



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

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.

- 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

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.

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 (HWD).

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

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)