leak Detection 48-208.005(6)		\$70.00 per hour
Meter Lid Keys 48-208.005(7)		\$7.50 per key

Fire Hydrant Flow Test 48-208.005(8)		\$70.00
Fire Hydrant/Fire Line Application Fee 48-208.005(9)		\$360.00 – first hydrant \$50.00 each additional hydrant
Fixture Review Fee 48-208.005(4)	Review of Development Plans for large single family and developments	\$ 50.00
Return Check/ Bank Draft 48-208.005(1)(b)	Fee charged when the bank does not honor a customer's check used to make payment on their account.	ck. Up to \$50: \$25 ck. \$50 to \$300: \$30 ck. Over \$300: Greater of: \$40 or 5% of Check
Meter Drop-In (New Meter Installation Only) 48-208.001(4)	5/8" x 3/4" Meter	\$ 325.00
	5/8" x 3/4" Meter (T-10)	435.00
	1" Meter	580.00
	1 1/2" Meter	675.00
	2" Meter	790.00
	2" Compound Meter and larger meters	Actual Cost
Meter Relocation 48-208.001(9)		Actual Cost
Non-Potable Water 48-208.005 (5)	Emergency Non-Potable Water Deliver Charge (A service offered to residents on cisterns or wells in which the FKAA will deliver emergency non-potable water during the Dry Season.)	\$ 125.00

SYSTEM DEVELOPMENT CHARGE 48-208.001

Section/Explanation	Amount
RESIDENTIAL (Single Family-Stand alone dwelling)	
a) When the premises is served by a single meter the SDC will be charged based on the size of meter to serve the premise	(Applicable to A, B & C) 5/8" Meter...\$3,750.00
b) When the premises is served by a Master Meter with individual units behind the Master Meter, SDC will be charged per unit based on the meter size which would be required to serve each residential unit	1" Meter...\$ 9,375.00
c) Irrigation-Residential (Single Family). For residential Single Family property, which has not been developed and is not	

<p>otherwise metered, the SDC for irrigation service will be based on the size of the meter.</p>	
<p>Residential (Multiple Unit) When the premises is a Residential (Multiple Unit), the SDC will be charged per unit basis:</p> <ul style="list-style-type: none"> a) Residential - Multiple Unit – 3 units or Less b) Residential - Multiple Unit - Four Units or More c) Common Area facilities (including Irrigation) for Residential Multi-Unit shall be based on Fixture Values as established for Commercial Accounts. 	<p>(Applicable to A, B & C)</p> <ul style="list-style-type: none"> a) \$3,188.00 per Unit b) \$2,813.00 per Unit c) \$75.00 per Fixture Value
<p>COMMERCIAL</p> <ul style="list-style-type: none"> a) Fixture Values on the total number of Fixture Values at a Premises or Water Service location (including irrigation), at a charge of <u>\$75.00</u> for each Fixture Value b) Where Fixture Values cannot be determined, the meter-based SDC shall be charged as shown 	<p style="text-align: center;">\$75.00 Per Fixture Value</p> <p>Meter-Based SDC:</p> <ul style="list-style-type: none"> 5/8"\$3,750.00 1"\$9,375.00 1½"\$18,750.00 2"\$30,000.00 3"\$56,250.00 4"\$93,750.00 6"\$187,500.00 8"\$300,000.00

WATER RESTRICTION SURCHARGE (An automatic Surcharge Based on Mandatory Water Restriction Phase as declared by SFWMD)

15% Surcharge of the Consumption Charge (excluding consumption within Consumption Block 1)

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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

: In the Matter of :
: :
Application of GENERAL DEVELOPMENT : DOCKET NO. 870239-WS
UTILITIES, INC., Silver Springs :
Shores Division, for increased :
water and sewer rates in Marion :
County. :

RECEIVED
Division of Records & Reporting Silver Springs Shores Community
Center
OCT 13 1987 525 Silver Road
Ocala, Florida
Florida Public Service Commission Thursday, October 8, 1987

Met pursuant to notice at 10:00 a.m.

BEFORE: COMMISSIONER KATIE NICHOLS, Chairman
COMMISSIONER GERALD L. GUNTER

APPEARANCES:

RICHARD D. MELSON, of Hopping, Boyd, Green and Sams, Post
Office Box 6526, Tallahassee, Florida 32302, on behalf of the
Applicant, General Development Utilities, Inc., Silver Springs
Shores Division.

BILL HALDEN, 21 North Magnolia Street, Ocala, Florida, on
behalf of the Silver Springs Shores Homeowners Association, Inc.

JACK SHREVE, Public Counsel, and STEVE BURGESS, Office of
Public Counsel, c/o Florida House of Representatives, The
Capitol, Tallahassee, Florida 32399-1300, on behalf of the
Citizens of the State of Florida.

DOCUMENT NO.
87-09492

1 APPEARANCES (CONTINUED):

2 NOREEN S. DAVIS, FPSC Division of Legal Services, 101 East
3 Gaines Street, Tallahassee, Florida, 32399-0863, on behalf of the
4 Staff of the Florida Public Service Commission.

5 PRENTICE P. FRUITT, FPSC Office of General Counsel, 101 East
6 Gaines Street, Tallahassee, Florida, 32399-0861, as Counsel to
7 the Commissioners.

8
9
10 REPORTED BY:

CAROL C. CAUSSEUX, CSR, RPR
Bureau of Reporting
101 East Gaines Street
Tallahassee, Florida 32399-0871

Official Commission Reporter

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P R O C E E D I N G S

(Hearing convened at 10:00 a.m.)

CHAIRMAN NICHOLS: All right, would everyone please take their seats? (Pause)

According to my watch it is a few minutes after ten o'clock so I would like to call the meeting to order. So, Counsel, would you read the notice?

MS. DAVIS: Yes, ma'am. This time and place have been set for hearing in Docket No. 870239-WS in the application of General Development Utilities, Inc., Silver Springs Shores Division, for increased water and sewer rates in Marion County.

CHAIRMAN NICHOLS: All right, let's take appearances.

MR. MELSON: Richard Melson, of the law firm of Hopping, Boyd, Green and Sams, Post Office Box 6526, Tallahassee, Florida, appearing on behalf of the Applicant, General Development Utilities, Inc.

MR. SHREVE: Jack Shreve, Public Counsel, and Steve Burgess, Office of Public Counsel, representing the Citizens of the State of Florida, and the address is Fuller Warren Building, Tallahassee, Florida.

MR. HALDEN: Bill Halden, representing the Silver Springs Shores Homeowners Association, Inc. I practice law at 21 North Magnolia Avenue, in Ocala, Florida.

MS. DAVIS: I am Noreen Davis, 101 East Gaines Street,

1 Tallahassee, Florida, appearing on behalf of the Commission
2 Staff.

3 MR. PRUITT: I am Prentice Pruitt, same address,
4 Counsel to the Commissioners.

5 CHAIRMAN NICHOLS: All right. Let me introduce myself.
6 I am Katie Nichols, the Chairman of the Public Service
7 Commission, and to my right is Commissioner Gerald Gunter. This
8 case has been assigned to the two of us to hear.

9 Our plan and procedure for today is to take care of any
10 preliminary matters, motions pending, and whatever, and then go
11 directly to public testimony and hear from the customers first.
12 After we have heard from the customers we will then begin with
13 the prefiled testimony that has previously been filed in this
14 docket by all parties. Also, I believe in the notice it said
15 that at six o'clock this evening we would still be here and we
16 would hear any additional public testimony, anyone from the
17 public, any customer who had not testified this morning can then
18 testify at six o'clock this evening.

19 All right. Are there any preliminary matters or
20 motions?

21 COMMISSIONER GUNTER: Madam Chairman, I don't want to
22 muddy the water but when I was trying to prepare myself for this
23 case you start with, of course, the audit reports --

24 AUDIENCE: We can't hear you, speak louder.

25 COMMISSIONER GUNTER: Well, I apologize, I am doing the

1 best I can with this system.

2 When you start preparing yourself for the case you
3 start with the audit report, you start reading the prefiled
4 testimony, you start reviewing the spread sheets and all of a
5 sudden when you get through you find that nothing matches; the
6 MFRs don't match the testimony. So I started reviewing all the
7 way through, Madam Chairman, and I went back looking at the
8 schedule of this case and reviewing the documentation.

9 General Development applied for a test year on the 18th
10 of March, 1987, and the test year letter over your signature was
11 responded to on the 24th of March, 1987. The 8-month clock, with
12 the filings, began on 5-11-87, and therein became one of the
13 problems, Madam Chairman. In the response for the test year, in
14 the third paragraph, were the Utility instructions on this case,
15 and I quote: "Information not filed with the original
16 application may not be considered and information filed after
17 completion of the Staff's investigation will not be considered."

18 Madam Chairman, my problem is materiality of changes.
19 We have been through this and I thought we had a policy of where
20 we had material changes -- I thought we had a Commission policy
21 where material changes came in that the Utility had one of two
22 choices: They could back away from that request or the clock
23 started all over and we could have an orderly process in
24 conducting the case.

25 On 8-13-87, in direct testimony filing, we had what I

1 consider a material change in this case. I understand, and I
2 certainly don't want to create any real problem, but I
3 understand, Madam Chairman, that this was discussed in the
4 prehearing conference and you made a ruling at that time to allow
5 briefing of the issue of including the \$800,000-plus late filing,
6 which was for, as I understand it, a water tank, and it's Issue
7 No. 3 on the prehearing statement, and that's Water Storage
8 Station C.

9 Now, the results of doing that will have a substantial
10 effect on rate base, on plant in service, and ultimately all the
11 calculations, revenue requirements, the whole rest of the case
12 has changed from the minimum filing requirements that were made
13 and all the preparation and all of the spread sheets and
14 everything that had gone on prior to that time. I understand,
15 and what gave me the clue was in the audit findings. But I am
16 back to the letter and I am back to the instructions that the
17 Commission issued to the Company which said, "after completion of
18 Staff's investigation will not be considered."

19 Madam Chairman, I would like to respectfully request
20 that you reconsider, or that we reconsider your decision in the
21 prehearing conference about allowing this item to stay in. To
22 me, before I am willing to go any further with this case, the
23 Company has one of two choices: The clock started over as of
24 April -- excuse me, I mean as of 3 August 1987 -- and we proceed
25 with the case from that point forward, or that addition to the

1 case at that very late date not be considered in this proceeding,
2 and that all testimony relating to that be struck.

3 MS. DAVIS: Madam Chairman, if I might, there is a
4 motion that was filed by the Intervenor that raises that issue,
5 also, so you may want to consider that, also.

6 CHAIRMAN NICHOLS: At the same time.

7 COMMISSIONER GUNTER: The point I am trying to make,
8 Counselor, is that I am not addressing anybody's motion; that I
9 am addressing my personal professional feelings about the case,
10 and if it is resolved one way we have got a moot motion.

11 MS. DAVIS: Yes, sir, that's true..

12 COMMISSIONER GUNTER: And if it is resolved the other,
13 then we take up the motion.

14 MS. DAVIS: That's true.

15 COMMISSIONER GUNTER: And that's the reason that I
16 think -- you see, I'm not one of those folks that like to join
17 anything under one umbrella. We take one item at a time.

18 CHAIRMAN NICHOLS: Commissioner, let me respond.

19 At the prehearing conference I was unaware, and this is
20 my own fault because I should have been better prepared at the
21 prehearing conference, I was unaware of the materiality of the
22 adjustment. After the prehearing conference when I read the
23 testimony of the Company's witness, J. Lyle Patrick, on Page 5
24 starting at Line 7 where he is talking about this addition he
25 states: "However, because documentation of all the related

1 impacts would require an almost complete revision of all filed
2 exhibits," I think that is the Company's own admission that this
3 change indeed affects every aspect of the case.

4 Now, what the Company has said is, "Go ahead and give
5 us \$58,000 and we will be good guys and forego an additional
6 \$12,000, which we think we could justify." But I think, you
7 know, what we essentially have before us then is a case that is
8 not filed in terms of being complete and correct throughout it.

9 So that at this point I would have to agree with you,
10 and I think that the only appropriate thing to do would be to
11 offer the Company the choice of either we forego the revision
12 entirely or, if the Company so desires, we take August 3 as the
13 start of the 8-month clock and proceed on that basis so that all
14 parties have an equal opportunity to investigate and to do
15 whatever they need to do to satisfy themselves as to the
16 documentation that the Company wishes to present for the
17 additional increase.

18 COMMISSIONER GUNTER: Madam Chairman, I appreciate your
19 comments. But where we are at now is having regulation done
20 properly or having it done improperly. There are changes that
21 are made to every case, and I understand that, but they must meet
22 a materiality test. The burden is squarely with the Company --
23 squarely with the Company -- and this is not an admonishment of
24 Staff because sometimes things happen with the workload these
25 folks do, and they do an admirable job. But in this circumstance

1 I think we should have learned from previous cases, such as
2 Florida Cities Water and others, that when you have a material
3 adjustment that is made after the filing, that all of a sudden
4 that playing ground gets very, very uneven and there is not time
5 to properly respond.

6 I am at a juncture of one of two ways, Madam Chairman;
7 that is, we either continue and refuse to consider any of those
8 adjustments, or that we -- I hate to say this, but I got up at
9 4:30 this morning in Tallahassee to drive down here this morning.
10 I would hate to say that that was wasted time and wasted effort
11 on everybody's part to be here. But I am at one of two places.
12 If we are not willing to move that out I am certainly willing to
13 move that we rise and make our return trip to Tallahassee.

14 (Applause)

15 CHAIRMAN NICHOLS: All right. I am going to allow Mr.
16 Melson and Mr. Shreve both to address this issue, and Mr.
17 Halpren, also.

18 MR. HALDEN: It's Halden.

19 CHAIRMAN NICHOLS: Excuse me, sir, I'm sorry. Mr.
20 Melson?

21 MR. MELSON: Commisioners, let me address it just
22 briefly. You are correct, there was a change to the filing
23 documents approximately two months into the process.
24 Commissioners, the change was called to the attention of the
25 audit staff basically at the same time the Company became aware

1 of it and, while the prefiled testimony was the first document
2 that set out the full impact of the change, the change was
3 brought to the audit staff's attention before they completed
4 their audit. Therefore, it is my feeling that under your test
5 year approval letter, rather than being in the "shall" category
6 where it must be excluded, we would be in the "may" category
7 where the Commission has some discretion.

8 I would urge you that the standard for determining when
9 corrections ought to be allowed should not necessarily be
10 materiality alone. It should be materiality and whether there
11 has been actual prejudice to a party in the preparation of the
12 case. We believe, Commissioners, from having taken some
13 depositions of Public Counsel witnesses, that we could show at
14 the hearing that, in fact, Public Counsel's preparation, at
15 least, was not prejudiced.

16 We would respectfully ask that you allow us to present
17 testimony as to this change and ultimately reserve ruling on the
18 issue until after you have heard all of the testimony and
19 considered legal briefs on the topic.

20 CHAIRMAN NICHOLS: Mr. Shreve?

21 MR. SHREVE: Commissioner, I think it's obvious to
22 everyone here that there is prejudice, or a burden placed on the
23 Staff of the Public Service Commission and the Office of the
24 Public Counsel and other intervenors -- not the Company. The
25 Company can sit around and decide how long, they can take all the

1 time in the world that they want to prepare their case. Then
2 they decide, they file it, you are under the 8-month burden, the
3 Staff is under the 8-month burden, and we are under it. There is
4 a burden just by the time restraint that is placed on us.

5 The Company in this case is in a 1988 test year. They
6 are well ahead of the game, they are not even behind. I do not
7 think the Company should even have the option of withdrawing that
8 part of their filing or going forward because we should have the
9 opportunity at this point to consider the entire situation that
10 exists for the Company.

11 If we go through this rate case, and even if that is
12 taken out, then they can turn right around, refile the next day,
13 and get an interim rate increase for that amount of money. The
14 Staff has pretty well accepted this improvement that is there, or
15 the change that should be made to the rate base.

16 It has been committed to us, and said time and time
17 again, that if this happens again, as it did in the Florida
18 Cities case, that the time clock was going to start over. The
19 Company had every opportunity to meet the requirements, as set
20 out in the rules, and they have not met that.

21 I don't think we should have the burden of going
22 forward and leaving a portion out there that they can come back
23 in and just automatically pick up whenever they want to. I think
24 the time should start from the date that they filed their
25 testimony, or came back into compliance with the rules.

1 CHAIRMAN NICHOLS: Thank you, Mr. Shreve. Mr. Halden?

2 MR. HALDEN: I have indicated in prefiled materials,
3 and I will indicate in opening statement later, that my position
4 is very non-technical. My homeowners are just homeowners and not
5 accountants and not procedural experts in PSC procedures. I do
6 know, though, that the Supreme Court of Florida has said on a
7 number of occasions that the rules of the PSC are binding on the
8 parties to these procedures. I have cited in the motion, and I
9 understand it is not being heard now, but I think it bears on
10 this point, a case called Florida Gas Company versus Hawkins, a
11 1979 Florida Supreme Court case. In that case the Company
12 indicated that it was denied due process, and the Supreme Court
13 said: "There can be no compromise on the footing of convenience
14 or expediency or because of a natural desire to avoid delay when
15 the minimal requirement of a fair hearing has been neglected or
16 ignored."

17 I would submit that this late change neglects or
18 ignores the minimum requirement of a fair hearing and it should
19 not be the burden -- that the burden should not be shifted over
20 on the ratepayers to show prejudice. We can't go back and say
21 what would have been in our minds had they originally showed the
22 final requested rate increase when they filed on May 11th. We
23 don't know that. All we know is that now we are being asked for
24 a higher rate increase, and I would agree with Public Counsel
25 that they should start over.

1 CHAIRMAN NICHOLS: Thank you.

2 MR. MELSON: Madam Chairman, might I respond just very
3 briefly?

4 CHAIRMAN NICHOLS: All right.

5 COMMISSIONER GUNTER: Well, wait just a second, we
6 don't have everybody concerned's comments.

7 CHAIRMAN NICHOLS: Staff?

8 MS. DAVIS: I would just like to add a few words. This
9 has been a very troublesome point and we have done a lot of
10 thinking about it. I think the appropriate thing the Company
11 should have done would have been to formally amend. I think the
12 appropriate thing for Public Counsel would have been an early
13 motion to strike rather than waiting until the prehearing
14 conference. I think that a motion to strike at any point is an
15 acceptable way to cure the problem.

16 If you were to decide to recess the hearing and go back
17 to Tallahassee there is considerable rate case expense that has
18 been incurred and will be duplicated again. So I think when you
19 look at the totality of the problem, probably addressing a motion
20 to strike would be most equitable.

21 CHAIRMAN NICHOLS: Mr. Shreve, did you want to respond?
22 I believe you did file your motion to strike earlier than the
23 prehearing.

24 MR. SHREVE: No, we brought this up at the prehearing.
25 I would wonder why the Staff doesn't have some responsibility,

1 since they are the initial ones to ask the Company for additional
2 information after their filing. The Staff has always had some
3 responsibility in this, but now to back off at this point and say
4 why didn't someone else do something --

5 We were told there was going to be a change in the
6 petition, that there was going to be an amended petition to be
7 filed, and then we were going to respond to that. That has not
8 yet been done. I think you were probably told the same thing.

9 It is very clear that the burden is on the Company.
10 They have a 1988 test year, they are not even into that test year
11 yet. We don't have the ability to test any of that against
12 factual information the way we do in most cases. I cannot under-
13 stand why the Staff is not insisting that the rules of procedure
14 be followed by the Company, instead of saying, "Why didn't
15 someone else do something?"

16 CHAIRMAN NICHOLS: Thank you, Mr. Shreve. Do you want
17 to respond, Mr. Melson?

18 MR. MELSON: I would like to respond just very briefly.

19 Mr. Halden cited you to a Florida Gas case. I would
20 point out that that was a case in which no hearing was held and
21 there was no opportunity to cross examine any numbers, so I don't
22 believe that case is on point.

23 What I would like to say is that there is a United
24 Telephone Company of Florida versus Mayo case that recognizes
25 that changes may come into the process after a filing has been

1 made without starting the clock over, and that in the absence of
2 a specific rule that lays out the circumstances under which
3 changes are permitted or not permitted, and there is not such a
4 rule, that the Commission ought to at least allow the testimony
5 to go forward, hear it, and then at the conclusion of the hearing
6 allow these legal issues to be briefed so that you can be fully
7 informed and make the decision. The decision at the end of the
8 process might very well be to allow it in and it might very well
9 be to exclude it, but I think you would be in a better position
10 to make an informed decision by allowing the case to go forward
11 at this point with that change.

12 CHAIRMAN NICHOLS: Well, let me ask you a question, Mr.
13 Melson. First of all, I think everybody who is familiar with
14 this process and familiar with cases that have been before the
15 Commission would not dispute that occasionally there are changes.
16 I think this is an issue where it goes to the materiality of the
17 change. You know, you could be in the middle of a Florida Power
18 & Light case and discover that you have added some column or you
19 have rounded, and you have rounded \$5 more or \$5 less, which is
20 not going to have one iota of effect in a case of that magnitude.
21 But in this case, where by the Company's own admission it would
22 affect everything in the case, am I correct, sir, that you do not
23 dispute that in the letter granting approval of the test year the
24 discretion is certainly with the Commission to either consider or
25 not consider it?

1 MR. MELSON: I agree that you have got that discretion.
2 I think ultimately any exercise of the Commission's discretion
3 has got to be measured against some standard, and that the place
4 you look ultimately for those standards is to the case law. But,
5 yes, I --

6 COMMISSIONER GUNTER: Well, let's talk about that for a
7 moment, if we can, Mr. Melson, because I understand the parties
8 have an opportunity to spend a great deal of time on a case.
9 Let's talk about my doctrine of fairness, and this is not the
10 first time we have discussed this because you represent other
11 folks before the Commission. Let's look at the doctrine of
12 fairness to the Commissioners.

13 Now, what do I have before me? When I go to the MFRs,
14 which I use and you have seen -- you personally have seen me use
15 MFRs to understand the Company's position, and certain portions
16 of the MFRs are more important to Commissioners than they are to
17 Staff, for instance. Some items in the MFRs we don't use, they
18 are for data gathering and data compilation on the part of the
19 Staff.

20 When I take the MFRs and try to prepare myself for this
21 case they don't match. The spread sheets, the figures, they
22 don't match, they are virtually worthless. Then where is the
23 burden shifted? Then all of a sudden I have the burden and the
24 Chairman has the burden of trying to take our handy-dandy
25 calculators -- and, by the way, I brought mine today -- our

1 handy-dandy calculators and try and fix improper filings, or
2 incorrect filings, or whatever term you want to call it. I
3 thought it was very amusing to say, well, when our audit staff
4 goes down and does a complete audit -- and, of course, they give
5 you a copy -- and as they are going through the process they find
6 the error and all of a sudden, you know, it somehow shifts. It's
7 strange that the Company, because the audit staff did find this
8 error, that the Commission has some responsibility in it.

9 The purpose of the audit report is to verify your
10 filings provided to us as one of the tools to conduct the case.
11 I want to tell you, I am very, very troubled by that. That is
12 the reason I said materiality because it touches every spread
13 sheet that you have. I am willing to go back to the original
14 spread sheets and go forward from there, but I am unwilling, and
15 I want to tell you candidly on the front end -- it may be an
16 error on my part and Mr. Pruitt might come over and whip at me,
17 certainly, as our advisor -- but I am unwilling to personally sit
18 down and run these calculations all the way through your MFRs so
19 that I can do the right kind of job for the Company and for the
20 intervenors and for the folks in the State of Florida, and what I
21 consider good regulation. An uninformed decision is worse than
22 no decision at all.

23 My doctrine of fairness, and all of a sudden you all
24 can talk about burden and level playing field -- hell, look what
25 you have dumped on us.

1 MR. MELSON: Commissioner, if I might --

2 COMMISSIONER GUNTER: You know, that's kind of where I
3 am coming from. That's the reason I say that the materiality
4 issue is very troubling because I can only get so far and I can't
5 go any further.

6 MR. MELSON: Yes, sir, and I understand and appreciate
7 your concern. As you know, in a rate case a change in one item
8 will flow through and affect a number of items. As a matter of
9 fact, as late as the prehearing conference we were stipulating on
10 a number of issues that would --

11 COMMISSIONER GUNTER: We haven't even gotten to that
12 yet.

13 MR. MELSON: Yes, sir. We stipulated on a number of
14 issues.

15 COMMISSIONER GUNTER: Well, but we haven't even started
16 talking about some of the stipulations yet that may have been
17 agreed to among the parties, but I have got some problems with
18 some of them. So, anyway, let's don't get that cart out there
19 and think that they are all -- that's behind us.

20 MR. MELSON: The point I am making is if the Commission
21 accepts those stipulations after you have considered it, that a
22 change to any one of those items will flow through and change a
23 number of others. The change on Water Storage Station C, yes, in
24 dollar amount it's larger than some of the other changes.
25 However, there have been a number of adjustments in this case, as

1 there are in all cases, and it is a continuing problem and we
2 empathize with you.

3 CHAIRMAN NICHOLS: Well, I guess I appreciate your
4 empathy, Mr. Melson, but that doesn't really help much.

5 Mr. Pruitt, let me ask your opinion, sir. You have
6 heard the discussion, and as the Commissioners' legal advisor,
7 are we treading on solid legal ground, in your opinion?

8 MR. PRUITT: Madam Chairman, you have a lot of
9 discretion and in exercising that discretion and deciding how you
10 would proceed you would take into consideration first, I think,
11 the timeliness of the filing that you are discussing. The next
12 thing you would want to consider would be the materiality of it,
13 and the third thing would be the total effect it would have on
14 the rate case itself. If you get a negative feeling on one or
15 more of those issues, and it doesn't have to be all of them, any
16 one of them would be sufficient grounds, in my opinion, to either
17 continue this hearing or to extend the time for the clock to
18 start running, or to dismiss it and let them file again.

19 CHAIRMAN NICHOLS: All right, thank you, sir.
20 What is your pleasure, Commissioner?

21 COMMISSIONER GUNTER: Well, Madam Chairman, as I made
22 an offer, I am perfectly willing to go through the case as was
23 filed with the MFR filings in May. I am perfectly willing to do
24 that. But because of the magnitude of the change -- there are
25 always going to be minor corrections, there are going to be

1 policy differences, there are going to be factual differences
2 with all the parties in the conduct of any case, but for one that
3 would have -- well, you take whatever, 3 million, and put
4 800,000, work the math on that, whichever way you want to go in
5 that particular area, I think that is too large, that is too
6 material, and I think the accountants have -- for all the
7 accountants that are in the room materiality is certainly a
8 consideration which cannot be ignored.

9 Absent that, Madam Chairman, I personally have no
10 choice, if we don't go back to the original filing, remove any
11 testimony from the record regarding that material change, I
12 personally am not ready to hear this case. (Applause)

13 CHAIRMAN NICHOLS: All right, I have no problem with
14 that. I guess what we are really saying is that the ball is in
15 your court, Mr. Melson. Do you want to proceed today with the
16 original filing, as filed with the Commission back on 5-11-87?

17 MR. MELSON: May I ask a clarifying question?

18 CHAIRMAN NICHOLS: Yes, sir.

19 MR. MELSON: We would proceed on that basis with the
20 recognition that there are some other areas, for example cost of
21 debt, where there is obviously testimony -- there would be
22 testimony on a number of items, but with respect to the Water
23 Storage Station C issue we would be willing to go back to the
24 original May filing. I would like to ask that any testimony on
25 that issue that is stricken be allowed to remain in the record as

1 an offer of proof so that we can preserve any rights we might
2 have about whether the change was material.

3 CHAIRMAN NICHOLS: Well, Mr. Pruitt is going to have to
4 help me here because I --

5 COMMISSIONER GUNTER: I understand -- I think, if I can
6 first, Mr. Pruitt.

7 CHAIRMAN NICHOLS: Go ahead.

8 COMMISSIONER GUNTER: I think what you are saying is
9 that it would be the Company's position that if we allow no
10 testimony on this issue that you all would propose, and raise as
11 a legal argument, that because we did not allow this late filing
12 that no other adjustments that were found, such as CIAC
13 adjustments, cost of capital, or what have you, there would be no
14 discussion and no adjustment to those. Maybe I am
15 misunderstanding you.

16 MR. MELSON: No, sir. The reason I would make an offer
17 of proof is, quite frankly, depending on the final outcome of
18 this case, there is always the chance that we might go to court.

19 COMMISSIONER GUNTER: I understand.

20 MR. MELSON: And in order to have in the record,
21 although it be stricken, an offer of proof where that testimony
22 remains in so that the court itself can look at the materiality
23 issue, we would simply ask that that be allowed to stay in as an
24 offer of proof; not as evidence you would consider but as part of
25 the record.

1 CHAIRMAN NICHOLS: Mr. Pruitt is going to have to help
2 me on this one because I am not an attorney, but if the purpose
3 is that we are going to take up the case as filed originally it
4 would not have been there, so I am somewhat confused about how we
5 are now going to take up the case as originally filed but leave
6 subsequent filings in.

7 Mr. Pruitt, help me out.

8 MR. PRUITT: Madam Chairman, you can do that, and I
9 think the Company would be entitled to offer, and you could
10 receive, a proffer of evidence. You don't act on it and you
11 don't grant it, what they ask, but it would be there. He is
12 entitled to take that to court. He is entitled to show a court
13 why the Commission did not let him proceed on a late-filed basis.

14 CHAIRMAN NICHOLS: But am I correct that we would not
15 allow cross examination on those issues?

16 MR. PRUITT: Absolutely, you are correct.

17 CHAIRMAN NICHOLS: All right.

18 COMMISSIONER GUNTER: Madam Chairman -- Mr. Pruitt, let
19 me ask you a question.

20 MR. PRUITT: All right, sir.

21 COMMISSIONER GUNTER: We have -- and I'm just trying to
22 understand procedure right now. You have a situation, you have
23 a letter from the Chairman providing instructions and granting a
24 test year. What weight does that letter of instructions have in
25 the law?

1 MR. PRUITT: It has the same weight as a prehearing
2 order itself.

3 COMMISSIONER GUNTER: All right. If by matter of that
4 letter there is a prohibition, in fact a direct statement, that
5 information filed after completion of the Staff's investigation
6 would not be considered?

7 MR. PRUITT: That's right, you do not consider it but
8 he can file it.

9 COMMISSIONER GUNTER: But he can file it.

10 MR. PRUITT: Yes, sir.

11 COMMISSIONER GUNTER: Now, how does the filing -- let
12 me ask you a question, and now I am down to a procedural point.
13 We don't admit exhibits unless -- well, we do admit exhibits two
14 ways: one without objection, and another if there is an
15 objection you have to overrule it becoming an exhibit. If it is
16 part of prefiled testimony and you do not -- how would you allow
17 prefiled testimony and take no testimony on it without striking --
18 that portion of the testimony? Do you understand what I am
19 talking about?

20 MR. PRUITT: I understand, and I don't really see a big
21 problem with that. You simply do not admit into evidence the
22 prefiled exhibits relating to the excluded testimony, but it is
23 still in a record. They are still alive, they are still there,
24 and they could be looked at on review.

25 COMMISSIONER GUNTER: All right.

1 CHAIRMAN NICHOLS: All right, Mr. Shreve?

2 MR. SHREVE: I really don't know where we are going
3 now, and one of the concerns that I have is that this issue has
4 been presented now by the Company, not in accordance with your
5 rules or your order, and there has also been conversation by the
6 Staff of the Public Service Commission that even if this is not
7 considered will be used as filler, which means that we win an
8 issue and we really lose the money. And that puts us in an
9 untenuous position, we just cannot do that.

10 CHAIRMAN NICHOLS: I'm sorry, I'm confused, Mr. Shreve,
11 I am not following your point.

12 MR. SHREVE: All right. That since they really
13 supposedly, if it is accepted by the Staff that they deserve this
14 money, I am saying what the conversation with the Staff was and
15 what I am concerned about now, I don't know if when this
16 information is coming in they are going to have the best of both
17 worlds by presenting a side of the case that would tend to show
18 that they are entitled to this money while being prevented from
19 getting it. If that happens, and then they turn around and the
20 very next day they want to file for an interim, they are going to
21 be entitled to get this because of this increase in rate base
22 that has already been presented to the Commission. I don't
23 understand why they would be allowed to put in this evidence into
24 the case at all.

25 They clearly have not followed the rules, your rules,

1 which is that within 15 days after the time schedule for the case
2 has been mailed to the Utility, that the Utility shall prepare
3 and distribute a synopsis of the rate request. That is not where
4 we are now and they did not follow that. Or they did not file
5 within their final notice to the customers what the rates were.
6 They are supposed to put in a comparison of them. One or the
7 other they have not followed. The customers here are also
8 entitled to the benefit of these rules and knowing what is going
9 on in the case.

10 Right now the cases are complicated enough when you go
11 through them, but right now I don't know exactly where this is
12 going when they want to put that in or what we are supposed to
13 respond.

14 CHAIRMAN NICHOLS: If I understand it correctly, where
15 we would be going is that we would go on the basis of the
16 original filing. The prefiled testimony would be admitted but
17 any exhibits that were --

18 MR. PRUITT: The prefiled testimony, as it relates to
19 the original filing, would be admitted, Madam Chairman, and the
20 exhibits directed connected with that testimony would be -- may
21 be received in evidence. I don't know what you are going to
22 receive in evidence, but they may be. But exhibits and testimony
23 relating to the excluded portion of the case would not be part of
24 the record in this case that you'd make your decision on.

25 CHAIRMAN NICHOLS: All right, so we would strike all

1 testimony and exhibits relating to the change that was filed
2 later.

3 MR. PRUITT: That's just what my lawyer sitting there
4 said and I agree with her.

5 CHAIRMAN NICHOLS: All right.

6 COMMISSIONER GUNTER: Okay, so the only thing that
7 would be in the record, I want to make sure I understand -- and
8 let me say for the interest of those that are in attendance that
9 one of the things that we have to be very, very careful about, if
10 we are ever -- if I, and let me just speak for me -- if I am ever
11 overturned over in the Supreme Court I want it to be on factual
12 issues and not on procedural issues. And if we make sure that we
13 have those procedural issues taken care of then it eases the
14 court's situation in making a decision, and I can sort of sense
15 here already that the predicate is being established to go to the
16 courts.

17 So, as I understand, any testimony or exhibits which
18 relate to the original case as filed would be the only thing that
19 would be in the record if we so strike that testimony or refuse
20 admission into the record of any of those exhibits, is that
21 correct?

22 MR. PRUITT: You can strike the testimony and the
23 exhibits.

24 COMMISSIONER GUNTER: The testimony and the exhibits.

25 CHAIRMAN NICHOLS: All right, Mr. Halden, did you want

1 to add something?

2 MR. HALDEN: Yes, Madam Chairman. If I understand what
3 Mr. Melson is asking for, he is also asking to proffer the
4 additional testimony so that it would be available for a later
5 review by a court.

6 MR. SHREVE: That's right.

7 MR. HALDEN: And if that's the case what he is saying
8 is that he might use that to sue the Commission at a later date.
9 That can simply be solved by continuing this hearing and allowing
10 the whole case to start over from the beginning. It really
11 doesn't help, it seems almost that he gets it both ways: He gets
12 to proffer the testimony, it gets to become if not a part of the
13 record somehow a part of this case available for later review by
14 a court, and you can avoid the jeopardy of that lawsuit by simply
15 continuing this hearing and starting the case over again.

16 MR. SHREVE: That's exactly right.

17 MR. PRUITT: Madam Chairman, I just want to say that I
18 have practiced law about 37 years in the State of Florida and I
19 don't know of a single court in the State of Florida or in the
20 United States of America where a party, any party, is prohibited
21 from proffering evidence, testimony or exhibits.

22 COMMISSIONER GUNTER: Now, what happens when you strike
23 it out?

24 MR. PRUITT: They are not a formal part of the record
25 that you base your decision on.

1 CHAIRMAN NICHOLS: All right, let me see if I
2 understand, not being an attorney. What you are saying is that
3 Mr. Melson would move to admit the whole thing, we would strike
4 certain portions. Certain portions would then not be a part but,
5 because Mr. Melson had moved to admit it that's what proffering
6 means?

7 MR. PRUITT: That's it.

8 CHAIRMAN NICHOLS: Okay, so then if he so chose he
9 could take an appeal to the court on the basis that it was
10 improperly excluded, or something along that line?

11 MR. PRUITT: Absolutely, and I would be the last person
12 on earth to want to deny any attorney the right to do that
13 because the courts won't do it.

14 MR. SHREVE: As a matter of fact, it is already a part
15 of this record, and even though you deny it coming into this
16 record he will have it there available to be appealed no matter
17 what he does.

18 MR. PRUITT: Sure.

19 MR. SHREVE: It's there and it was not included in the
20 notice that the Company sent out originally, as required by your
21 rules and the law.

22 MR. PRUITT: Madam Chairman, it is simply not a portion
23 of the record that you would base your decision on in handling
24 this case.

25 CHAIRMAN NICHOLS: All right, because we can only base

1 our decision, Jack, am I not correct, on the evidence that is
2 admitted at the hearing?

3 MR. SHREVE: That's true, but he would have available
4 to him all of the evidence that he had filed to argue in his
5 appeal.

6 CHAIRMAN NICHOLS: I see.

7 MR. SHREVE: Now, I think he should be given the right
8 to present his case properly. They have had every opportunity,
9 they have a projected test year of 1988, we are not even into
10 that yet. He has got more time than he needs to wrap this thing
11 up, they have every benefit, so let them put the case on, include
12 everything in it, and do it right.

13 CHAIRMAN NICHOLS: You know, I have got to compliment
14 you, Mr. Shreve, you can always get to the merits of the case
15 even when we are just discussing procedure.

16 MR. SHREVE: That just comes from having a pure heart.
17 (Applause)

18 COMMISSIONER GUNTER: So, Mr. Pruitt, as I understand,
19 and I am going to repeat this one more time because I am terribly
20 slow. We have the option of continuing the case the way it is
21 right now. We have the discretion -- I should have said the
22 discretion of continuing it from where we are today. We have the
23 discretion of striking the testimony and the exhibits and
24 proceeding as originally filed, or we have the option or the
25 discretion of rising and continuing the case when the procedural

1 problems have been corrected.

2 MR. PRUITT: You have understood what I have said
3 perfectly.

4 COMMISSIONER GUNTER: All right, sir.

5 CHAIRMAN NICHOLS: All right, Commissioner, why don't
6 you state where you think we ought to go.

7 COMMISSIONER GUNTER: Madam Chairman, I think the most
8 appropriate thing to do in this case, and I am going to confess
9 because of the file that I have before me and the MFRs that I
10 have available and trying to match all of that together, because
11 a lot of times -- and I want to make sure this is properly done
12 in case we get appealed over to the court for our action today --
13 I want to make sure it is adequately explained, or at least as
14 good as I can.

15 The purposes that the MFRs are used is to take
16 testimony, go to the MFRs, see if they agree, review the MFRs to
17 make sure you understand the filings, to make sure you understand
18 the rationale, and whether you agree with it or not at least
19 understand it, because everyone has a role to play. And we, as
20 triers of fact, are, of course, bound by what is in the record.
21 It is my assumption, and it might be incorrect, but it is my
22 assumption that the MFRs become a part of the record in the case.

23 I have been unable to reconcile the two and, since it
24 appears that we are going to be extremely complicated, the
25 process is just not to the point that I am at all prepared and I

1 think the Company has erred in making this change and without
2 refiling the MFRs -- I understand that there's rate case expense,
3 but then the question would come up on rate case expense as to
4 who should bear that expense. You know, that's one that we will
5 talk about later based on the reason for the increased expense.

6 I am not prepared at this time, and since the Company
7 obviously is not prepared to fall back to where they were on the
8 original filing, Madam Chairman, I move we rise; if necessary,
9 continue this case at a later time after the MFRs have been
10 corrected and refiled.

11 It's kind of a "when do you want to start the clock,"
12 on 8-3-87 or upon the receipt of the new MFRs? (Applause)

13 CHAIRMAN NICHOLS: Let me tell you what is in my mind
14 right now. I believe that this Commission has an obligation to
15 provide a Company, and I believe this is the law, with a fair and
16 equitable -- whatever those wonderful words are that Mr. Pruitt
17 quotes to us frequently -- about the opportunity to earn a fair
18 rate of return. And that can only be determined by this
19 Commission when we have the financial schedules that are adequate
20 and that are representative of the operations of the Company.
21 When we have a case before us which says, "We have changed the
22 plant in service schedule to show an increase, we know that this
23 change affects a lot of other areas, such as depreciation,
24 property taxes, capital structure, and so forth and so on," and
25 we don't make those changes, then I know that I do not have

1 available to me the financial statements that accurately depict
2 the conditions that this Company is in and the condition that
3 this Company will have to proceed forth.

4 It is impossible, in my judgment, for this Commission
5 to then set rates that we believe will satisfy the law and be
6 representative of the Company's needs under the law to have the
7 opportunity -- not the guarantee, but the opportunity -- to have
8 a fair rate of return.

9 So I would support your motion that we rise. I would
10 request that the Company needs -- as far as I am concerned, the
11 ball is in the Company's court, and that they can either prepare
12 the MFRs in accordance with the change that they wish to make and
13 we will go forward from that point, or they can, you know, start
14 all over, or whatever.

15 MR. MELSON: Commissioner Nichols, if --

16 MR. SHREVE: Thank you very much.

17 MR. MELSON: If I might, the Company, and if I have not
18 made myself clear I apologize. The Company is prepared today to
19 go forward on the basis of the original MFRs, as filed, with no
20 changes for Storage Station C. We are willing to go forward on
21 that basis. And in the interest of moving forward with the case
22 and minimizing rate case expense, I heard a comment that led me
23 to believe that you all were not clear that that was our
24 position, but we are willing to go forward with the case as
25 originally filed at this time.

1 COMMISSIONER GUNTER: Let me ask you a question, and
2 let me be very candid with you, all attorneys. You know, if you
3 have got 50 attorneys in the room and you say, "What does that
4 stop sign out there mean," you might get unanimity but I would
5 certainly doubt that. You know, whether it is a Georgia stop --
6 you know, that's one where you used to just shift gears when you
7 got there -- or whether you really stopped, or if you backed up.
8 A guy ran into the side of my mother one time, just to give you
9 an example, and it was at a yield sign. The Judge asked him, and
10 I was sitting in the courtroom: "What does that yield sign mean
11 to you, sir?" He said, "That means to get out there as fast as
12 you can." That really happened.

13 My concern is, and let me be very candid with you: I
14 don't want to screw up this case. We have got a lot of cases
15 that are really screwed up and it sends false signals to the
16 companies, to the intervenors, to the customers, and to the
17 industry.

18 Now, we have got a way to do a case very cleanly or we
19 have got a way to do a case that is like driving along in the
20 fog, that you are never sure what is up in front of you. And
21 we've got a situation of, well -- and Mr. Pruitt, I'm going to
22 tell you, God bless him, he doesn't ever give us bad advice. I
23 beg him every year to wait and retire when I do. He knows that's
24 the truth because, in addition to being a damned good lawyer he
25 is a damned good friend. I get concerned about the question of

1 -- I don't understand the legality of proffering testimony of
2 something that we have said and we have agreed to up front that
3 ain't going to be in the case.

4 MR. MELSON: Yes, sir, and if that is the problem --

5 COMMISSIONER GUNTER: You know, I understand that. I
6 want a clean, concise, clear case so that everybody understands.
7 If you all want to appeal to the court -- you know, you have
8 appealed us what, 100 times maybe?

9 MR. MELSON: No, sir.

10 COMMISSIONER GUNTER: Fifty, or whatever.

11 MR. MELSON: I haven't won very many.

12 COMMISSIONER GUNTER: Okay, yes, but you do. And my
13 concern is that, as I talk to the folks that are here, Mr. Melson,
14 is that I want to make sure that we don't create the procedural
15 situation that clouds the court's ability to make a decision on
16 the factual issues. That's the reason I said, hey, if we are
17 going to get cloudy I am not willing to go further. Because the
18 case, and I think you will have to agree -- I am not damning the
19 Company because of the error. Anybody can make an error. But I
20 would have me a stick and we would be out behind the wood shed
21 with somebody that made a \$800,000 in the process, you know, we
22 can get it explained, the way it used to be explained to me on
23 the farm. You know, you would feed the mule too much, or
24 something, and he would get the colic. But I am not willing,
25 unless we can have some agreement right here and now, that we

1 limit all the testimony and the filing, and what have you, to the
2 case as filed. If we do other than that, and we start getting
3 cute about, you know, we want to put -- I don't understand the
4 implications of that.

5 CHAIRMAN NICHOLS: Commissioner, the only problem I
6 have with that is simply that, as I understand what has happened,
7 it is that when our Staff -- not the Company't, not Mr. Shreve's
8 but the Public Service Commission Staff -- went in to do the
9 audit they discovered an error of what, \$809,000?

10 COMMISSIONER GUNTER: That's in one item.

11 CHAIRMAN NICHOLS: Yes, that's in one item, which runs
12 all the way through the case. My problem is that I think the
13 Company needs to get the MFRs correct because we have a
14 responsibility to regulate utilities in a manner that is
15 representative of what their actual situation is. I mean, to sit
16 here and say, "Well, there may be this issue out here which is
17 very huge but we are going to ignore it because the Company
18 failed to put that in their filing originally," right away I
19 think this Commission is then in the posture of saying that we
20 are going to set rates for this Company that we know are not
21 representative of that Company's situation.

22 COMMISSIONER GUNTER: Tht's correct.

23 CHAIRMAN NICHOLS: And I think what would happen is, as
24 a purely practical matter, we would set those rates and I doubt
25 if we would have those rates into effect before the Company had

1 filed another case.

2 If we are going to go through this thing twice I would
3 rather go through a little teeny weeny bit of it, like up to
4 right now, and then go through the rest of it, all of it, at one
5 time with the proper schedules and the proper information before
6 the Commission. (Applause) Mr. Melson?

7 MR. MELSON: Let me try to explain --

8 COMMISSIONER GUNTER: Let me just say one thing. In
9 this -- and I hope the word gets back to our audit staff. You
10 know, we send it in every case where we do read them. On Page 32
11 of Audit Finding No. 7, I thought it was rather interesting, and
12 your Company gets Craig Wheeling out of Miami, he gets a copy of
13 this that is sent to the Commission on July 29th, where they
14 found the plant in service rate case assumptions, you know, they
15 were reviewing those and there's where the water plant was found.
16 It's interesting, the last sentence. Have you got a copy of
17 that? It just says, "Company comment withheld pending further
18 review."

19 You know, that's one -- I put a great deal of
20 confidence in the audit review because it's, you know, shared
21 with everybody. Even at that juncture, you know, "Comment
22 withheld pending further review" --

23 MR. MELSON: Commissioner Nichols, if I might address a
24 concern that you just expressed. The Company at this point is
25 not playing games with you. We are prepared to go forward on the

1 basis of the original MFRs as filed. We recognize that that does
2 not include the Water Storage Station C. We are, as any utility
3 can, able to come before the Commission and ask for less
4 than a fair rate of retur. In essence, our agreement to exclude
5 those costs is in a way asking you for less than a fair rate of
6 return. We will do that. We will stipulate that we will not
7 come back with anything through a 1988 test year, which is what
8 we are dealing with in this case, and attempt to come back
9 through this regulatory process and make another filing and bring
10 that in. We are anxious to get on with the case.

11 COMMISSIONER GUNTER: In other words, you are saying
12 that there will be no filing until after the first of January of
13 1989?

14 MR. MELSON: No filing for a test year before a 1989
15 test year.

16 CHAIRMAN NICHOLS: Well, you could file today for a
17 projected 1989 test year.

18 COMMISSIONER GUNTER: You could do that tomorrow.

19 CHAIRMAN NICHOLS: Yes.

20 Mr. Melson, as I said, I have a real problem proceeding
21 forward when we know of a -- it is not immaterial, it is a major,
22 major situation, or a major, major change to the Company's
23 financial statements that are not before us. Commissioner Gunter
24 and I are in agreement that we are going to rise, and the ball is
25 in your court as to how this is going to proceed. Thank you.

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(Applause)

MR. SHREVE: Thank you, Commissioners.

(Thereupon hearing adjourned at 11:00 a.m.)

1 F L O R I D A)
2 :
3 COUNTY OF LEON)

CERTIFICATE OF REPORTER

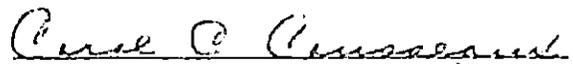
4 I, CAROL C. CAUSSEUX, CSR, RPR, Official Commission
5 Reporter,

6 DO HEREBY CERTIFY that the hearing in the matter of the
7 Application of General Development Utilities, Inc., Silver
8 Springs Shores Division, for increased water and sewer rates in
9 Marion County, Docket No. 870239-WS, was heard by the Florida
10 Public Service Commission on Thursday, October 8, 1987,
11 commencing at 10:00 a.m., in Ocala, Florida.

12 I FURTHER CERTIFY that I was authorized to and did report in
13 shorthand the proceedings held at such time and place; that the
14 same has been reduced to typewriting under my direct supervision,
15 and that the foregoing pages numbered 1 through 38, inclusive,
16 constitute a true and accurate transcription of my shorthand
17 notes of said proceedings.

18 I FURTHER CERTIFY that I am neither related to nor related
19 to the parties in said cause and have no interest, financial or
20 otherwise, in the outcome of this docket.

21 IN WITNESS WHEREOF, I have hereunto set my hand at
22 Tallahassee, Leon County, Florida, this 12th day of October,
23 A.D., 1987.

24 
25 CAROL C. CAUSSEUX, CSR, RPR
Bureau of Reporting
101 East Gaines Street
Tallahassee, Florida 32399-0871