

VOTE SHEET

January 6, 2009

Docket No. 070293-SU – Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

Issue 1: Is the quality of service provided by K W Resort Utilities Corp. Satisfactory?

Recommendation: The overall quality of service provided by the Utility should be considered satisfactory. However, KWRU should provide monthly reports concerning the connection status of the remaining 350 equivalent dwelling units left to be connected until the conditions of the Utility's 2002 contract with Monroe County have been fully satisfied.

APPROVED

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

Recommendation: Yes. Plant should be reduced by \$252,690 to remove an apparent duplication of contractual operation service fees. In addition, corresponding adjustments should be made to reduce accumulated depreciation and depreciation expense by \$10,983 and \$3,021, respectively.

APPROVED

COMMISSIONERS ASSIGNED: Carter, Argenziano, Skop

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

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REMARKS/DISSENTING COMMENTS:

DOCUMENT NUMBER-DATE

00122 JAN-6 8

FPSC-COMMISSION CLERK

Vote Sheet

January 6, 2009

Docket No. 070293-SU – Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

(Continued from previous page)

Issue 3: Should KWRU's test year rate base be adjusted for KWRU's contribution to the decommissioning of jail facilities?

Recommendation: To remove non-utility investment, plant should be reduced by \$10,000. Accordingly, accumulated depreciation and depreciation expense should be decreased by \$1,259 and \$315, respectively.

APPROVED

Issue 4: Should KWRU's test year rate base be adjusted for Green Fairways Jail Project management fee?

Recommendation: Staff recommends that plant be reduced by \$32,198. Accordingly, accumulated depreciation and depreciation expense should be decreased by \$2,823.

APPROVED

Issue 5: Should KWRU's test year rate base be adjusted for Green Fairways SSI Project management fee?

Recommendation: Staff recommends that plant be reduced by \$301,180. Accordingly, accumulated depreciation and depreciation expense should be decreased by \$26,406.

APPROVED

Issue 6: Should KWRU's test year rate base be adjusted for Smith, Hemmesch, and Burke legal fees?

Recommendation: Staff recommends that plant should be reduced by \$25,000 to remove unsupported legal fees. Accordingly, accumulated depreciation and depreciation expense should be decreased by \$2,192.

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Vote Sheet

January 6, 2009

Docket No. 070293-SU – Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

(Continued from previous page)

Issue 7: Should KWRU's test year rate base be adjusted for Mr. Johnson's moving expenses?

Recommendation: Yes. An adjustment of \$8,602 should be made to remove Mr. Johnson's capitalized moving expenses. Corresponding adjustments should be made to reduce accumulated depreciation and depreciation expense of \$1,075 and \$269, respectively.

APPROVED

Issue 8: Should KWRU's test year rate base be adjusted for Johnson Constructors charges for JAS Corp.?

Recommendation: Yes. KWRU's test year rate base should be reduced by \$34,650. Corresponding adjustments should be made to decrease accumulated depreciation and depreciation expense both by \$1,925.

APPROVED

Issue 9: Should KWRU's test year rate base be adjusted for Mr. London's consulting fees?

Recommendation: Yes. KWRU's test year rate base should be reduced by \$32,500 to remove unsupported consultant fees paid to Mr. London. Corresponding adjustments should be made to accumulated depreciation and depreciation expense of \$6,145 and \$855, respectively.

APPROVED

Issue 10: Should KWRU's test year rate base be adjusted for White and Case legal charges related to Monroe County Audit Report?

Recommendation: Yes. KWRU's test year rate base should be reduced by \$27,230 to remove legal fees associated with the response to the Monroe County Audit Report. Corresponding adjustments should also be made to decrease accumulated depreciation and depreciation expense by \$1,814 and \$907, respectively.

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Vote Sheet

January 6, 2009

Docket No. 070293-SU – Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

(Continued from previous page)

Issue 11: Should KWRU's test year rate base be adjusted for the Key West Citizen PR Advertisement?

Recommendation: Yes. KWRU's test year rate base should be reduced by \$422 to remove costs associated with a media advertisement. Accordingly, corresponding adjustments should be made to decrease accumulated depreciation and depreciation expense by \$117 and \$23, respectively.

APPROVED

Issue 12: Should adjustments be made to the Utility's pro forma plant additions?

Recommendation: Yes. To remove administration fees paid to Green Fairways and to remove cost incurred for not obtaining the necessary permits in a timely manner, pro forma plant should be reduced by \$124,921. Accordingly, corresponding adjustments should also be made to decrease accumulated depreciation and depreciation expense both by \$6,940. In addition, a corresponding adjustment should be made to decrease property taxes by \$1,027.

APPROVED

Issue 13: What are the used and useful percentages of the Utility's wastewater treatment plant and collection and reuse systems?

Recommendation: The Utility's wastewater treatment plant and collection and reuse systems should all be considered 100 percent used and useful.

APPROVED

Issue 14: What is the appropriate test year balance of accumulated depreciation?

Recommendation: Consistent with staff's previously recommended plant adjustments, the appropriate test year balance of accumulated depreciation is \$2,674,088.

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Vote Sheet

January 6, 2009

Docket No. 070293-SU – Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

(Continued from previous page)

Issue 15: What are the appropriate test year balances of contributions-in-aid of construction (CIAC) and accumulated amortization of CIAC?

Recommendation: The appropriate test year balances of CIAC and accumulated amortization of CIAC are \$5,563,429 and \$726,153, respectively.

APPROVED

Issue 16: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is \$464,578. Accordingly, working capital should be decreased by \$32,269.

APPROVED

Issue 17: What is the appropriate rate base?

Recommendation: Consistent with other recommended adjustments, the appropriate 13-month average rate base is \$127,795.

APPROVED

Issue 18: What is the appropriate return on common equity?

Recommendation: The appropriate return on common equity is 12.67 percent based on the Commission's leverage formula approved at the December 16, 2008 agenda conference and an equity ratio of 27.34 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

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Vote Sheet

January 6, 2009

Docket No. 070293-SU – Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

(Continued from previous page)

Issue 19: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure?

Recommendation: Based on the resolution of the previous issues, the appropriate weighted average cost of capital, including the proper components, amounts, and cost rates associated with the capital structure, is 8.62 percent.

APPROVED

Issue 20: Should any adjustments be made to test year revenues?

Recommendation: Yes. To reflect the appropriate annualized revenue adjustment, revenues should be increased by \$6,264. Second, revenues should be increased by \$14,600 to reflect the appropriate rental fee. Finally, test year revenues should be increased by \$19,575 to include income related to the County lift stations.

APPROVED

Issue 21: Should any adjustments be made to sludge removal expenses?

Recommendation: Yes. To reflect the amortization of non-recurring amounts incurred during the test year, sludge removal expense should be reduced by \$9,129.

APPROVED

Issue 22: Should any adjustments be made to chemicals expense?

Recommendation: Yes. Based on the Utility's three-year average of indexed costs, test year chemical expense should be reduced by \$16,117.

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Vote Sheet

January 6, 2009

Docket No. 070293-SU – Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

(Continued from previous page)

Issue 23: Should KWRU's test year expenses be adjusted for the reduction of infiltration and inflow related to the re-sleeving of its lines?

Recommendation: No.

APPROVED

Issue 24: Should KWRU's test year expenses be adjusted to remove any markup in pro forma expenses?

Recommendation: To remove expenses associated with an unsupported mark-up by a related party, chemicals, sludge hauling, and materials and supplies should be reduced by \$7,913, \$2,690, and \$23,224, respectively.

APPROVED

Issue 25: Should any adjustments be made to insurance – general liability?

Recommendation: No. KWRU's decision to spread the payments over a 12-month period appears to be reasonable based on the amount of the premiums and the associated finance charges.

APPROVED

Issue 26: Should any adjustments be made to advertising expenses?

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

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Vote Sheet

January 6, 2009

Docket No. 070293-SU – Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

(Continued from previous page)

Issue 27: Should KWRU's test year expenses be adjusted for Mr. Smith's Management Fees Charged by Green Fairways?

Recommendation: Yes, KWRU's expenses should be reduced by \$30,000.

APPROVED

Issue 28: Should test year expenses be adjusted for certain transactions between Keys Environmental (KEI) and KWRU?

Recommendation: Yes, test year expenses should be reduced by \$71,053 (\$1,313+\$15,000+\$51,663+\$3,077) for certain transactions between KEI and KWRU. Additionally, plant in service should be increased by \$66,663 (\$15,000+51,663). Accordingly, accumulated depreciation and depreciation expense should be increased by \$3,086.

APPROVED

Issue 29: Should any other adjustments be made to contractual services – other expenses?

Recommendation: Yes. The test year balance for contractual services – other should be reduced by \$12,038 to remove bonuses paid to non-utility employees.

APPROVED

Issue 30: Should any adjustments be made to miscellaneous expenses?

Recommendation: Yes. Miscellaneous expense should be reduced by \$22,132.

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Vote Sheet

January 6, 2009

Docket No. 070293-SU – Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

(Continued from previous page)

Issue 31: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense is \$466,615. The four-year amortization results in test year rate case expense of \$116,654, which increases the MFR amortization amount by \$66,654.

APPROVED

Issue 32: Should any adjustment be made to test year net depreciated expense?

Recommendation: Yes. Based on the resolution on previous recommended plant adjustments, the depreciation expense should be reduced by \$48,759.

APPROVED

Issue 33: What is the test year wastewater operating income or loss before any revenue increase?

Recommendation: The test year operating loss is \$132,988 for wastewater before any revenue increase.

APPROVED

Issue 34: What is the appropriate revenue requirement?

Recommendation: The following revenue requirement should be approved:

	<u>TOTAL</u>	<u>\$ INCREASE</u>	<u>% INCREASE</u>
Wastewater	\$1,328,524	\$241,771	22.25%

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Vote Sheet

January 6, 2009

Docket No. 070293-SU – Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

(Continued from previous page)

Issue 35: What is the appropriate rate structure for this Utility?

Recommendation: The Utility's rate structure should be changed from the current flat rate structure, to the base facility and gallonage charge rate structure. In addition, the residential monthly wastewater gallonage cap should be set at 10,000 gallons.

APPROVED

Issue 36: What are the appropriate monthly residential and general service rates?

Recommendation: The appropriate wastewater monthly rates are shown on Schedule No. 4 of staff's memorandum December 23, 2008. Excluding miscellaneous service charge, reuse, and other revenues, the recommended wastewater rates are designed to produce revenues of \$1,222,064. The Utility should file revised wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the wastewater system. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

APPROVED

Issue 37: What are the appropriate monthly bulk and reuse service rates?

Recommendation: The appropriate wastewater monthly rates are shown on Schedule No. 4 of staff's memorandum December 23, 2008. The Utility should file revised wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the wastewater system. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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Vote Sheet

January 6, 2009

Docket No. 070293-SU – Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

(Continued from previous page)

Issue 38: 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?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenue requirement granted. Based on this calculation the Utility should be required to refund 1.85 ~~2.14~~ percent of wastewater revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports, pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC, pursuant to Rule 25-30.360(8), F.A.C. Further, the corporate undertaking should be released upon staff's verification that the required refunds have been made.

APPROVED ; *oral modification attached.*

Issue 39: 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?

Recommendation: The wastewater rate should be reduced as shown on Schedule No. 4 of staff's memorandum December 23, 2008, to remove \$122,151 of wastewater rate case expense, grossed up for regulatory assessment fees, which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than 30 days prior to the actual date of the required rate reduction. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. KWRU should provide proof of the date notice was given no less than 10 days after the date of the notice.

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Vote Sheet

January 6, 2009

Docket No. 070293-SU – Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

(Continued from previous page)

Issue 40: 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?

Recommendation: Yes. To ensure that the Utility adjusts it's books in accordance with the Commission's decision, KWRU should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

APPROVED

Issue 41: Should this docket be closed?

Recommendation: If the Commission's final order is not appealed, this docket should be closed upon staff's approval of the tariffs, verification of the required refunds, and the expiration of the time for filing an appeal.

APPROVED

Ann Cole

From: Mary Bane
Sent: Monday, January 05, 2009 9:41 AM
To: Bart Fletcher
Cc: Tim Devlin; Marshall Willis; Cheryl Bulecza-Banks; Patti Daniel; Stan Rieger; Jennifer Brubaker; Ralph Jaeger; Lydia Roberts; Betty Ashby; William C. Garner; Roberta Bass; Lorena Holley; Larry Harris; Bill McNulty; Mary Bane; Ann Cole; Carol Purvis
Subject: RE: Request of Oral Modification to Item 6, January 6, 2009 Agenda, Docket No. 070293-SU - K W Resort Utilities Corp.

Approved.

From: Bart Fletcher
Sent: Wednesday, December 31, 2008 11:43 AM
To: Mary Bane
Cc: Tim Devlin; Marshall Willis; Cheryl Bulecza-Banks; Patti Daniel; Stan Rieger; Jennifer Brubaker; Ralph Jaeger; Lydia Roberts; Betty Ashby
Subject: Request of Oral Modification to Item 6, January 6, 2009 Agenda, Docket No. 070293-SU - K W Resort Utilities Corp.
Importance: High

Staff requests approval to file a revised recommendation for Item 6 scheduled for next Tuesday's agenda. Item 6 relates to a post-hearing recommended increase for K W Resort Utilities Corp. (KWRU). Revisions to the recommendation are necessary because of inadvertently not updating the interim refund percentage and interim period revenue requirement, incorrect general service gallons, and incorrect calculation of the large and small swimming pool rates. The Statutory time frame to process this case has been waived by KWRU through the January 6, 2009, Agenda Conference. These requested modifications have no other effects on Staff's recommendation including final revenue requirement.

First, on Page 74, the third sentence of the recommendation paragraph should read as follows:

"Based on this calculation, the Utility should be required to refund 1.85 ~~2.44~~ percent of wastewater revenues collected under interim rates."

Second, on Pages 74-75, the first, second, and third sentences of the last paragraph in the staff's analysis section should read as follows:

"Using the principles discussed above, staff calculates that the \$1,227,722 wastewater revenue requirement granted in Order No. PSC-07-0812-PCO-SU for the Interim test year is greater than the revenue requirement for the interim collection period of ~~\$1,206,373~~ ~~\$1,202,989~~. This results in a 1.85 ~~2.44~~ percent refund of interim rates. The Utility should be required to refund 1.85 ~~2.44~~ percent of wastewater revenues collected under interim rates. "

Third, after the recommendation was filed, it came to staff's attention that the general service gallons were overstated and that there was a formula error in the calculation of the large and small swimming pool rates. To correct these errors, Schedule No. 4 on pages 84 and 85 should be revised.

As reflected in the following schedules, the revised rates are highlighted in yellow:

1/5/2009

DOCUMENT NUMBER-DATE

00032 JAN-5 8

FPSC-COMMISSION CLERK

K W Resort Utilities Corp.		Schedule No. 4				
Wastewater Monthly Service Rates		Page 1 of 2				
Test Year Ended 12/31/06						
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Initial Recomm. Final	Revised Recomm. Final	Four Year Rate Reduction
<u>Residential</u>						
Flat Rates	\$40.39	\$47.61				
Base Facility Charge All Meter Sizes:			\$35.08	\$18.39	\$18.39	\$1.69
Gallorage Charge - Per 1,000 gallons (10,000 gallon cap)			\$4.49	\$3.57	\$3.99	\$0.37
<u>General Service</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$30.73	\$36.21	\$35.08	\$18.39	\$18.39	\$1.69
1"	\$74.72	\$88.06	\$87.70	\$45.98	\$45.98	\$4.23
1-1/2"			\$175.40	\$91.95	\$91.95	\$8.45
2"	\$229.52	\$270.50	\$280.64	\$147.12	\$147.12	\$13.53
3"	\$454.63	\$535.80	\$526.20	\$294.24	\$294.24	\$27.05
4"	\$707.94	\$834.35	\$877.00	\$459.75	\$459.75	\$42.27
6"			\$1,754.00	\$919.50	\$919.50	\$84.54
8"			\$2,806.40	\$1,655.10	\$1,655.10	\$152.18
8" Turbo			\$3,157.20	\$2,114.85	\$2,114.85	\$194.45
Gallorage Charge, per 1,000 Gallons	\$3.40	\$4.01	\$5.27	\$4.29	\$4.79	\$0.44
<u>Multi-Residential and Commercial</u>						
Flat Rate	\$40.39	\$47.61				
Base Facility Charge by Meter Size:						
5/8" x 3/4"			\$35.08	\$18.39	\$18.39	\$1.69
1"			\$87.70	\$45.98	\$45.98	\$4.23
1-1/2"			\$175.40	\$91.95	\$91.95	\$8.45
2"			\$280.64	\$147.12	\$147.12	\$13.53
3"			\$526.20	\$294.24	\$294.24	\$27.05
4"			\$877.00	\$459.75	\$459.75	\$42.27
Gallorage Charge, per 1,000 Gallons			\$5.27	\$4.29	\$4.79	\$0.44
<u>Reclaimed Water</u>						
Gallorage Charge, per 1,000 Gallons	\$0.45	\$0.53	\$0.69	\$0.69	\$0.69	\$0.06

K W Resort Utilities Corp.				Schedule No. 4		
Wastewater Monthly Service Rates				Page 2 of 2		
Test Year Ended 12/31/06						
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Initial Recomm. Final	Revised Recomm. Final	Four Year Rate Reduction
Private Lift Station Owners						
5/8" x 3/4"	\$32.55	\$38.32	\$35.08	\$18.39	\$18.39	\$1.69
1"	\$74.72	\$88.06	\$87.70	\$45.98	\$45.98	\$4.23
2"	\$229.52	\$270.50	\$280.64	\$147.12	\$147.12	\$13.53
Gallonge Charge, per 1,000 Gallons	\$2.74	\$3.23	\$5.27	\$4.29	\$4.79	\$0.44
Bulk Wastewater Rates						
Safe Harbor Marina						
13 Residential Units @ 1 ERC each	\$525.11	\$618.87	\$456.04	\$337.37	\$354.86	\$32.63
18 Live Aboard Boats @ .6 ERC each	\$436.20	\$514.09	\$378.86	\$281.14	\$295.72	\$27.19
27 Non-Live Aboard Boats @ .2 ERC each	\$218.10	\$257.04	\$189.43	\$140.57	\$147.86	\$13.59
6 Vacant Slips @ .2 ERC each	\$48.46	\$57.11	\$42.10	\$21.46	\$31.85	\$2.93
2 Bathhouses @ 1 ERC each	\$80.79	\$95.21	\$70.16	\$51.90	\$54.59	\$5.02
2 Commercial Businesses @ .5 ERC each	\$40.39	\$47.61	\$35.08	\$25.95	\$27.30	\$2.51
1 Commercial Bar	\$51.53	\$60.73	\$44.90	\$33.11	\$34.83	\$3.20
Total	\$1,400.58	\$1,650.67	\$1,216.57	\$891.51	\$947.00	\$87.07
South Stock Island Marinas (Peninsular Marina)						
13 Residential Units @ 1 ERC each	\$525.11	\$618.87	\$456.04	\$337.37	\$354.86	\$32.63
16 Live Aboard Boats @ .6 ERC each	\$387.73	\$456.96	\$336.77	\$248.70	\$261.60	\$24.05
26 Non-Live Aboard Boats @ .2 ERC each	\$210.04	\$247.55	\$182.42	\$134.08	\$141.03	\$12.97
Bathhouse @ 1 ERC	\$40.39	\$47.61	\$35.08	\$25.95	\$27.30	\$2.51
3 Commercial Businesses @ .5 ERC each	\$60.59	\$71.41	\$52.62	\$38.93	\$40.95	\$3.76
Total	\$1,223.86	\$1,442.39	\$1,062.93	\$785.04	\$825.73	\$75.92
General Service Multiple Agreement						
Large Swimming Pool (4 ERCs)	\$161.57	\$190.42	\$140.32	\$25.95	\$109.19	\$10.04
Small Swimming Pool (1.18 ERCs)	\$47.67	\$56.18	\$41.39	\$25.95	\$32.21	\$2.96
Temporary Service Agreement						
Sweetwater Environmental, Inc.						
Minimum Charge on 127,100 gallons	\$728.28	\$858.21	\$669.82	\$545.17	\$608.73	\$55.97
Gallonge Charge, per 1,000 Gallons	\$5.73	\$6.75	\$5.27	\$4.29	\$4.79	\$0.44
Typical Residential Bills 5/8" x 3/4" Meter						
3,000 Gallons	\$40.39	\$47.61	\$48.55	\$29.10	\$30.36	
5,000 Gallons	\$40.39	\$47.61	\$57.53	\$36.24	\$38.34	
10,000 Gallons	\$40.39	\$47.61	\$79.98	\$54.09	\$58.29	
(Wastewater Gallonge Cap - 10,000 Gallons)						