

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 070293-SU

FILED: SEPTEMBER 4, 2008

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STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-07-0729-PCO-SU, filed September 11, 2007, the Staff of the Florida Public Service Commission files its Prehearing Statement.

a. All Known Witnesses

Iliana H. Piedra  
3625 N.W. 82d Avenue, Suite 400  
Miami, FL 33166

Ms. Piedra will testify as to Staff Audit Findings 10-19, and sponsor Exhibit IHP-1.

Kathy L. Welch  
3625 N.W. 82d Avenue, Suite 400  
Miami, FL 33166

Ms. Welch will testify as to Staff Audit Findings 1-9.

Steven Johnson  
2796 Overseas Highway, Suite 221  
Marathon, FL 33050

Mr. Johnson will testify as to K W Resort Utilities Corp (KW Resort) compliance with its building permits and compliance with the rules of the Florida Department of Environmental Protection (FDEP), and sponsor Exhibit SJ-1. Mr. Johnson requests that he be allowed to attend only the second day of the hearing.

b. All Known Exhibits

COM 5  
ECR  
GCL  
OPC  
RCP  
SSC  
SGA  
ADM  
CLK

IHP-1 – Staff Audit Report of K W Resort Utilities Corp.

SJ-1 – Warning Letter from FDEP to KW Resort dated November 26, 2007.

DOCUMENT NUMBER-DATE

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c. Staff's Statement of Basic Position

Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

d. Staff's Position on the Issues

**ISSUE 1:** Is the quality of service provided by K W Resort Utilities Corp. satisfactory?

**POSITION:** No. The quality of service is not satisfactory at this time. (Johnson)

**ISSUE 2:** Should KWRU's test year rate base be adjusted for Keys Environmental hook-up fees?

**POSITION:** To remove an apparent duplication of management service fees, plant should be reduced by \$252,690. In addition corresponding adjustments should be made to reduce accumulated depreciation and depreciation expense by \$10,983 and \$3,021, respectively.

**ISSUE 3:** Should KWRU's test year rate base be adjusted to reclassify Keys Environmental expenses?

**POSITION:** In order to reclassify expenses, plant should be increased by \$51,663, and O&M expenses should be reduced by \$51,663. Accordingly, accumulated depreciation and depreciation expense should be increased pending further development of the record as to the appropriate primary plant accounts for these costs.

**ISSUE 4:** Should KWRU's test year rate base be adjusted for KWRU's contribution to the decommissioning of jail facilities?

**POSITION:** To remove non-utility investment, plant should be reduced by \$10,000. Accordingly, accumulated depreciation and depreciation expense should be increased pending further development of the record.

**ISSUE 5:** Should KWRU's test year rate base be adjusted for Green Fairways Jail Project management fee?

**POSITION:** To remove duplicative management service fees, plant should be reduced by \$32,198. Accordingly, accumulated depreciation and depreciation expense should be increased pending further development of the record.

**ISSUE 6:** Should KWRU's test year rate base be adjusted for Green Fairways SSI Project management fee?

**POSITION:** To remove duplicative management service fees, plant should be reduced by \$301,180. Accordingly, accumulated depreciation and depreciation expense should be increased pending further development of the record.

**ISSUE 7:** Should KWRU's test year rate base be adjusted for Smith, Hemmesch, and Burke legal fees?

**POSITION:** To remove unsupported legal fees, plant should be reduced by \$25,000. Accordingly, accumulated depreciation and depreciation expense should be increased pending further development of the record.

**ISSUE 8:** Should KWRU's test year rate base be adjusted for Mr. Johnson's moving expenses?

**POSITION:** To remove moving expenses from the Utility's investment for its South Stock Island project, plant should be reduced to \$8,602. Accordingly, accumulated depreciation and depreciation expense should be increased pending further development of the record.

**ISSUE 9:** Should KWRU's test year rate base be adjusted for Johnson Constructors charges for JAS Corp.?

**POSITION:** To remove duplicative management service fees, plant should be reduced by \$4,650. Accordingly, accumulated depreciation and depreciation expense should be increased pending further development of the record.

**ISSUE 10:** Should KWRU's test year rate base be adjusted for Mr. London's consulting fees?

**POSITION:** To remove capitalized consulting fees, plant in service should be reduced by \$32,500. Accordingly, accumulated depreciation and depreciation expense should be increased pending further development of the record.

**ISSUE 11:** Should KWRU's test year rate base be adjusted for White and Case Legal Charges Related to Monroe County Audit Report?

**POSITION:** To remove non-utility costs, plant in service should be reduced by \$27,500. Accordingly, accumulated depreciation and depreciation expense should be increased pending further development of the record.

**ISSUE 12:** Should KWRU's test year rate base be adjusted for the findings in the County Audit?

**POSITION:** No position pending further development of the record.

**ISSUE 13:** Should KWRU's test year rate base be adjusted for the Key West Citizen PR Advertisement?

**POSITION:** To remove the cost associated with a media advertisement, plant should be reduced by \$422. Accordingly, accumulated depreciation and depreciation expense should be increased pending further development of the record.

**ISSUE 14:** Should adjustments be made to the utility's pro forma plant additions?

**POSITION:** Yes, the exact amount of the adjustment to be determined pending further development of the record.

**ISSUE 15:** What are the used and useful percentages of the utility's wastewater treatment plant and collection and reuse systems?

**POSITION:** The Utility's wastewater treatment plant and collection system should be considered 100% used and useful at this time. However pending further development of the record, this position is subject to change. In accordance with Commission practice and Section 367.0817(3), Florida Statutes, the reuse system should be considered 100% used and useful.

**ISSUE 16:** What is the appropriate test year balance of accumulated depreciation?

**POSITION:** The appropriate amount is subject to the resolution to other issues.

**ISSUE 17:** What are the appropriate test year balances of contributions-in-aid of construction (CIAC) and accumulated amortization of CIAC?

**POSITION:** No position pending further development of the record.

**ISSUE 18:** What is the appropriate working capital allowance?

**POSITION:** The appropriate amount is subject to the resolution of other issues.

**ISSUE 19:** What is the appropriate rate base?

**POSITION:** The appropriate amount is subject to the resolution of other issues.

**ISSUE 20:** What is the appropriate return on common equity?

**POSITION:** The return on equity should be updated to reflect the cost rate yielded by the current leverage formula in effect at the time the Commission renders its final decision in this case.

**ISSUE 21:** What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure?

**POSITION:** The appropriate amount is subject to the resolution of other issues.

**ISSUE 22:** Should any adjustments be made to test year revenues?

**POSITION:** No position pending further development of the record.

**ISSUE 23:** Should any adjustments be made to sludge removal expenses?

**POSITION:** No position pending further development of the record.

**ISSUE 24:** Should any adjustments be made to chemicals expense?

**POSITION:** Yes. Based on the Utility's three-year average, test year chemical expenses should be reduced by \$16,480.

**ISSUE 25:** Should KWRU's test year expenses be adjusted for the reduction of infiltration and inflow related to the re-sleeving of its lines?

**POSITION:** No position pending further development of the record.

**ISSUE 26:** Should KWRU's test year expenses be adjusted to remove any markup in pro forma expenses?

**POSITION:** No position pending further development of the record.

**ISSUE 27:** Should any adjustments be made to materials and supplies?

**POSITION:** No position pending further development of the record.

**ISSUE 28:** Should any adjustments be made to insurance – general liability?

**POSITION:** Yes. General Liability insurance should be reduced by \$701 to remove non-utility cost. (Piedra)

**ISSUE 29:** Should any adjustments be made to advertising expenses?

**POSITION:** Yes. Advertising expenses should be reduced by \$26,653 to remove cost related to public relation functions.

**ISSUE 30:** Should KWRU's test year expenses be adjusted for Mr. Smith's Management Fees Charged by Green Fairways?

**POSITION:** No position pending further development of the record.

**ISSUE 31:** Should test year expenses be adjusted for certain transactions between Keys Environmental and KWRU?

**POSITION:** No position pending further development of the record.

**ISSUE 32:** Should any other adjustments be made to contractual services – other expenses?

**POSITION:** No position pending further development of the record.

**ISSUE 33:** Should any adjustments be made to miscellaneous expenses?

**POSITION:** Yes. At this time, miscellaneous expenses should be reduced by \$161 to remove charitable and non-utility expenses. However, a further adjustment may need to be made pending further development of the record.

**ISSUE 34:** What is the appropriate amount of rate case expense?

**POSITION:** The appropriate amount is subject to further development of the record. Only prudently incurred rate case expense should be allowed and amortized over four years.

**ISSUE 35:** Should any adjustment be made to test year net depreciated expense?

**POSITION:** No position pending further development of the record.

**ISSUE 36:** What is the test year wastewater operating income or loss before any revenue increase?

**POSITION:** The appropriate operating income before revenue increase is subject to the resolution of other issues.

**ISSUE 37:** What is the appropriate revenue requirement?

**POSITION:** The appropriate revenue requirement is subject to the resolution of other issues.

**ISSUE 38:** What is the appropriate rate structure for this utility?

**POSITION:** At this time, the appropriate rate structure should be a base facility charge and gallonage charge structure instead of the Utility's flat rate structure.

**ISSUE 39:** What are the appropriate monthly residential and general service rates?

**POSITION:** The final wastewater rates are subject to the resolution of other issues. The gallonage charge for private lift stations should be 80% of the gallonage charge for General Service customers.

**ISSUE 40:** What are the appropriate monthly bulk and reuse service rates?

**POSITION:** The Utility's proposed reuse gallonage rate of \$0.69 per thousand gallons is appropriate. However, the final bulk wastewater rates are subject to the resolution of other issues.

**ISSUE 41:** In determining whether a portion of the interim increase, granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

**POSITION:** The amount of the refunds, if any, is subject to the resolution of other issues.

**ISSUE 42:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

**POSITION:** The amount of the rate reduction is subject to the resolution of other issues.

**ISSUE 43:** Should the utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable NARUC USOA primary accounts associated with the Commission approved adjustments?

**POSITION:** Yes. KWRU should be required to submit, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its future annual reports, books and records, and other financial reports as required by the Commission in this rate case.

**ISSUE 44:** Should this docket be closed?

**POSITION:** If the Commission's final order is not appealed, this docket should be closed upon the expiration of the time for filing an appeal.

e. Stipulated Issues

1. To correct a misclassification of purchased land, plant should be reduced by \$152,255. Corresponding adjustments should be made to reduce Accumulated Depreciation by \$71,274 and Depreciation Expense by \$6,766.
2. To correct the misclassification of Florida Department of Environmental Protection permit and renewal application fees, taxes other than income should be reduced by \$7,950 and plant increased by \$577. Corresponding adjustments should be made to increase accumulated depreciation by \$52 and increase depreciation expense \$104.
3. KWRU purchased a beachcleaner which it expensed during the test year. The beachcleaner should have been capitalized. To correct this error, operating expenses should be decreased by \$11,825 and average plant increased by \$910. Accumulated depreciation and depreciation expense should be increased by \$493.
4. In accordance with Commission practice, temporary cash investments of \$168,265 should be removed from working capital.
5. Sludge removal expense should be reduced by \$9,129 to reflect the amortization of non-recurring amounts incurred during the test year.



6. Miscellaneous expenses should be reduced by \$7,508 to remove non-utility telephone expenses.
7. In accordance with Rule 25-30.115(1), Florida Administrative Code, materials and supplies, advertising, and miscellaneous expenses should be reduced by \$1,203 to remove expenses related to political contributions and fundraising.
8. Contractual services – other should be reduced by \$1,032 to reflect the amortization of non-recurring amounts incurred during the test year.

f. Pending Motions

There are no pending motions at this time.

g. Pending Confidentiality Claims or Requests

There are no pending confidentiality claims or requests at this time.

h. Objections to Witness Qualifications as an Expert

There are no objections to a witness' qualifications as an expert.

i. Compliance with Order No. PSC-07-0729-PCO-SU

Staff has complied with all requirements of the Order Establishing Procedure entered in this docket.

Respectfully submitted this 4<sup>th</sup> day of September, 2008.

  
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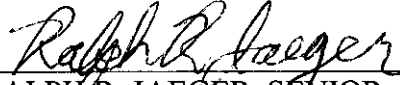
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of Staff's Prehearing Statement was furnished to the following, by U.S. Mail, on this 4<sup>th</sup> day of September, 2008.

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