

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

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Docket No. 150071-SU

REBUTTAL TESTIMONY

OF

DEBORAH D. SWAIN

on behalf of

K W Resort Utilities Corp.

1 **Q. Please state your, name profession and address.**

2 A. My name is Deborah D. Swain. I am Vice President of Milian, Swain & Associates, Inc.  
3 and head up the firm's finance, accounting and management team. My business address is  
4 2015 SW 32<sup>nd</sup> Ave., Suite 110, Miami, Florida 33145.

5 **Q. Have you presented direct testimony in this case.**

6 A. Yes I have.

7 **Q. What is the purpose of your rebuttal testimony?**

8 A. The purpose of my rebuttal testimony is to present information to refute some of the issues  
9 and arguments presented by Office of Public Counsel witness Patricia M. Merchant and  
10 Florida Public Service Commission witness xx.

11 **Q. Are you sponsoring any exhibits?**

12 A. Yes, I am sponsoring the following exhibits: Exhibit DDS-4, select updated schedules from  
13 MFR Volume I, Exhibit DDS-5, the company's response to Audit Finding 1 of the Audit  
14 Report, and DDS-6, support for the current level of equity.

15 **Q. Were these Exhibits prepared by you and your staff?**

16 A. Yes they were, using information provided by KWRU staff or consultants.

17 **Q. What issues will you be addressing in your testimony?**

18 A. In response to OPC witness Merchant, I will be addressing the following issues:

- 19 • Appropriate Test Year
- 20 • Audit adjustments
- 21 • Proforma plant
- 22 • Proforma adjustment for vacuum tank
- 23 • Annualized depreciation expense for TY additions
- 24 • Non-used and useful
- 25 • Accounting expense for correction of company books

- 1 • Customer growth tied to new plant
- 2 • CIAC based on U&U growth projection
- 3 • Construction Work in Progress (CWIP)
- 4 • Working capital
- 5 • Cost of Capital
- 6 • Proforma Expenses
- 7 • Test Year Revenue Adjustments and Revenue projection
- 8 • Billing based on tariffs
- 9 • Rate case expense

10 **Q. Is the 2014 historical test year with pro forma adjustments appropriate for setting**  
11 **rates in this proceeding?**

12 A. Yes, the 2014 historical test year is an appropriate view of the utility's financial situation  
13 with the exception of the very specific and identifiable costs associated with the proforma  
14 plant additions and resulting impact on expenses.

15 **Q. Are you aware of any rule that provides guidance in the establishment of the Test**  
16 **Year?**

17 A. Yes, 25-30.430 Florida Administrative Code, "Test Year Approval" requires that a Utility  
18 submit a request for its test year prior to filing an application for a rate increase, and if the  
19 utility does request a projected test year, it must " provide an explanation as to why the  
20 projected period is more representative of the utility's operations than a historical period."  
21 In this case the utility requested, and was granted approval, for a historical test year of  
22 December 31, 2014. The inclusion of the 350,000gpd pro forma plant expansion was  
23 disclosed in the test year request letter, and approved by the Chairman.

24 I also looked at Chapter 367.081 of the Florida Statutes to see if there is a guideline or  
25 requirement with respect to "projected test year". The only reference to use of a projected

1 period is with respect to an application for initial rates. Chapter 367.081 (2) (B) states, "IN  
2 ESTABLISHING INITIAL RATES FOR A UTILITY, THE COMMISSION MAY PROJECT THE  
3 FINANCIAL AND OPERATIONAL DATA AS SET OUT IN PARAGRAPH (A) TO A POINT IN  
4 TIME WHEN THE UTILITY IS EXPECTED TO BE OPERATING AT A REASONABLE LEVEL OF  
5 CAPACITY."

6 **Q. Do you agree with Ms. Merchant's position that appropriate test year to consider the  
7 expansion of the plant is a "Pro Forma Test Year Ended December 31, 2016"?**

8 A. No. Ms. Merchant is basing this on one very specific premise - that the utility had  
9 "exceptionally high" or "significant expected" growth. Using her argument, if the expected  
10 growth is not found to be "exceptionally high" or "significant", then the conclusion must be  
11 that the historical test year is correct.

12 **Q. Are you aware of any rule that defines "significant expected" or "exceptionally high"  
13 growth?**

14 A. No, I am not. Section 367.081, Florida Statutes, doesn't even address a projected test year  
15 except that it allows a projection of financial and operational data when setting rates for a  
16 new utility. Any other basis for the use of a projected test year is limited to Commission  
17 rulings in a rate case. Ms. Merchant cited Burkim Enterprises, Inc. ("Burkim") Order No.  
18 PSC-01-2511-PAA-WS, and Martin Downs Order No. 15725 as examples where those  
19 terms were used to explain use of a projected test year. In my review of the Burkim case, I  
20 found the statement, *"Because the utility is growing at an exceptionally high rate (29  
21 connections per year), rates based on historical data alone will be significantly different  
22 than rates based on current or even future conditions, and the potential for overearning  
23 exists if a projected test year is not used."* Burkim was a staff-assisted (SARC) rate case  
24 and is not subject to the rigor of a contested rate case. I would not rely on a SARC as a basis  
25 for precedent. The concern about overearnings in that case is overstated since the  
26 Commission has a mechanism in the rules to monitor and address any potential

1           overearnings. When the utility underearns, it has no similar protection, other than to file an  
2           application for a rate increase. Further, that order quotes the statement in the Martin Downs  
3           Order No. 15725, "*The test year is an analytical device used in rate making proceedings to*  
4           *compute current levels of investment and income in order to determine the amount of*  
5           *revenue that will be required to assure a company a fair return on its investment. Test year*  
6           *data must be adjusted to properly reflect conditions in the future period for which rates are*  
7           *being fixed. Based upon historical data we anticipate Martin Downs will continue to*  
8           *experience rapid growth of demand for its services."* The Martin Downs case is 30 years  
9           old. Reaching back that far for precedent without more recent corroboration in a water or  
10          wastewater case doesn't make for a very strong case.

11       **Q.    Is there a more recent case of which you are aware which corroborates your**  
12       **conclusion that a projected test year is not warranted?**

13       A.    We need look no further than the last KWRU rate case. In Docket No. 070293-SU, the  
14       utility presented its calculation of growth as 10.043% simple average and 8.7130% average  
15       increase as determined by linear regression.[see MFR Schedule F-10 in that docket]. The  
16       test year used by the utility was the historic test year and the Commission and the Office of  
17       Public Counsel witness accepted the historic test year without comment. Seeing that the  
18       growth rate in this case is less than that in the previous case, there is no basis for a projected  
19       test year in this case.

20       **Q.    Do you believe that the growth rate for KWRU is cause for moving to a projected test**  
21       **year?**

22       A.    No. Section 367.081, Florida Statutes establishes protections, as it limits growth  
23       considerations to 5% per year, subject to certain exceptions. So even if a growth rate is  
24       higher, as in this case, its affects are limited. In my opinion, that eliminates higher growth  
25       rates as a basis for a projected test year.

1 **Q. Witness Merchant proposed adjustments to expenses and revenues beyond the pro**  
2 **forma changes reflected in this filing on the basis that they reflect customers in a**  
3 **projected year. Do you agree with those proposals?**

4 A. No. All this does is create a new test year, based on further projections, when there is no  
5 basis for it. Section 367.081, Florida Statutes supports just what KWRU has done in its  
6 filing and gives not even a hint about the use of a projected test year.

7 **Q. To what portions of Section 367.081, Florida Statutes are you referring?**

8 A. The statute recognized that there would be circumstances such as those faced by KWRU  
9 would be encountered. Section 367.081(2) (a) 2. therefore, requires the Commission “to  
10 consider utility property, including land, acquired or facilities constructed or to be  
11 constructed within a reasonable time in the future, not to exceed 24 months after the end of  
12 the historic base year to set final rates unless a longer period is approved...” The statute  
13 then goes on to set parameters for consideration for these additions to be used and useful in  
14 the public service. The parameters considered are: a.) property needed to serve current  
15 customers, b.) property needed to serve customers five years after the end of the test year  
16 and c.) property needed to serve more than five years after the test year to the extent that the  
17 utility presents clear and convincing evidence. The statute sets up these ways of considering  
18 future additions with no reference to the use of a projected test year. However, the utility  
19 meets both (a) and (b), as testified by witnesses Johnson, Castle and Seidman.

20 **Q. Is there anything else in the statute that is of relevance?**

21 A. Yes. Because of the environmental compliance nature of the expansion, the pro-forma  
22 adjustments in the KWRU filing should be 100% used and useful as testified to by witness  
23 Ed Castle, the utility's engineer of record.

24 **Q. How would you characterize the findings in Audit Adjustment #1.**

25 A. The adjustments found by the auditors fell into three primary categories: (1) duplication

1 where invoices were already included in rate base, (2) difference of opinion regarding  
2 whether items should be capitalized, and (3) KWRU errors. Because we did not have the  
3 audit workpapers from the prior rate case, there were items the auditors stated were already  
4 included, and we did not argue. There were a number of transactions that the auditors  
5 reviewed and found should not be capitalized, but on further explanation, they agreed. An  
6 example is the use of certain chemicals only while the plant was being tested. In addition,  
7 upon our further review, we concluded that their findings were correct, and we were in  
8 error, or we did not have adequate support or backup documentation. As I mentioned  
9 previously, none of the cost associated with the compilation of that documentation was  
10 included in rate case expense. In my experience the audit adjustments were the usual type  
11 made in other rate cases.

12 **Q. Were any of the audit adjustments due to the Utility's "failure to comply with PSC**  
13 **ORDER NO. PSC-09-00S7-FOF-SU"?**

14 A. No, because the Utility properly booked the adjustments, and referenced those adjustments  
15 clearly in its 2008 Annual Report.

16 **Q. Can you please provide more detail about the audit adjustments with which you**  
17 **disagree?**

18 A. Yes. I have attached Exhibit DDS-5 which is the response to Audit Finding 1 in the  
19 Commission Audit Report attached to PSC Witness Piedra's testimony. This response was  
20 filed previously, and a revision to the audit adjustments was made by staff in the PAA as a  
21 result. The details can be seen in the response, but they included the following:

- 22 • Costs to set up a generator
- 23 • Force main repairs as a part of a larger initiative to tighten the collection system
- 24 • Equipment repair cost to extend the life
- 25 • The cost of construction debris cleanup

- 1 • Engineering costs associated with capital projects
- 2 • Liquid sludge hauled while the WWTP was under construction
- 3 • Chemicals used exclusively for testing during construction
- 4 • Other miscellaneous construction costs

5 **Q. What is the correct adjustment to rate base resulting from Audit Finding 1?**

6 A. As agreed to by KWRU, and indicated in the PAA, the correct amount is \$817,240.

7 **Q. Do you agree with OPC witness Merchant that the utility should have already made**  
8 **adjustments to its books in compliance with the PAA Order PSC-09-0057-PAA-SU?**

9 A. Yes, and as I stated, they were. The company recorded the adjustments and reflected them  
10 in its December 31, 2008 Annual Report. The order was issued January 27, 2009, and the  
11 Annual Report footnoting the appropriate schedules which included the adjustments, was  
12 filed on March 27, 2009.

13 **Q. Was the work that your firm performed to review and recommend adjustments to the**  
14 **utility's books related to the adjustments in the prior case?**

15 A. Only to the extent we confirmed they were recorded.

16 **Q. Do you agree with OPC witness Merchant that it is inappropriate to include pro**  
17 **forma plant in Phase I rates?**

18 A. No, but I further do not believe it is appropriate to apply the rates in a phased approach. As  
19 Ms. Merchant states, Section 367.081(2)(a)2., Florida Statutes, provides that for purposes  
20 of establishing rates, the Commission shall consider utility property, including facilities  
21 constructed or to be constructed, not to exceed 24 months after the end of the historic  
22 test year used to set final rates, unless a longer period is approved by the Commission,  
23 to be used and useful in the public service. The full completion of this enormous  
24 construction project will be nearly complete within the 24 months. At the time of the  
25 filing, the construction was expected to be completed within 24 months. The utility has



1 worked diligently to complete the project within 24 months. If not for the litigation  
2 where the utility defended its renewal of their operating permit to avoid an  
3 unreasonably costly disposal alternative, the construction could have been completed  
4 within 24 months. Bear in mind that had the utility chosen to implement the more costly  
5 disposal method, the impact on the consumers would have been millions of dollars more  
6 than the expansion cost will now be. And finally, the statute gives discretion to the  
7 Commission to approve a longer period. Considering the circumstances in the case, I  
8 urge the Commission to allow a longer period, which is only three months past the  
9 allowed 24 months.

10 **Q. Do you agree with OPC witness Merchant that it is inappropriate to include cost of the**  
11 **vacuum tank replacement Phase I rates?**

12 A. Again, I do not believe it is appropriate to apply the rates in a phased approach. However,  
13 since the vacuum tank will be fully operational within 24 months of the test year, if the rates  
14 are phased, it should be included in the Phase I rates.

15 **Q. Are you recommending any adjustments to your prefiled testimony Exhibit DDS-2**  
16 **regarding the cost to be included for the vacuum tank?**

17 A. Yes, as testified by KWRU witness Chris Johnson in his prefiled rebuttal testimony, the  
18 vacuum tank final construction cost will be lower than the original estimate used. I have  
19 adjusted rate base in Exhibit DDS-4 to reflect this reduction. I have also made the  
20 corresponding adjustment to increase depreciation expense and accumulated depreciation,  
21 reflecting a 30 year life.

22 **Q. Do you agree that the original vacuum tank should be retired?**

23 A. Yes, and I have adjusted rate base in Exhibit DDS-4 to reflect this retirement. This will  
24 have no impact on rate base, but there will be an impact on depreciation expense because  
25 the original vacuum tank is not fully depreciated. As indicated by KWRU witness Johnson,

1 it was installed in 2003, and the actual original installed cost was \$390,285.

2 Since I have been provided the actual installed cost, I have removed that amount from both  
3 utility plant in service and accumulated depreciation. With a 30 year depreciable life , the  
4 appropriate reduction to depreciation expense is \$13,009.

5 **Q. Do you agree with Ms. Merchant's observation about Audit Finding 4 (CIAC and**  
6 **Amortization of CIAC) that the utility's outside accounting work was to comply with**  
7 **the Commission's prior rate case order?**

8 A. No I do not. The analysis we did was to review the CIAC collected and recorded after the  
9 last rate case test year. Furthermore, the "Restatement of CIAC" documents to which Ms.  
10 Merchant refers was prepared by the utility. My firm reviewed the contracts and  
11 spreadsheet to confirm the amounts and made corrections where needed.

12 **Q. Should an adjustment be made to rate case expense to remove any cost associated with**  
13 **correcting the company's books?**

14 A. No, we separated the costs associated with correcting the company's books from the cost  
15 associated with the rate case. KWRU became aware that its previous accounting firm had  
16 not properly reflected the costs for a period of several years. At the time that KWRU  
17 reviewed the need to file an application to increase it rates, it was realized that the books  
18 needed to be corrected. KWRU staff performed an initial review of all of the transactions  
19 over a several year period, and recommended revision. My firm, Milian, Swain &  
20 Associates, Inc. ("MSA") was retained to review the transactions and to recommend final  
21 adjustments. The intention at the time was to re-file the annual reports after 2006 to reflect  
22 these adjustments. Because the extensive review was so closely tied to the eventual filing of  
23 a rate case, KWRU staff did not always separate the costs correctly. However, in the filing  
24 of the case we reviewed the rate case expense and made sure to segregate the costs  
25 associated with correcting the company books. Furthermore the auditors reviewed the costs

1 to specifically separate the costs. I am under the impression this has been done correctly.  
2 However, if it is found that an invoice for one effort was incorrectly included in the other, it  
3 is understandable in light of the close correlation and should be corrected.

4 **Q. Do you agree with OPC witness Merchant that Construction Work in Progress should**  
5 **include the Test Year expenditures plus the cost of defending the Permit litigation?**

6 A. I do agree that test year expenditures should be included in CWIP, but not the cost of  
7 litigation associated with the permit. I will describe the reasons in more detail later.

8 **Q. What is your opinion regarding OPC witness Merchant's observation about the**  
9 **number of adjustments included in staff's audit finding #5 regarding accumulated**  
10 **depreciation?**

11 A.. Ms. Merchant stated that she noted the volume and amount of adjustments recommended  
12 by the auditors and how the Utility's books have not been maintained in accordance with the  
13 adjustments ordered in the last rate case. She brought this up on several occasions. However  
14 I want to clarify that the utility made all of the adjustments in its prior rate case as ordered,  
15 and in the time frame required. Admittedly, however, the voluminous transactions related to  
16 subsequent construction projects were not all recorded properly, and as I previously  
17 described, the utility recognized this and has worked to correct this. This should not be a  
18 poor reflection on KWRU. On the contrary this was brought to the attention of the auditors.  
19 Furthermore, because KWRU extracted and compiled the support for every single  
20 transaction that it thought should be capitalized, KWRU was able to transmit a CD  
21 containing 100% of the capitalizable transactions since the last rate case. Rather than  
22 performing an audit of a sample of transactions, the auditors were easily able to review  
23 100% of the transactions.

24 **Q. Do you agree with OPC witness Merchant that depreciation expense for test year**  
25 **additions should not be annualized?**

1 A. No, the adjustment that I made was to annualize both the expense and the accumulated  
2 depreciation. This is not "cherry picking" as Ms. Merchant called it. On the contrary, this  
3 procedure has been accepted in other cases, such as the Application to Increase Water and  
4 Wastewater Rates by Labrador Utilities, Inc. Docket No.: 140135-WS, and the Application  
5 to Increase Water and Wastewater Rates by Sanlando Utilities, Inc. Docket No. 140060-  
6 WS. OPC participated in both of those proceedings.

7 **Q. What non-used and useful adjustment is needed?**

8 A. The Used and useful plant in the original MFRS, Exhibit DDS-1, is consistent with  
9 KWRU's position as explained by KWRU witness Frank Seidman. No adjustment is  
10 necessary.

11 **Q. Do you agree with OPC witness Merchant's adjustments to CIAC?**

12 A. I agree with the audit adjustment as Ms. Merchant does, but do not agree with the others. I  
13 will address them separately.

14 As I stated previously, the test year should be a historical December 31, 2014 test year, and  
15 as such, it is not appropriate to adjust CIAC to another period. It should be reflected as a  
16 year average balance, and additional CIAC for future periods should not be included. If,  
17 however, an adjustment is made to include future CIAC, the repayment of CIAC Banyan  
18 Grove, Florida Keys Linen Co LLC, 5713 First Avenue, CVS, El Mar RV Resort, and El  
19 Mocho, in the amount of \$319,630.50 should reduce this addition. Furthermore, the  
20 calculation of future CIACs by Ms. Merchant is incorrect and should not be considered as it  
21 violates Section 367.081(2)(a)1 as I stated previously. Moreover, Oceanside Investors and  
22 Oceanside Dockominium have been refunded the collected CIAC in the amount of  
23 \$93,204.00 as they will be placed on Monroe County's assessment roll as part of the 1,500  
24 EDUs reserved by Monroe County. Florida Keys Linen Co LLC will also be placed on  
25 the assessment roll and the future payments will no longer be due and all prior amounts will

1 be refunded to Florida Keys Linen Co LLC. The total amount of prepaid CIAC is  
2 \$129,672.00.

3 **Q. Do you agree with OPC Witness Merchant that her adjustment to increase CIAC is**  
4 **consistent with how the Commission has interpreted Section 367.081(2)(A)1, Florida**  
5 **Statutes?**

6 A. No, as Ms. Merchant quotes, the statute states, "...nor shall the commission impute  
7 prospective future contributions-in-aid-of-construction against the utility's investment in  
8 property used and useful in the public service..." This clearly states that the Commission  
9 shall not impute future CIAC against used and useful plant. However, this is exactly what  
10 witness Merchant is proposing.

11 **Q. Do you agree with OPC witness Merchant's adjustments to Amortization of CIAC?**

12 A. No, the PAA is correct as it is.

13 **Q. Do you agree with OPC witness Merchant's calculation of working capital?**

14 A. No, and I will address each component individually.

15 Cash - Witness Merchant agrees with the PAA, stating that cash is excessive, and that since  
16 ratemaking is prospective, the balance should be normalized. This argument fails to  
17 recognize the source and purpose of the cash. For example - cash increased between  
18 December 2014 and January 2015 by \$427, 972 (MFRs Schedule A-18). CIAC increased  
19 \$370, 440 in that same month (MFR Schedule A-18). By the end of the year, \$585,257 of  
20 CIAC had been collected. The CIAC is a reduction to rate base, why would the  
21 corresponding cash not be an increase? Further, Merchant describes the reason she agrees  
22 with adjustments made by the Commission in the PAA. The first was to remove \$126,930  
23 from an escrow account closed in March 2015 related to capacity fees. The second was to  
24 remove a customer deposit escrow account balance of \$141,828. One similarity between  
25 these accounts is that the utility books characterized them as escrow, however neither met

1 the legal definition of an escrow account. The terminology was for internal management  
2 purposes, and has no bearing on their includability. KWRU is eliminating any reference to  
3 escrow accounts to avoid future confusion. Furthermore, with respect to the capacity fee  
4 account - the CIAC that generated that cash is included as a reduction to rate base. Of  
5 course the cash that was collected should be included. To exclude one and not the other  
6 does not meet the matching principal. With respect to the customer deposits, it is  
7 nonsensical to state that the cash from customer deposits should not be included in working  
8 capital, just as to say that the plant constructed by debt in the capital structure is not  
9 included in rate base. The source of the funds stands on its own.

10 Finally, Ms. Merchant agrees with the Commission that the capital cash account should be  
11 excluded as well. Again, purely for an internal management reason, a separate account was  
12 set up to ensure that funds were available at the onset of the construction. The CIAC that  
13 generated this cash is used to reduce rate base, and the cash should be included in rate base  
14 as working capital. Alternatively, if a phased approach is implemented, this amount of cash  
15 represents funds that were ultimately used to fund the plant expansion, and should be added  
16 in Phase I as working capital available for the expansion, much as the CWIP balance is  
17 included.

18 Construction Permit Litigation - Ms. Merchant has recommended that the costs included by  
19 the Utility to defend its permit should be capitalized to Utility Plant in Service instead of  
20 being deferred and amortized, with the unamortized balance included in working capital.  
21 She states, "These costs were incurred directly by KW to obtain permission from the DEP  
22 to build KW's treatment plant." Although the permit application was associated with  
23 the construction, the appeal was filed against the approval of the shallow wells for disposal  
24 that were allowed under the then-current operating permit. Since this would have impacted  
25 the current operations, I continue to believe that it is appropriate to defer and amortize the

1 legal fees over the five year life of the permit, rather than to capitalize them.

2 Accounting Fees - Ms. Merchant recommends that the cost of reviewing and correcting the  
3 company books in 2014 be excluded. The specific reasons she states are (1) that KW fails  
4 to explain how restating Annual Reports provides any future benefit to customers, and (2)  
5 because the utility failed to make Commission ordered adjustments from the previous rate  
6 case, which necessitated the incurrence of the substantial expense. I will address the two  
7 arguments in reverse. The work done in 2014 was unrelated to the Commission ordered  
8 adjustments in the last rate case. Those Commission ordered adjustment were made to the  
9 company books in 2008 as required. The work done in 2014 was to determine the proper  
10 accounting treatment of several large construction projects that took place after the last rate  
11 case, some of which were proforma adjustments in that case. Furthermore, KWRU's books  
12 required restatement based on my company's review. The correct recording of capital  
13 projects on the utility's books is an appropriate cost of the utility. We recognize that  
14 although the work was done during the test year, the benefit is for more than the test year.  
15 As is customary practice, we recommended amortizing it over a five-year period rather than  
16 including the entire cost in the test year. Regarding the filing of the restated Annual  
17 Reports, because of the impending audit of the adjusted books and records it is my  
18 recommendation that the Reports not be filed until the audit adjustments are made.

19 Balance overall - Ms. Merchant states that the proforma working capital is a "completely  
20 inappropriate balance", and does not represent the working capital needs of the Utility. She  
21 further states that working capital should be supported by the Utility's actual and projected  
22 balance sheet components, and compares to the 2015 balance as reported on the Annual  
23 Report. I disagree with Ms. Merchant's characterization because it disregards the reason for  
24 the balance during the test year and the change in the subsequent year. As I stated earlier,  
25 the increase in cash and therefore working capital, was due to payments of CIAC. To the

1 extent that the CIAC is an offset to rate base, the cash should be included as an addition to  
2 rate base. The cash was subsequently used, in large part, to fulfill its purpose -- to cover  
3 operating costs as well as construction costs.

4 WIP - TY expenditure + Permit cost

5 **Q. What other adjustments to the MFRs have you made?**

6 A. The MFRs should be adjusted for revised updated proforma O&M expenses as presented by  
7 Chris Johnson. In addition, as the proforma capital projects are further along, we have  
8 additional revisions to the includable proforma cost of the wastewater treatment plant, and  
9 the new vacuum tank as described in Mr. Johnson's testimony, along with the associated  
10 accumulated depreciation and depreciation expense should be included. These are also  
11 reflected in DDS-4.

12 **Q. Do you agree with the adjustments made by the Commission staff in the PAA order to**  
13 **rate case expense?**

14 A. No, not all of them. First, the Commission removed some of the fees with respect to Smith,  
15 Oropeza, Hawks PL (Smith), claiming they are duplicative of the work done by Friedman &  
16 Friedman. However, it is my understanding that the work is not duplicative, each has  
17 specific responsibilities, and the only duplication has been with respect to participation on  
18 conference calls. Smith has represented the Utility in litigation and has undertaken all  
19 discovery work with no overlap by Friedman & Friedman. Smith is a local firm and is in a  
20 better position to facilitate discovery and has lower cost attorneys assigned than Friedman &  
21 Friedman. Any of the work is divided between the two firms. It should be noted that the  
22 other parties in this case have multiple attorneys, yet there is not a presumption that their  
23 work is duplicative. Furthermore, it is absolutely reasonable that the utility use two  
24 attorneys to respond to the voluminous discovery requests in this case. It is common  
25 practice for more than one attorney to work on a single case; it may simply not be as



1           apparent since they are usually within the same firm. The full amount of the cost from  
2           Smith should be included.

3           Commission staff also removed a portion of the estimated cost for my firm to complete the  
4           filing. As it turned out, the time spent through PAA was more than the time estimated.  
5           However, that is moot, since we have now prepared a revised estimate of rate case expense  
6           for my firm. A portion of the fees from Jeffrey Allen, P.A. were removed, in part as being  
7           duplicative of MSA. However, there was no duplication. Mr. Allen provided financial  
8           reports, detailed general ledgers and journal entries needed for data requests, audit, etc.  
9           MSA does not maintain nor even have access to KWRU's financial records. Mr. Allen is the  
10          one with that information. Finally, a portion of Weiler Engineering Corp. cost to complete  
11          were disallowed, and again is moot since we have the actual costs, plus new estimates to  
12          complete.

13       **Q. Do you agree with OPC witness Merchant's calculation of the Cost of Capital?**

14       A. No. First, with regard to the affiliate debt, this debt has been converted to equity. This entry  
15       was made on KWRU's books on June 1, 2016. Additionally, the utility never made  
16       payments on the affiliated debt, and as such should be considered paid in capital (equity).  
17       Second, Ms. Merchant's statement " Until such time that the Utility can meet its burden and  
18       produce documents demonstrating that it has infused any equity as opposed to debt into its  
19       capital structure, I recommend that debt be used to support the cost of any pro forma plant".  
20       Until the infusion of funds are needed, there is no documentation except the utility's  
21       assertion, in writing, that is its intention. However, in fact the utility has converted the debt  
22       to equity, and already provided funding of \$2,041,903 during 2016, as responded to in  
23       Staff's Interrogatory #17. Exhibit DDS-6 provides documentation showing the entries to  
24       record the additional equity. The appropriate ROE is the calculation based upon the  
25       leverage formula, or 9.18%.

1           Additionally, Ms. Merchant used a long term debt cost rate of 4%. Since the current prime  
2           rate is 3.5%, and the BB&T debt is .75% over prime, I have used the current cost of 4.25%  
3           in Exhibit DDS-4.

4       **Q.    Do you agree with OPC witness Merchant's projection of Phase II revenues?**

5       A.    I disagree completely with the escalation of bills and gallonage to implement a projected  
6           test year. This is very simply because it is a historic test year.

7       **Q.    Please address OPC witness Merchant's proforma O&M expenses for Phase I?**

8       A.    Obviously, proforma expenses included in the original MFRs are purely estimates. With the  
9           passage of time, we have actual numbers upon which we may rely. It is appropriate to  
10          consider this new information in projections, as Ms. Merchant does. As I describe  
11          previously, phasing is not appropriate for this case. However, if the rates are phased, the  
12          revised Proforma expenses as described in Exhibit DDS-4 are the appropriate level.

13      **Q.    Do you agree with Ms. Merchant's comments on the inclusion of AWT costs in the last  
14          rate case?**

15      A.    No, I do not agree with Ms. Merchant's implied conclusion that in the last rate case the  
16          utility prematurely recovered certain costs associated with the upcoming AWT. Only a  
17          portion of the sludge hauling expense was allowed, and none of the estimated additional  
18          chemical expenses. The rates were effective in early 2009, and still the utility incurred a net  
19          operating loss for most of the subsequent years, including 2009.

20      **Q.    Please address OPC witness Merchant's proforma O&M expenses for Phase II?**

21      A.    I first object to the adjustments made by Commission staff in the PAA, with which Ms.  
22          Merchant agrees. I will address each separately.

23          Salaries and Wages

24          The adjustment by staff was based upon an analysis of the pro-forma salaries proposed by  
25          KWRU, and a finding that the salaries of two of the employees were excessive, selecting a

1 mid-point of a range of similar employees. However, the actual salaries paid to the two new  
2 employees are \$46,000 (including estimated overtime), compared to the pro-forma amounts  
3 requested of \$40,000 and \$50,000. This would fully support the original request by the  
4 utility.

5 Payroll Taxes

6 To the extent that salaries and wages are supported, the associated payroll tax is supported.

7 Employee Pension & Benefits

8 As of April 2016, the total amount expended was \$46,274. When annualized this totals  
9 \$138,822, without the cost of new employees hired after April 2016. This demonstrates that  
10 KWRU's estimated total amount of \$135,587 after proforma adjustments is reasonable, and  
11 the amount indicated would support the balance to the original amount requested.

12 Contractual Expenses-Accounting

13 KWRU estimated that it would incur an additional \$12,350 expense. Ms. Merchant has  
14 criticized the utility's accounting, but seems unwilling to recognize that in order for the  
15 utility to keep up and improve its accounting, additional cost will be incurred. Mr. Jeff  
16 Allen performs all financial accounting service including preparation of tax returns. The  
17 specific job duties were described consistently in response to various requests. The  
18 Commission staff considered that if the additional expense were to be necessary because of  
19 the plant expansion, then it would be considered. Since the utility responded that the cost  
20 was unrelated to the plant expansion, it was not eligible to be included as a proforma  
21 expense. This fails to recognize that the utility identified a need to improve its accounting  
22 and to engage an outside accountant to perform more of the accounting. The amount  
23 incurred in 2014 was \$11,550. In 2015, the expense was \$31,650, an increase of over  
24 \$20,000 The utility indicated that the cost would be increasing, estimated a level, and  
25 in fact incurred substantially more.

1           Management Fees - As Mr. Johnson testified, there is a tangible benefit provided by the  
2           management company. As such, the expense of management by Green Fairways should be  
3           included in test year revenues.

4   **Q.   Do you have comments on the additional adjustments made by OPC witness**  
5           **Merchant?**

6   A.   Yes.

7           Sludge Removal, Purchased Power, Chemicals, and Material and Supplies Expenses

8           Ms. Merchant calculated a proportionate reduction in expense based upon Mr. Woodcock's  
9           calculation of treatment level in 2016 vs the level estimated by the utility. However, as Mr.  
10          Johnson and Mr. Castle testify, this variation has a nominal impact and the expenses should  
11          be included.

12          General Liability Insurance

13          Based upon further review of updated numbers, I have adjusted the amount originally  
14          included in DDS-2 for general liability insurance as we discovered that the monthly accrual  
15          upon which we relied was incorrect. The correct amount is included in Exhibit DDS-4.

16   **Q.   Do you agree with OPC witness Merchant's adjustments to Depreciation Expenses?**

17   A.   I do agree to the adjustments for the audit findings. I do not agree to the adjustments due to  
18          phasing, as discussed previously. I do not agree to the removal of the annualization of  
19          depreciation expense for test year additions, as I explained earlier that this type of  
20          adjustment has been approved in the past. With respect to the adjustment by Ms. Merchant  
21          for Phase II, again I agree with the adjustment for the audit findings, annualizing the  
22          expense for the test year, and expense associated with the proforma plant additions,  
23          excluding the capitalization of legal fees. I have calculated the depreciation expense for the  
24          new vacuum tank and the retirement differently, as our actual estimated cost of the tank is  
25          different. With respect to the amortization of CIAC on projected CIAC, this is inappropriate

1 as it is not a projected test year. Finally, there should be no reduction of depreciation  
2 expense due to non-used and useful, consistent with the utility witnesses, Mr. Seidman and  
3 Mr. Castle.

4 **Q. Do you agree with OPC witness Merchant's calculation of Taxes Other Than Income?**

5 A. The correct amounts should be calculated based upon the correct levels of salaries for  
6 payroll taxes, plant for property taxes, and revenues for regulatory assessment fees.

7 **Q. Do you agree with OPC witness Merchant's statement that the utility's filings in July  
8 2016 substantially increased its original request for rate relief?**

9 A. No. Although DDS-2 and subsequently DDS-4 demonstrate that the Revenue Requirement  
10 is now greater than the original request, I did not include, nor did KWRU request, higher  
11 rates than originally requested. The Exhibits simply show that based upon information now  
12 known or estimated, the revenues required by the utility to earn its requested rate of return  
13 is higher than the request for which was applied.

14 **Q. Please comment on OPC witness Merchant's calculation of rates?**

15 A. In our application, we applied an across the board rate increase to all rates and classes of  
16 customers. However, we have no objection to the Commission staff's calculation, including  
17 the billing determinants and the allocation of revenue requirement between the base charge  
18 and gallonage charge. This includes the reuse rates, which should at least proportionate with  
19 the overall increase for all classes of customer, and not by a disproportionate increase.  
20 Furthermore, as indicated in the PAA, reuse rates are generally market-based. In their  
21 review, staff indicated that they had found only one other utility charging for reuse, but at a  
22 much higher cost, as well as several utilities in Monroe County that provide it at no cost. I  
23 understand from that FKAA, who has proposed much higher cost, has not in fact sold any  
24 reuse. I agree with the staff's assessment of the market. As testified to by Mr. Johnson, and  
25 as is the usual case, KWRU is dependent upon its reuse customers to provide the least

1           costly mechanism for disposal. Based on these factors, I agree that the charge of \$.93 is  
2           appropriate.

3   **Q.    Does that conclude your rebuttal testimony?**

4   A.    Yes, it does.

Schedule of Wastewater Rate Base

Company: K W Resort Utilities Corp  
Docket No.: 150071-SU  
Schedule Year Ended: 12/31/2014  
Interim [ ] Final [X]  
Historic [X] Projected [ ]

Schedule: A-2  
Page 1 of 1  
Preparer: Milian, Swain & Associates, Inc.

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use.

Line No.	(1) Description	(4) Adjusted Utility Balance	PHASE 1				PHASE 2			
			Staff Adjustments	Staff Adjusted Test Year	KWRU Adjustment	KWRU Adjusted Test Year	Staff Adjustments	Staff Adjusted Test Year	KWRU Adjustment	KWRU Adjusted Test Year
1	Utility Plant in Service	(A) \$ 15,500,172	\$ (4,391,708)	\$ 11,108,464	\$ 5,109,041	\$ 16,217,505	\$ 3,481,973	\$ 14,590,437	\$ (3,481,973)	\$ 16,217,505
2										
3	Utility Land & Land Rights	375,923	(923)	375,000	-	375,000		375,000		375,000
4										
5	Less: Non-Used & Useful Plant	-	\$ -	\$ -	\$ -	\$ -	(1,244,082)	(1,244,082)	1,244,082	(0)
6										
7	Construction Work in Progress	-	303,099	303,099	(303,099)	-	(303,099)	-	303,099	-
8										
9	Less: Accumulated Depreciation	(B) (6,029,427)	194,241	(5,835,186)	97,178	(5,738,008)	(191,289)	(6,026,475)	191,289	(5,738,008)
10										
11	Less: CIAC	(9,946,997)	297,120	(9,649,877)	-	(9,649,877)		(9,649,877)		(9,649,877)
12										
13	Accumulated Amortization of CIAC	3,096,094	(81,153)	3,014,941	-	3,014,941		3,014,941		3,014,941
14										
15	Acquisition Adjustments									
16										
17	Accum. Amort. of Acq. Adjustments									
18										
19	Advances For Construction									
20										
21	Working Capital Allowance	(C) 1,367,232	(645,963)	721,269	737,001	1,458,270	(95,487)	625,782	95,487	1,458,270
22										
23	Total Rate Base	\$ 4,362,997	\$ (4,325,287)	\$ 37,710	\$ 5,640,121	\$ 5,677,831	\$ 1,648,016	\$ 1,685,726	\$ (1,648,016)	\$ 5,677,831

Schedule of Adjustments to Rate Base

Company: K W Resort Utilities Corp

Docket No.: 150071-SU

Schedule Year Ended: 12/31/2014

Interim [ ] Final [X]

Historic [X] Projected [ ]

Florida Public Service Commission

Schedule: A-3

Page 1 of 3

Preparer: Milian, Swain & Associates, Inc.

Explanation: Provide a detailed description of all adjustments to rate base per books, with a total for each rate base line item.

Line No.	Description	Water	Wastewater
1	<b>(A) Utility Plant in Service</b>		
2	(1) Pro Forma Plant Additions		
3	380.4 Treatment & Disposal Equipment		\$ 3,489,234
4	381.4 Plant Sewers		\$ 85,234
5			
6	<b>Total Adjustments to Utility Plant in Service</b>		<b>\$ 3,574,468</b>
7			
8	<b>(B) Accumulated Depreciation</b>		
9	(1) Adjustment to annualize Accum Depr for plant added during the Test Year		
10	355.2 Power Gen Equipment		568
11	360.2 Sewer Collection - Force		1,869
12	361.2 Sewer Collection Gravity		147
13	363.2 Services to Customers		92
14	371.3 Pumping Equipment		1,156
15	380.4 Treatment & Disposal Equipment		51
16	391.7 Transportation Equipment		375
17	395.7 Power Operated Equipment		126
18	Total Adjustment to Test Year Accumulated Depreciation		<b>\$ 4,384</b>
19			
20	(2) Pro Forma Plant Additions		
21	380.4 Treatment & Disposal Equipment		193,846
22	381.4 Plant Sewers		2,435
23			
24	Total Pro Forma Adjustments to Accumulated Depreciation		<b>\$ 196,282</b>
25			
26	<b>Total Adjustments to Accumulated Depreciation</b>		<b>\$ 200,666</b>
27			
28	<b>(C) Working Capital per MFR Schedule A-17</b>		<b>\$ 1,367,232</b>



Schedule of Adjustments to PAA Rate Base - Phase 1

Company: K W Resort Utilities Corp

Docket No.: 150071-SU

Schedule Year Ended: 12/31/2014

Interim [ ] Final [X]

Historic [X] Projected [ ]

Florida Public Service Commission

Schedule: A-3

Page 2 of 3

Preparer: Milian, Swain & Associates, Inc.

Explanation: Provide a detailed description of all adjustments to rate base per books, with a total for each rate base line item.

Line No.	Description	Staff	KWRU Adjustment to Staff Adjustment
1	<b>Utility Plant in Service</b>		
2	Audit Adjustments	(817,240)	
3	Remove pro forma plant	(3,574,468)	
4	New estimated cost of proforma plant		5,067,525
5	Add vacuum station		431,801
6	Retire old vacuum station		(390,285)
7		<b>\$ (4,391,708)</b>	<b>\$ 5,109,041</b>
8	<b>Land</b>		
9	Audit Adjustments		
10		<b>\$ (923)</b>	<b>\$ -</b>
11	<b>Accumulated Depreciation</b>		
12	Audit Adjustments	(2,040)	
13	Remove pro forma plant accumulated depreciation	196,281	
14	Add revised proforma plant accumulated depreciation		(278,714)
15	Add vacuum station depreciation		(14,393)
16	Retire old vacuum station		390,285
17		<b>\$ 194,241</b>	<b>\$ 97,178</b>
18	<b>CIAC</b>		
19	Audit Adjustments		
20		<b>\$ 297,120</b>	
21	<b>Accumulated Amortization</b>		
22	Audit Adjustments		
23		<b>\$ (81,153)</b>	<b>\$ -</b>
24	<b>CWIP</b>		
25	Audit Adjustments		
26		<b>\$ 303,099</b>	<b>\$ (303,099)</b>
27	<b>Working Capital</b>		
28	Audit Adjustments	51,600	
29	Cash balance adjustment	(615,687)	615,687
30	Rate case expense	13,611	121,314
31	Amortization of legal fees	(95,487)	
32		<b>\$ (645,963)</b>	<b>\$ 737,001</b>
33			
34			

Schedule of Adjustments to PAA Rate Base - Phase 2

Company: K W Resort Utilities Corp

Docket No.: 150071-SU

Schedule Year Ended: 12/31/2014

Interim [ ] Final [X]

Historic [X] Projected [ ]

Florida Public Service Commission

Schedule: A-3

Page 3 of 3

Preparer: Milian, Swain & Associates, Inc.

Explanation: Provide a detailed description of all adjustments to rate base per books, with a total for each rate base line item.

Line No.	Description	Staff	KWRU Adjustment to Staff Adjustment
1			
2	<b>Plant in Service</b>		
3	Pro-forma WWTP expansion	3,481,973	(3,481,973)
4	Pro-forma WWTP expansion - additional based upon current estimates		
5	Proforma Vac Tank - based upon current estimates		
6			
7		\$ 3,481,973	\$ (3,481,973)
8			
9	<b>Non-Used &amp; Useful</b>		
10	WWTP Acct 380	7,716,107	(7,716,107)
11	WWTP Accumulated Depreciation	(2,578,740)	2,578,740
12	Net Plant - WWTP	5,137,366	(5,137,366)
13	NUU %	28.0%	28.0%
14	NUU Net WWTP	\$ 1,244,082	\$ (1,244,082)
15			
16	<b>Accumulated Depreciation</b>		
17	Pro-forma WWTP expansion	(191,289)	191,289
18	Proforma Vac Tank		
19			
20		\$ (191,289)	\$ 191,289
21	<b>CWIP</b>		
22	Transfer to plant	\$ (303,099)	\$ 303,099
23			
24	<b>Working Capital</b>		
25	Amortization of legal fees	\$ (95,487)	\$ 95,487



Schedule of Adjustments to Operating Income  
Company: K W Resort Utilities Corp  
Docket No.: 150071-SU  
Schedule Year Ended: 12/31/2014  
Interim [ ] Final [X]  
Historic [X] Projected [ ]

Florida Public Service Commission  
Schedule: B-3  
Page 1 of 4  
Preparer: Milian, Swain & Associates, Inc.

Explanation: Provide a detailed description of all adjustments to operating income per books, with a total for each line item shown on the net operating income statement.

Line No.	Description	Wastewater
1	<b>(A) Adjustments to Revenues</b>	
2	<u>(1) Annualized Revenue</u>	
3	Annualized water/sewer revenues per Schedule E-2	\$1,493,377
4	Test Year water/sewer revenues per Schedule E-2	1,479,307
5	Adjustment required	\$ 14,070
6		
7	<u>(2) Revenue Increase</u>	
8	Increase in revenue required by the Utility to realize a	1,438,382
9	8.01% % rate of return	\$ 1,438,382
10		
11	<b>Total Adjustments to Revenues</b>	\$ 1,452,452
12		
13	<b>(B) Adjustments to Operations &amp; Maintenance Expenses</b>	
14	(1) Test Year Adjustments to Operations & Maintenance Expenses	
15	(a) Adjustment to reclass Officers Salaries	
16	701 Salaries and Wages - Employees	\$ (81,164)
17	703 Salaries and Wages - Officers	81,164
18	(b) Additional accounting services	
19	732 Contract Services - Acctg	12,350
20	(c) To reclass expenses coded to Deferred Rate Case Exp in error	
21	731 Contractual Services - Engr.	2,805
22	732 Contract Services - Acctg	1,862
23	733 Contractual Services - Legal	1,609
24	736 Outside Services - Other	8,488
25	(d) Adjustment to amortize Other Deferred Expenses	
26	To amortize expenses incurred to restate 2007-2012 Annual Reports	11,678
27		
28	<b>Total Test Year Adjustments to Operations &amp; Maintenance Expenses</b>	\$ 38,792
29		
30	(2) Pro Forma Adjustments to Operations & Maintenance Expenses	
31	(a) Increase due to changes in operations due to upgrade to AWT standards	
32	701 Salary & Wages	155,996
33	704 Employee Pension & Benefits	42,762
34	711 Sludge Disposal	109,334
35	715 Purchased Power	42,900
36	718 Chemicals	224,741
37	720 Materials & Supplies	60
38	731 Contractual Services - Engineer	4,730
39	735 Contractual Services - Testing	20,673
40	736 Contractual Services - Other	28,557
41	757 Insurance - General Liab	2,752
42	758 Work Comp Insurance	25,555
43	760 Advertising	(1,564)
44	775 Miscellaneous Expense	9,638
45		
46	(b) Adjustment to amortize Other Deferred Expenses	
47	775 Misc. Expense - Legal fees for permitting defense v. Last Stand	103,917
48		
49	<b>Total pro forma adjustments to O &amp; M Expense</b>	\$ 770,051
50		
51	<u>(3) Amortization of rate case expense per Schedule B-10</u>	\$ 31,200
52		
53	<b>Total Adjustment required to O&amp;M Expenses</b>	\$ 840,042

Schedule of Adjustments to Operating Income  
Company: K W Resort Utilities Corp  
Docket No.: 150071-SU  
Schedule Year Ended: 12/31/2014  
Interim [ ] Final [X]  
Historic [X] Projected [ ]

Florida Public Service Commission  
Schedule: B-3  
Page 2 of 4  
Preparer: Milian, Swain & Associates, Inc.

Explanation: Provide a detailed description of all adjustments to operating income per books, with a total for each line item shown on the net operating income statement.

1	<b>(C) Adjustments to Depreciation Expense</b>	
2		
3	<u>(1) Annualize depreciation expense for plant additions during TY</u>	
4	355.2 Power Gen Equipment	568
5	360.2 Sewer Collection - Force	1,869
6	361.2 Sewer Collection Gravity	147
7	363.2 Services to Customers	92
8	371.3 Pumping Equipment	1,156
9	380.4 Treatment & Disposal Equipment	51
10	391.7 Transportation Equipment	375
11	395.7 Power Operated Equipment	126
12	Total Adjustment to Depreciation Expense	<u>4,384</u>
13		
14	<u>(2) Depreciation expense related to Pro Forma plant additions</u>	
15	354.4 Vacuum Station - new	14,393
16	354.4 Vacuum Station - retirement	(13,009)
17	380.4 Treatment & Disposal Equipment	193,846
18	380.4 Treatment & Disposal Equipment - additional cost	82,948
19	381.4 Plant Sewers	2,435
20	Total Depr Expense - Pro Forma Plant additions	<u>\$ 280,612</u>
21		
22	<b>Total Adjustment to Depreciation Exp, Net of Amortization</b>	<u><b>\$ 284,996</b></u>
23	<b>(D) Adjustments to Taxes Other Than Income</b>	
24		
25	(1) Adjust Payroll Taxes for pro forma salary increase	\$ 13,526
26		
27	(2) To adjust test year RAF's for annualized revenues	\$ 14,070
28	RAF rate	0.045
29	RAF Adjustment Required for Annualized Revenues	<u>\$ 633</u>
30		
31	(3) Total Net Plant Additions	\$ 3,378,186
32	Millage rate	10.5667
33	Total increase in ad valorem taxes	<u>\$ 35,696</u>
34		
35	(4) To adjust property tax paid	\$ 391
36		
37	Sub-Total Adjustments to TOTI	<u>\$ 50,246</u>
38		
39	<u>(5) To adjust RAF's for requested revenues</u>	
40	(a Total RAF Adjustments due to Requested Increase	\$ 63,054
41		
42	<b>Total Adjustment Taxes Other Than Income</b>	<u><b>\$ 113,300</b></u>

Schedule of Adjustments to Operating Income - Phase 1  
Company: K W Resort Utilities Corp  
Docket No.: 150071-SU  
Schedule Year Ended: 12/31/2014  
Interim [ ] Final [X]  
Historic [X] Projected [ ]

Florida Public Service Commission  
Schedule: B-3  
Page 3 of 4  
Preparer: Milian, Swain & Associates, Inc.

Explanation: Provide a detailed description of all adjustments to operating income per books, with a total for each line item shown on the net operating income statement.

Line No.	Description	Staff	KWRU Adjustment to Staff Adjustment
1			
2	<b>(A) Adjustments to Revenues</b>		
3	Remove Requested Revenues	(1,438,382)	
4	Test Year Revenues	61,484	
5	Recommended Revenues	683,185	1,202,455
6		<u>\$ (693,713)</u>	<u>\$ 1,202,455</u>
7			
8	<b>(B) Adjustments to Operations &amp; Maintenance Expenses</b>		
9	(1) Staff Adjustments		
10	Audit Adjustments	(17,085)	
11	Management Fees	(60,000)	60,000
12	Contractual Services	(13,003)	12,350
13	Rate case Expense	6,805	60,657
14		<u>(83,283)</u>	<u>133,007</u>
15			
16	(2) Pro Forma Adjustments to Operations & Maintenance Expenses		
17	701 Salary & Wages	23,364	14,640
18	704 Employee Pension & Benefits	(14,040)	18,413
19	711 Sludge Disposal		
20	715 Purchased Power		38,264
21	718 Chemicals		32,330
22	720 Materials & Supplies		31,502
23	731 Contractual Services - Engineer		
24	735 Contractual Services - Testing		
25	736 Contractual Services - Other		
26	757 Insurance - General Liab (\$3,554/month - \$38,700 TY)		3,948
27	758 Work Comp Insurance	(16,928)	
28	760 Advertising		
29	775 Miscellaneous Expense	<u>(2,424)</u>	<u>2,424</u>
30		<u>(10,028)</u>	<u>141,521</u>
31			
32	(b) Adjustment to amortize Other Deferred Expenses		
33	775 Misc. Expense - Legal fees for permitting defense v. Last Stand	(8,430)	
34			
35			
36	<b>Total Adjustments to O&amp;M Expenses</b>	<u>\$ (101,741)</u>	<u>\$ 274,528</u>
37			
38	<b>(C) Adjustments to Depreciation Expense</b>		
39	(1) Audit Adjustments	8,514	
40	(2) Depreciation expense related to Pro Forma plant expansion	(196,281)	278,714
41	(3) Depreciation expense related to Pro Forma vacuum tank		14,393
42	(4) Depreciation expense on retirement of vacuum tank		(13,009)
43		<u>\$ (187,767)</u>	<u>\$ 280,098</u>
44			
45			
46	<b>(C) Taxes other than Income Taxes</b>		
47	(1) RAFs on above revenues	(63,169)	54,110
48	(2) Remove proforma property taxes	(35,696)	52,376
49	(3) Proforma Payroll Taxes correction / addition for proforma	1,875	1,257
50		<u>\$ (96,990)</u>	<u>\$ 107,744</u>
51			

Schedule of Adjustments to Operating Income - Phase 2

Company: K W Resort Utilities Corp

Docket No.: 150071-SU

Schedule Year Ended: 12/31/2014

Interim [ ] Final [X]

Historic [X] Projected [ ]

Florida Public Service Commission

Schedule: B-3

Page 4 of 4

Preparer: Milian, Swain & Associates, Inc.

Explanation: Provide a detailed description of all adjustments to operating income per books, with a total for each line item shown on the net operating income statement.

Line No.	Description	Staff	KWRU Adjustment to Staff Adjustment
1			
2	(A) Adjustments to Revenues	\$ 247,858	\$ (247,858)
3			
4	(B) Adjustments to Operations & Maintenance Expenses	\$ -	\$ -
5			
6	(C) Adjustments to Depreciation Expense		
7	(1) Non-U&U adjustment	(106,110)	106,110
8	(2) Depreciation expense related to Pro Forma plant additions		
9	Pro-forma WWTP expansion	191,289	(191,289)
10			
11		\$ 85,179	\$ (85,179)
12			
13	(C) Taxes other than Income Taxes		
14	(1) Proforma Payroll Taxes		
15	(2) Property Tax on NUU	(7,338)	7,338
16	(3) Property Tax on Proforma Plant	31,875	(31,875)
17	(4) RAFs on additional Revenues	11,154	(11,154)
		\$ 35,691	\$ (35,691)

Schedule of Requested Cost of Capital  
13 Month Average Balance

Florida Public Service Commission

Company: K W Resort Utilities Corp

Schedule D-1

Docket No.: 150071-SU

Page 1 of 1

Test Year Ended: 12/31/2014

Preparer: Milian, Swain & Associates, Inc.

Interim [ ] Final [x]

Historical [x] Projected [ ]

Explanation: Provide a schedule which calculates the requested cost of capital on a 13-month average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

	(1)	(2)	(3)	(4)	(5)
		Reconciled to			
		Requested Rate Base			
Line No.	Class of Capital	AYE 12/31/14	Ratio	Cost Rate	Weighted Cost
1	Long Term Debt	\$ 1,063,865	18.74%	4.25%	0.80%
2	Short Term Debt				
3	Preferred Stock				
4	Common Equity	4,450,994	78.39%	9.18%	7.20%
5	Customer Deposits	162,972	2.87%	2.00%	0.06%
6	Tax Credits - Zero Cost				
7	Tax Credits - Weighted Cost				
8	Accumulated Deferred Income Tax				
9	Other (Explain)				
10					
11	Total	<u>\$ 5,677,831</u>	<u>100.00%</u>		<u>8.06%</u>
12					
13	Note: The cost of equity is based on the leverage formula in effect pursuant to Order No. PSC-16-0254-PAA-WS				

Supporting Schedules: D-2

Recap Schedules: A-1, A-2



Reconciliation of Capital Structure to Requested Rate Base

Florida Public Service Commission

13 Month Average Balance

Company: K W Resort Utilities Corp

Schedule D-2

Docket No.: 150071-SU

Page 1 of 1

Test Year Ended: 12/31/2014

Interim [ ] Final [x]

Preparer: Milian, Swain & Associates, Inc.

Historical [x] Projected [ ]

Explanation: Provide a reconciliation of the 13-month average capital structure to requested rate base. Explain all adjustments. Submit an additional schedule if a year-end basis is used.

Line No.	(1) Class of Capital	(2) Balance 12/31/2013	(3) Balance 12/31/2014	(4) Thirteen Month Average	Pro Forma Adjustment	Adjusted Average	(5) Reconciliation Adjustments		(7) Reconciled to
							Pro Rata Percentage	Pro Rata Amount	Adjusted Requested Rate Base
1	Long Term Debt	1,269,957	1,226,475	1,248,337	\$ -	1,248,337	19.29%	(184,472)	1,063,865
2	Short Term Debt		-						
3	Preferred Stock	-	-	-					
4	Common Equity	(376,862)	(781,496)	(276,537)	\$ 5,499,326	5,222,789	80.71%	(771,795)	4,450,994
5	Customer Deposits	157,307	169,866	162,972		162,972	n/a		162,972
6	Tax Credits - Zero Cost		-	-			n/a		
7	Tax Credits - Weighted Cost		-	-			0.00%		
8	Accumulated Deferred Income Taxes						n/a		
9	Other (Explain)			-	-	-	0.00%		
10									
11	Total	<u>1,050,402</u>	<u>614,845</u>	<u>1,134,772</u>	<u>5,499,326</u>	<u>6,634,098</u>	<u>100.00%</u>	<u>\$ (956,267)</u>	<u>5,677,831</u>

Supporting Schedules: A-19, C-7, C-8, D-3, D-4, D-5, D-7

Recap Schedules: D-1



November 9, 2015

**E-FILING**

Carlotta S. Stauffer, Director  
Division of Commission Clerk and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399

Re: Docket No. 150071-SU – Application for increase in Wastewater rates in Monroe County by  
KW Resort Utilities Corp.  
Our File No.: 34000.01

Dear Ms. Stauffer:

The following is K W Resort Utilities Corp.'s response to the Audit Finding 1 of the Audit Report, Audit Control No. 15-189-4-1, prepared by the audit staff in connection with this Docket.

**FINDING 1: Utility Plant in Service**

**2007 UPIS Activity**

The Utility's amount increased UPIS by \$939,668, which we have reduced by \$761,284 to \$197,811 with the following adjustments.

- We removed seven transactions totaling \$4,120 that should have been included in O&M expense in 2007.

**Utility Response:** The utility agrees that \$1,955 should be expensed. However the utility believes that \$2,165 should be capitalized: \$1,241 to set up a used generator purchased to serve as the main generator, and \$924 in repairs to force main was part of a large initiative by the utility to tighten up the collection system in advance of upgrading the treatment plant to AWT, and thus extends the life of the asset. The collection system's original (1968) clay pipes were cracked and failing and the Utility contracted to install Cure-In-Place (CIP) epoxy lining on the inside of the pipes. CIP is an alternative to trenching and installing new pipe. The advantage to CIP is that there is no trench restoration and with pipe in backyard easements access for equipment is a very big problem. CIP like pipe bursting utilizes the existing pipe for installation; the CIP liner uses the existing pipe as a host to bond to, but once the epoxy is heated and then cooled it becomes a very hard pipe in and of itself and at this point the clay pipe is no longer

Carlotta S. Stauffer, Commission Clerk  
November 9, 2015  
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necessary to provide structural integrity, the clay pipe remains in the ground but for all intents and purposes it has been retired.

- We removed six transactions totaling \$82,857 that were non-utility in nature, duplicate charges, or not supported by adequate documentation. One significant adjustment removed an unsupported amount of \$80,000 from Weiler Engineering Corp. which provided engineering services for the Utility's AWT construction project.

**Utility Response:** The utility agrees with removing \$81,849. However, \$1,008 should be capitalized. This was the cost to repair and keep a John Deere Backhoe in working order and to extend its life.

- We removed eleven transactions totaling \$30,160 that were for major repairs and services that we deemed as non-recurring events that should have been recorded in a deferred asset account and amortized over five years per Rule 25-30.433 (8) -Rate Case Proceedings, F.A.C.

**Utility Response:** The utility agrees that \$13,608 should be amortized over 5 years. But the utility believes that \$16,552 should be capitalized as this was part of a large initiative by the utility to tighten up the collection system in advance of upgrading the treatment plant to AWT.

- We reduced UPIS by \$30,267 to record retirements for eighteen transactions where utility assets were replaced that should have included a retirement. The plant additions totaled \$40,356. We retired seventy-five percent of the new cost per the Utility's stated capitalization and retirement policy.

**Utility Response:** The utility accepts this adjustment.

- We reduced UPIS by \$10,000 to reclassify a transaction that was described as a Utility refund of Contributions in Aid of Construction (CIAC) capacity fees to a utility customer. Refunds of CIAC should be recorded to CIAC when paid.

**Utility Response:** The utility accepts this adjustment.

- We removed seven transactions totaling \$584,453 that were already included in the UPIS balance approved in the Utility's last rate proceeding in Docket No. 070293-SU.

**Utility Response:** The utility accepts this adjustment.

Carlotta S. Stauffer, Commission Clerk  
November 9, 2015  
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- We made an additional adjustment that reduced UPIS by \$19,426 to retire a vacuum truck that was included in the RSS that was disposed of in 2007.

**Utility Response:** The utility accepts this adjustment.

#### **2008 UPIS Activity**

The Utility amount was \$1,930,418, which we have reduced by \$620,303 to \$1,310,114 with the following adjustments. We accept the Utility's retirement of \$75,637 without exception.

- We removed eleven transactions totaling \$7,088 that should have been included in O&M expense in 2008.

**Utility Response:** The Utility agrees that \$4,296 should have been expensed. However \$1,498 expended for construction debris cleanup and should be capitalized as part of that construction project.

- We removed eleven transactions totaling \$517,606 that were non-utility in nature, duplicate charges, or not supported by adequate documentation. Significant adjustments include one unsupported amount of \$362,114 from Weiler Engineering Corp. which provided engineering services for the Utility's ATW construction project and two transactions totaling \$115,094 that were for administrative overhead fees related to the AWT project. Fees such as these were removed in the Utility's last rate proceeding in Docket No. 070293-SU.

**Utility Response:** The Utility agrees with removing the two transactions totaling \$115,094 for administrative overhead fees. However, supporting documentation was provided for Weiler Engineering Corp. delineating total hours billed for Edward. R. Castle, P.E. and the percentage of his time that was capitalizable. The Utility believes that \$72,346 should be capitalized.

- We removed five transactions totaling \$19,320 that were for major repairs and services that we deemed as non-recurring events that should have been recorded in a deferred asset account and amortized over five years per Rule 25-30.433 (8) -Rate Case Proceedings, F.A.C.

**Utility Response:** The utility agrees that \$770 should have been deferred and amortized over 5 years. However, \$18,549 should be capitalized to reflect sludge hauling as a result of the AWT upgrade project – the utility does not haul liquid sludge as part of its normal operations. The AWT upgrade project required the Utility to change the day to day operations with regard to solids handling due to the fact that digester unit processes were off line during the upgrade. It was not possible to leave the digesters on line as the treatment plant configuration would not accommodate partial shut downs. Once the AWT

Carlotta S. Stauffer, Commission Clerk  
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project was completed the Utility switched back to normal operations utilizing the drying beds and hauling dry bio-solids.

- We reduced UPIS by \$36,310 to record retirements for thirteen transactions where utility assets were replaced that should have included a retirement. The plant additions totaled \$48,414. We retired seventy-five percent of the new cost per the Utility's stated capitalization and retirement policy.

**Utility Response:** The utility accepts this adjustment.

- We removed twenty-five transactions totaling \$39,979 that were included in the UPIS balance approved in the Utility's last rate proceeding in Docket No. 070293-SU.

**Utility Response:** The utility agrees that \$23,581 should be removed. The Utility believes that \$16,398 should be capitalized: \$11,412 in sludge hauling expense was required specifically because of the upgrade project and should be capitalized – the utility does not haul liquid sludge as part of its normal operations; and \$4,986 related to the AWT project (\$3,379 tools and labor to install generator; \$1,263 materials to relocate chlorine building; \$344 lab supplies).

### **2009 UPIS Activity**

The Utility amount was \$198,902, which we have reduced by \$59,620 to \$139,282 with the following adjustments.

- We removed fifteen transactions totaling \$9,548 that should have been included in O&M expense in 2008.

**Utility Response:** The utility accepts this adjustment.

- We removed three transactions totaling \$4,984 that were non-utility in nature or not supported by adequate documentation.

**Utility Response:** The utility accepts this adjustment.

- We removed fifteen transactions totaling \$30,539 that were for major repairs and services that we deemed as non-recurring events that should have been recorded in a deferred asset account and amortized over five years per Rule 25-30.433 (8) -Rate Case Proceedings, F.A.C. The balance is deemed fully recovered before the test year 2014.

Carlotta S. Stauffer, Commission Clerk  
November 9, 2015  
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**Utility Response:** The Utility agrees a credit of \$(1,768) should be removed. \$32,307 expended for sodium acetate should be capitalized. General Distributors chemicals were only used for testing purposes after the Utility completed its AWT plant upgrade project. The chemicals were not used before the testing period and they were not used after the testing period.

- We reduced UPIS by \$14,549 to record retirements for four transactions where utility assets were replaced that should have included a retirement. The plant additions totaled \$27,782. We retired seventy-five percent of the new cost for two transactions totaling \$7,012 per the Utility's stated capitalization and retirement policy. The remaining two transactions totaling \$20,770 replaced assets that were in service for over thirty years. The Utility's retirement policy would result in an excessive retirement amount given the age of the assets. We calculated an adjusted retirement amount for these two assets using a discounted original cost factor from the Handy Whitman Index of Cost Trends for Utility Construction (HWI).

**Utility Response:** The utility accepts this adjustment.

#### **2010 through 2012 UPIS Activity**

No issues were noted.

#### **2013 UPIS Activity**

- We decreased Account 3804 -Treatment & Disposal Equipment by \$54,601 to reclassify costs associated with the wastewater treatment plant (WWTP) expansion project to Account 1051 - Construction Work in Progress (CWIP) discussed in Finding 2. No other issues were noted.

**Utility Response:** The utility accepts this adjustment.

#### **2014 UPIS Activity**

- We decreased Account 3544 -Structures & Improvements by \$130,642 to, reclassify \$100,552 of cost associated with the WWTP expansion project to Account 1051 -CWIP discussed in Finding 2, and, to reclassify \$30,090 of cost associated related to the Utility's WWTP permit modification application on file with the Florida Department of Environmental Protection (FDEP) to deferred asset account for permit fees discussed in Finding 6.

**Utility Response:** The utility accepts this adjustment.

- We decreased Account 3602 -Collection Sewers Force by \$31,138 to include a retirement that

Carlotta S. Stauffer, Commission Clerk  
November 9, 2015  
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should have been made when a lift station was replaced at a cost of \$86,326. The lift station had been in service over thirty years. The Utility's retirement policy would result in an excessive retirement amount given the age of the asset. We calculated an adjusted retirement amount using a discounted original cost factor from the Handy Whitman Index of Cost Trends for Utility Construction (HWI).

Utility Response: The utility accepts this adjustment.

- We decreased Account 3612 -Collection Sewers Gravity by \$1,942 to include a retirement that should have been made when a manhole was replaced at a cost of \$8,000. The man hole had been in service over thirty years. The Utility's retirement policy would result in an excessive retirement amount given the age of the asset. We calculated an adjusted retirement amount using a discounted original cost factor from the Handy Whitman Index of Cost Trends for Utility Construction (HWI).

Utility Response: The utility accepts this adjustment.

Please do not hesitate to contact me should you or staff have any questions regarding this response.

Very truly yours,

MARTIN S. FRIEDMAN  
For the Firm

MSF/

cc: Chris Johnson (via email)  
Bart Smith, Esquire (via e-mail)  
Martha Barrera, Esquire (via e-mail)  
Erik Sayler, Esquire (via e-mail)  
Amber Norris (via e-mail)

**KW Resort Utilities Corp.**  
**General Ledger - Transaction Extraction**  
 January - August, 2016

<b>Account</b>	<b>Date</b>	<b>Transaction Type</b>	<b>Adj</b>	<b>Memo/Description</b>	<b>Amount</b>
1323000 BB&T Capital Account - 4687	5/6/2016	Journal Entry	No	Record Capital Contribution xfer from WS Utilities	659,000.00
1323000 BB&T Capital Account - 4687	08/25/2016	Deposit	No	WS Utility Xfer	530,000.00
2330100 Notes Payable - WS Utilities	06/01/2016	Journal Entry	No	Reclass loan balance to Contributed Capital	-852,903.05
<b>2111000 Capital Investment - SH Contribution</b>	Beginning Balance				<b>258,301.98</b>
2111000 Capital Investment - SH Contribution	05/06/2016	Journal Entry	No	Record Capital Contribution xfer from WS Utilities	659,000.00
2111000 Capital Investment - SH Contribution	06/01/2016	Journal Entry	No	Reclass loan balance to Contributed Capital	852,903.05
2111000 Capital Investment - SH Contribution	08/25/2016	Deposit	No	WS Utility Xfer	530,000.00
<b>Total for 2111000 Capital Investment - SH Contribution</b>					<b>\$ 2,300,205.03</b>





BB&T Wire Transfer Operations

7200 8540301 100-99-05-10  
K W RESORT UTILITIES CORP  
6630 FRONT ST  
KEY WEST FL 33040-6050

We have completed this wire transfer request. Your BB&T account has been credited for the net amount shown below.

\*\*\*\*\*

TRN DATE	20160506	TRN NUM	00004308
AMOUNT	659,000.00	ACCOUNT # DDA -	██████████4687
REFERENCE #			
DATE	05/06/2016		
TIME	10:27:54		
BENEFICIARY	K W RESORT UTILITIES CORP		
ORIGINATOR TO BENE INFO	REF: KWRU		
ORIGINATOR	W S UTILITY INC		
ORIGINATING BANK NAME	WEST SUBURBAN BANK		
ORIGINATING BANK #	071923349		
ORIGINATING BANK INFORMATION	1010 KENNEDY DR STE 100 KEY WEST FL 33040		

\*\*\*\*\*

Thank you for banking with BB&T. Please contact your local BB&T financial center or call 1-800-BANK BBT (1-800-226-5228) for questions regarding this wire transfer.



BB&T Wire Transfer Operations



7200 8540301 100-99-05-10  
K W RESORT UTILITIES CORP  
6630 FRONT ST  
KEY WEST FL 33040-6050

We have completed this wire transfer request. Your BB&T account has been credited for the net amount shown below.

\*\*\*\*\*

TRN DATE	20160825	TRN NUM	00003410
AMOUNT	530,000.00	ACCOUNT #	DDA - [REDACTED] 4687
REFERENCE #			
DATE	08/25/2016		
TIME	09:47:28		
BENEFICIARY	K W RESORT UTILITIES CORP		
ORIGINATOR	W S UTILITY INC		
ORIGINATING BANK NAME	WEST SUBURBAN BANK		
ORIGINATING BANK #	071923349		
ORIGINATING BANK INFORMATION	1010 KENNEDY DR KEY WEST FL 33040		

\*\*\*\*\*

Thank you for banking with BB&T. Please contact your local BB&T financial center or call 1-800-BANK BBT (1-800-226-5228) for questions regarding this wire transfer.