

LAW OFFICES

ORIGINAL

ROSE, SUNDBSTROM & BENTLEY, LLP

2548 BLAIRSTONE PINES DRIVE
TALLAHASSEE, FLORIDA 32301

(850) 877-6555
FAX (850) 656-4029
www.rsbatorneys.com

FREDERICK L. ASCHAUER, JR.
CHRIS H. BENTLEY, P.A.
ROBERT C. BRANNAN
DAVID F. CHESTER
F. MARSHALL DETERDING
JOHN R. JENKINS, P.A.
STEVEN T. MINDLIN, P.A.
CHASITY H. O'STEEN
DAREN L. SHIPPY
WILLIAM E. SUNDBSTROM, P.A.
DIANE D. TREMOR, P.A.
JOHN L. WHARTON

ROBERT M. C. ROSE, (1924-2006)

May 3, 2007

RECEIVED-TPSC
07 MAY -3 AM 11:16
COMMISSION CLERK
CENTRAL FLORIDA OFFICE
SARLANDO CENTER
1180 WEST STATE ROAD 434
SUITE 2118
LONGWOOD, FLORIDA 32779
(407) 830-6331
FAX (407) 830-8522

MARTIN S. FRIEDMAN, P.A.
VALERIE L. LORD
BRIAN J. STREET

Lisa Polak Edgar, Chairman
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

070293-SU

Re: KW Resort Utilities Corp.; 2007 General Rate Increase Application
Our File No. 34000.05

Dear Chairman Edgar:


This letter requests approval of a test year for KW Resort Utilities Corp. The Company intends to submit an application for general rate relief to the Florida Public Service Commission for its wastewater system (Certificate No. 168-S) in Monroe County, Florida. The Company intends to submit the minimum filing requirements (MFRs) on or before 90 days from the date of test year approval. Because the Utility is fast approaching completion of substantial upgrades to its sewer system that have been costly to construct and which are also costly to operate, we will need to receive your approval as quickly as possible.

KW Resort's last general rate case initiated by the Company for this system was in Docket No. 830388-S. The Commission's Final Order establishing rates in that proceeding was Order No. 14620, issued on July 23, 1985.

Since the issuance of the order in the rate proceeding outlined above, the Utility has also implemented numerous pass-through and indexing adjustments pursuant to the provisions of Section 367.081(4)(a) and (b), Florida Statutes.

The Company believes that the proposed base year ended December 31, 2006, is representative of current operations, except for the required changes in operation which will have already begun to occur and which should be fully implemented beginning in approximately September 2007. These changes necessitate this rate filing and the use of proforma adjustments to the historic test year ended December 31, 2006.

The Utility is filing for recognition of the historic test year ended December 31, 2006 with proforma adjustments, in order to fully recognize the costs of re-sleeving its aging and infiltration prone collection system which was completed at the beginning of 2007, and additional wastewater

RECEIVED & FILED

FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE
03754 MAY-3 5
FPSC-COMMISSION CLERK

plant construction to rehabilitate its two existing treatment plants and to switch to Advanced Waste Treatment (AWT). Both of the latter two treatment plant projects are currently underway and are expected to be completed by September 1, 2007.

Starting last year and concluding with approximately three months from the present date, the Company has undergone major collection system and plant rehabilitation and upgrades and changes in operational methods, which necessitate their seeking this rate relief. These changes include the following:

1. The company recently completed re-sleeving of a substantial portion of the existing collection system lines. The costs of the project totaled approximately \$600,000. This work was completed at the beginning of 2007.
2. Because of their age, and the inherent substantial wear on a steel treatment facility in the Keys, the Utility has recently undergone a substantial refurbishment of its existing wastewater treatment facilities. That construction is currently underway. The estimated cost for this is \$426,650. Construction began during the historic base year period (2006) and is estimated to be completed by September 1, 2007. The plant re-furbishments alone do not change the cost of operations of the Utility, except to the extent they overlap with the change in treatment to AWT as outlined below.
3. All utilities within the Keys area are required to go to AWT by 2010. Monroe County has specifically asked K.W. Resort Utilities Corporation to go to AWT as quickly as possible, and in advance of that 2010 date. The Utility was already undertaking refurbishment of its system and did not wish to duplicate the effort where both the refurbishment and the AWT projects would overlap. Those two projects might also, to some extent, conflict as far as the facilities needing to be put in place to achieve each goal separately. Therefore, based in large part on these factors, the Utility decided to move to AWT immediately. The estimated costs for improvements to go to an AWT facility are \$792,350. Monroe County has given the company a grant of approximately \$700,000 to convert to AWT and this will be recorded as CIAC to reduce the rate impacts to the customers of this conversion. That facility should be in place and operational by September 1, 2007.

In addition to the benefits to the Keys' environment, these improvements will allow the Utility to fully utilize reuse as its method of effluent disposal. Currently because of issues related to infiltration, and the level of existing treatment, the Utility can only utilize reuse to the Monroe County Jail and the golf course during the hours which the system is actually manned by operational staff. With the move to AWT and the higher quality of effluent, the Utility intends to utilize reuse 24 hours a day, 7 days a week and will have a higher quality of effluent as a result of that treatment process.

Lisa Polak Edgar, Chairman
May 3, 2007
Page 3

Inherent in the move to AWT will be substantial changes in operating costs, including substantially increased required staffing of the facility. The Utility's initial estimates of increased operating costs related to AWT to be approximately \$288,625 annually.

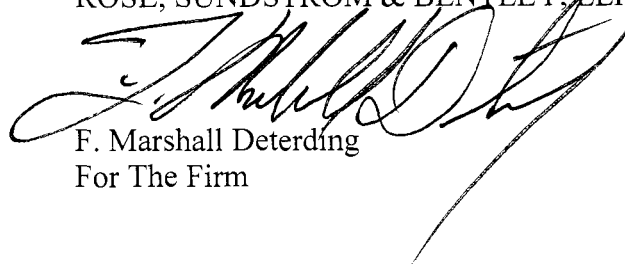
The Utility is proposing to utilize the historic test year 2006 as its test year. Substantial proforma adjustments to that test year for the three items outlined above will be required to fully recognize these capital additions which have occurred either late in 2006 or early in 2007, beyond the historic test year. Proforma adjustments will also be required to fully recognize the additional operating costs for the new treatment process which will become effective in late summer or early fall of 2007.

Please note that all of the estimates of costs, both capital and expense, may change as the Utility continues moving forward with construction, as is often the case with substantial capital improvements and changes in operations.

The Utility will be seeking interim relief based upon historic 2006 operations, because even before the changes in operation noted above, the Utility was already in a position of incurring significant losses in recent years.

Should you or any members of your staff have any questions with regard to this application, please do not hesitate to contact me.

Sincerely,
ROSE, SUNDBSTROM & BENTLEY, LLP



F. Marshall Deterding
For The Firm

FMD\tms

cc: Ann Cole, Clerk
Marshall Willis
Tim Devlin
Troy Rendell
Cheryl Bulecza-Banks
Rosanne Gervasi, Esq.
William Smith, Esq.
Robert C. Nixon, CPA