

Docket No. 150071-SU:

K W Resort Utilities Corporation

Petition for increase in rates by K W Resort Utilities Corporation

Witness: **Direct Testimony of ILIANA H. PIEDRA,**

Appearing on behalf of the staff of the Florida Public Service Commission

Date Filed: September 23, 2016

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF ILIANA H. PIEDRA**

4 **DOCKET NO. 150071-SU**

5 **September 23, 2016**

6 **Q. Please state your name and business address.**

7 **A. My name is Iliana H. Piedra. My business address is 3625 N.W. 82nd Ave., Suite**
8 **400, Miami, Florida, 33166.**

9 **Q. By whom are you presently employed and in what capacity?**

10 **A. I am employed by the Florida Public Service Commission (FPSC or Commission)**
11 **as a Professional Accountant Specialist in the Office of Auditing and Performance**
12 **Analysis.**

13 **Q. Briefly review your educational and professional background.**

14 **A. I received a Bachelor of Business Administration degree with a major in**
15 **accounting from Florida International University in 1983. I am also a Certified Public**
16 **Accountant licensed in the State of Florida. I have been employed by the FPSC since**
17 **January 1985.**

18 **Q. Please describe your current responsibilities.**

19 **A. My responsibilities consist of planning and conducting utility audits of manual**
20 **and automated accounting systems for historical and forecasted data.**

21 **Q. Have you presented testimony before this Commission or any other**
22 **regulatory agency?**

23 **A. Yes. I filed testimony in City Gas Company of Florida's rate case, Docket No.**
24 **940276-GU, the General Development Utilities, Inc. rate cases for the Silver Springs**
25 **Shores Division in Marion County and the Port Labelle Division in Glades and Hendry**

1 Counties in Docket Nos. 920733-WS and 920734-WS, the Florida Power & Light
2 Company's storm cost recovery case in Docket No. 041291-EI, the Embarq's storm cost
3 recovery case in Docket No. 060644-TL, the K W Resort Utilities Corp. rate case in
4 Docket No. 070293-SU, the Fuel and Purchased Power Cost Recovery Clause in Docket
5 Nos. 120001-EI, 130001-EI and 140001-EI, the Nuclear Cost Recovery Clause in Docket
6 Nos. 130009-EI, 150009-EI and 160009-EI, and Florida Power & Light Company's rate
7 case in Docket No. 160021-EI.

8 **Q. What is the purpose of your testimony today?**

9 **A.** The purpose of my testimony is to sponsor the staff audit report of K W Resort
10 Utilities Corporation (Utility) which addresses the Utility's application for a rate increase.
11 This audit report is filed with my testimony and is identified as Exhibit IHP-1.

12 **Q. Was this audit prepared by you or under your direction?**

13 **A.** Yes, it was prepared under my direction.

14 **Q. What audit period did you use in this audit?**

15 **A.** We audited the historical twelve months ended December 31, 2014. We did not
16 audit any subsequent year.

17 **Q. Please describe the work you performed in this audit?**

18 **A.** The procedures that we performed in this audit are listed in the Objectives and
19 Procedures section of the attached Exhibit IHP-1, pages 4 through 8.

20 **Q. Please review the audit findings in this audit report.**

21 **A.** There were 17 audit findings reported in this audit and are found in the attached
22 Exhibit IHP-1, pages 9 through 42. They are summarized below.

23 **Finding 1: Utility Plant In Service**

24 Average UPIS should be reduced by \$978,063, for the test year ended December 31,
25 2014. We audited the UPIS transactions from 2006-2014. We made adjustments to correct

1 for Commission Ordered Adjustments, to remove non-utility costs, to remove transactions
2 that should have been expensed, to remove transactions that we believe should be
3 recorded in a deferred asset account and amortized, to record retirements, and to remove
4 transactions already included in the UPIS balance in the prior rate proceeding. Details of
5 these specific adjustments can be found in the attached Exhibit.

6 The Utility's proforma adjustments to UPIS in the filing are discussed in Finding 2.

7 **Finding 2: Construction Work In Progress-Pro Forma Plant**

8 The following finding was provided for staff's consideration.

9 The Utility is booking the costs for the expansion of its wastewater treatment to UPIS
10 accounts instead of Construction Work in Progress. Audit staff reviewed invoices
11 totaling \$303,382. Invoices totaling \$158,151 were booked from February 2013 to
12 December 2014. Additional invoices totaling \$144,984 were booked from January 1,
13 2015 to July 15, 2015, which is outside the test year.

14 **Finding 3: Land and Land Rights**

15 The Utility reflected an addition of \$6,000 to Account 353 - Land and Land Rights in
16 November 2014. The Utility states that this amount is for surveying costs to identify and
17 locate sewer mains that cross private property in its service territory. NARUC, Class B,
18 Wastewater Utility Plant Accounts, Account 353 - Land and Land Rights Sub-Item No.
19 11 states that surveys in connection with topographical survey and maps where such costs
20 are attributable to structures or plant equipment erected or to be erected or installed on
21 such land are not includable in this account. Therefore, audit staff believes that it is a
22 nonrecurring cost that should be reclassified to deferred asset account for survey fees and
23 amortized over five years to Operation and Maintenance Expense (O&M) Account 736 –
24 Contractual Services Other, per Rule 25-30.433(8), Rate Case Proceedings, and Florida
25

1 Administrative Code (F.A.C.). Average rate base should be decreased by \$185 and O&M
2 should be increased by \$1,200 (\$6,000/5), for the test year ended December 31, 2014.

3 **Finding 4: Contributions-In-Aid-of-Construction (CIAC), Accumulated**
4 **Amortization of CIAC and Amortization of CIAC**

5 The net adjustment of \$1,762,792 included in the filing includes an adjustment that
6 increases CIAC by \$2,724,171 in year 2004. We reviewed the details for the adjustment
7 and determined that it contained the following two errors. The adjustment includes a
8 \$293,058 addition for the Meridian West Apartments that was already included in the
9 prior order approved balance of \$5,752,701. The adjustment schedule contains calculation
10 errors that overstate the needed adjustment by \$14,062. Finding 1 of our auditor's report
11 reclassifies \$10,000 from PIS Account 3612 – Collection Sewers Gravity to CIAC
12 Account 2711 to properly record a refund of capacity fees paid to a utility customer.

13 Therefore, the Utility's CIAC balance should be reduced by \$297,120
14 (\$293,058+\$14,062-\$10,000), as of December 31, 2014. We recreated the Utility's
15 amortization schedule to correct the CIAC amortization accrual calculation errors and
16 other small issues within the schedule. We included our adjustment that reduced CIAC
17 by \$297,120. Based on our adjustments and recalculations, the Utility's balance for
18 Accumulated Amortization of CIAC and CIAC Amortization Expense should be
19 decreased by \$116,016 and \$14,003, respectively, for the test year ended December 31,
20 2014.

21 **Finding 5: Accumulated Depreciation**

22 The Utility calculates depreciation accruals on each specific asset listed within the asset
23 class rather than group depreciation as required by Rule 25-30.140 F.A.C. Applying the
24 Rule to the Audit UPIS balances reduces the Utility's accumulated depreciation balance
25 of \$6,055,721 by \$83,006 to \$5,972,716, as of December 31, 2014. Our calculations also

1 reduced the Utility's Depreciation Expense of \$647,382 by \$5,489 to \$641,892, for the
2 test year ended December 31, 2014. Average accumulated depreciation and Depreciation
3 Expense should be reduced by \$45,131 and \$5,489, respectively, for the test year ended
4 December 31, 2014.

5 The Utility's proforma adjustments to accumulated depreciation for the wastewater plant
6 expansion are included in Finding 2.

7 **Finding 6: Miscellaneous Deferred Debits**

8 The following finding was provided for staff's consideration.

9 Utility adjustments on Schedule B-3 in the filing reduced the Deferred Rate Case Expense
10 balance by \$14,764 to reclassify accounting, legal and engineering fees, related to the
11 restatement of the 2007 - 2012 Annual Reports, to test year O&M.

12 The Utility's filing includes proforma average adjustments of \$467,625 and \$62,000 on
13 Schedule A-17 as Miscellaneous Deferred Debits for the estimated costs to modify its
14 wastewater permit in conjunction with the wastewater plant expansion and one-half of the
15 estimated amortization of rate case expense. The year end estimates were \$519,593 and
16 \$156,000, respectively.

17 In Finding 1, we reduced UPIS by \$30,090 for engineering cost related to the wastewater
18 permit modification and reclassified them to a deferred asset account for permit fees.

19 This balance was included in our analysis of deferred permit fees discussed in Finding 16.

20 In Finding 3, we reduced Land by \$6,000 for survey fees to locate utility infrastructure
21 and reclassified them to a deferred asset account for survey fees which increases the test
22 year O&M by \$1,200 (\$6,000/5 years).

23 In Finding 11, we reclassified \$4,668 (\$1,863+\$2,805) from test year O&M Expense to a
24 deferred asset account for accounting fees for the costs incurred to restate the 2007-2012

25

1 Annual Reports which increases the test year O&M by \$933 (\$4,668/5 years). In Finding
2 16, we reduced the deferred asset account for permit fees by \$42,157 to record the actual
3 permit cost incurred based on our review of supporting documentation which reduces the
4 test year O&M by \$8,431 (\$42,157/5 years).

5 The Utility's adjustment to O&M expense for the Amortization of Miscellaneous
6 Deferred Debits should be reduced by \$6,297 (\$8,432-\$1,200-\$933), for the test year
7 ended December 31, 2014.

8 The Utility's adjustment to Working Capital for Miscellaneous Deferred Debits should be
9 increased by \$24,217 (\$554,242-\$467,625-\$62,400), for the test year ended December 31,
10 2014.

11 **Finding 7: Working Capital**

12 We reviewed the general ledger accounts contained within each of the Working Capital
13 component balances and recommend the following adjustments for this proceeding.

14 Accounts Receivable – Other

15 The balance of \$24,029 represents the sum of a cash clearing account used to record
16 customer receivables other than metered services such as deposits and service availability
17 fees until paid. Finding 16 reclassifies a February 2014 credit entry of \$43,415 from this
18 account to Account 433 – Extraordinary Income. The balance of the account will
19 increase by \$43,214. Therefore, average working capital should be increased by \$40,067.

20 Miscellaneous Current & Accrued Assets

21 The component balance of \$13,125 is comprised of two general ledger accounts, Account
22 1740200 – Deposits Electric for \$12,975 and Account 1740333 – Deposits Water for
23 \$150. The Utility stated that these are deposits remitted to its electric and water service
24 providers that earn interest at a rate determined by the respective Utility boards.
25 Typically interest bearing accounts, such as these, are excluded from working capital

1 unless the associated interest income is also included above the line in Revenues. The
2 utility did not include any interest income in revenues for this proceeding. Therefore,
3 average working capital should be decreased by \$13,422.

4 One-half Rate Case Expense

5 The rate case expense adjustment of \$62,400 is calculated as one-half year of an
6 estimated total rate case expense of \$124,800 for the instant proceeding. Finding 11
7 discusses the Utility's balances for Other Miscellaneous Deferred Debits, Deferred Rate
8 Case Expense and includes balances for adjustments to a Miscellaneous Deferred Asset
9 account. Our total average adjustment increases Working Capital by \$24,217.

10 The sum of our three adjustments increases the average working capital adjustment by
11 \$50,842 ($\$40,067 - \$13,422 + \$24,217$) for the test year ended December 31, 2014.

12 **Finding 8: Capital Structure**

13 The following finding was provided for staff's consideration.

14 The Utility has included in Schedule D-5 of the filing a Note Payable to WS Utility Inc.,
15 for \$852,903 at a six percent interest rate. There is no executed debt instrument for this
16 loan. The Utility explained that WS Utility Inc. was acting as a private lender at times
17 when financing was difficult and that no origination fees, points or closing costs were
18 charged. The Utility believes that a six percent per annum interest rate is reasonable due
19 to the risk associated with a loan of this nature.

20 The Utility has included a proforma adjustment for \$3.5 million to Common Equity on
21 Schedule D-2 of the filing in anticipation of self-funding the wastewater plant expansion
22 entirely with equity.

23 A proforma adjustment to rate base of \$3,378,186 was included on Schedule A-1 of the
24 filing. (\$3,574,468 for UPIS & \$196,282 for accumulated depreciation) Additional
25 information provided in the filing estimates that the wastewater plant expansion will cost

1 approximately \$3.5 million. The estimate was increased to \$3.7 million in subsequent
2 information provided during our audit. The Utility has already spent approximately
3 \$303,382, as of July 15, 2015. Additional information on the proforma adjustment is
4 provided in Finding 2.

5 **Finding 9: Operating Revenues**

6 Revenues should be increased by \$34,677, for the test year ended December 31, 2014.

7 The adjustment is itemized as follows;

- 8 • Decrease Accounts 52210, 52211 and 52212 - Residential and Commercial
9 Sewers by \$15,804 based on our analysis of the Utility's billing registers.
- 10 • Increase Account 54120 - Effluent Sales by \$2,602 based on our recalculation.
- 11 • Increase Account 42110 - Monroe County Detention Center (MCDC) Income by
12 \$19,550 for income related to cleaning the MCDC lift station which was included
13 above the line as Operating Revenues in the last rate case by Order No. PSC-09-
14 0057-PAA-SU.
- 15 • Increase Account 42120 - Water Testing Income by \$19,500 which represents
16 additional reclaimed water testing on a pro-rata basis according to use. The Utility
17 has two customers that purchase reclaimed water and directly reimburse the
18 Utility for the cost of the additional testing. Utility records indicate that the costs
19 for the extra tests are included in O&M expense. Therefore, this income should be
20 included above the line for the test year to match the revenues received with the
21 expense incurred.
- 22 • Increase Account 42600 - Miscellaneous Income by \$22,849 which represents the
23 income generated by the Utility for subcontractor work and income related to
24 reclassifying cash receipts such as non-sufficient funds, emergency services,
25 inspection fees and premise visits. Since these revenues are associated with work

1 performed by Utility employees, whose salaries and benefits are charged above
2 the line, we believe that the entire amount of \$22,849 should be included in
3 revenues.

4 **Finding 10: Operations and Maintenance Expense**

5 O&M Expenses should be reduced by \$4,512, for the test year ended, December 31,
6 2014. The adjustment is itemized as follows;

- 7 • Account 72000 – Materials and Supplies: On May 7, 2014, the Utility booked a
8 duplicate expense totaling \$293 for the balance owed on an invoice for purchased
9 lift station and vehicle logo signs. The expense was allocated to this account for
10 \$217 and to Account 7500 for \$76. The Utility paid the invoice on May 8, 2014,
11 by check and subsequently voided the duplicated check. However, it did not
12 reverse the accrual entry for \$217. This account should be reduced by \$217 to
13 remove the accrual.
- 14 • Account 7330 – Contractual Services – Legal: This represents two invoices
15 totaling \$829 for legal fees incurred for a dispute with the Monroe County
16 Detention Center. These costs were recovered when a settlement was reach
17 during the test year. See Finding 15 for more information. This account should
18 be reduced by \$829 to remove the recovered legal fees.
- 19 • Account 7360 – Contractual Services – Other: On July 8, 2014, the Utility
20 remitted to the Florida Department of Revenue \$296 for sales tax owed on several
21 Blaylock Oil Co. invoices. The invoices in question are not recorded in the test
22 year. Therefore, the sales tax paid should not be included in the test year because
23 it is considered out of period. This account should be reduced by \$296.
- 24 • Account 7500 – Transportation Expense: The Utility recorded a Chevron Gas
25 invoice totaling \$1,005 to two separate vendor accounts within this expense

1 account. The Utility confirmed that one of the entries was an error and stated that
2 the entry was corrected in 2015. This account should be reduced by \$1,081
3 (\$1,005+\$76) for the duplicate entries discussed here and in Account 7200 above.

- 4 • Account 7600 - Advertising Expense: On August 11, 2014, the Utility contributed
5 \$250 for Team Sponsorship. Charitable contributions such as this are considered
6 non-utility expenses per Rule 25-30.433 (6), Rate Case Proceedings, F.A.C. This
7 account should be reduced by \$250.
- 8 • Account 7750 – Miscellaneous Expenses: The Utility included thirteen invoices
9 each, for the Waste Management disposal fees and Sprint telephone services. The
10 extra invoices were bills for December 2013 that were paid in January 2014. The
11 invoices were for \$147 Waste Management and \$401 for Sprint, respectively. The
12 Utility included Rotary Club of Key West membership dues of \$1,291 for the
13 Utility’s president. Order No. PSC-97-0847-FOF-WS, issued December 15, 1997,
14 determined that social club dues, such as these, are non-utility in nature and not
15 recoverable.

16 **Finding 11: Test Year Adjustments to O&M Expense**

17 The Utility test year adjustment to O&M Expense should be reduced by \$6,276
18 (\$2,805+\$1,862+\$1,609), for the test year ended December 31, 2014. The Utility has
19 included the following adjustments in Schedule B-3 of the filing.

- 20 • Contractual Services Engineer - \$2,805. The invoice was for costs incurred in
21 2014 to compile and restate the Utility’s books and Annual Reports for the period
22 2007 through 2012. Therefore, we have removed \$2,805 in accounting fees.
- 23 • Contractual Services Accounting - \$1,862. The invoice was for costs incurred in
24 2014 to compile and restate the Utility’s books and Annual Reports for the period
25 2007 through 2012. Therefore, we have removed \$1,862 in accounting fees.

- 1 • Contractual Services Legal - \$1,609. The Utility could not provide any
2 documentation to support the legal fees of \$1,609. Therefore they should be
3 removed.
- 4 • Outside Services – Other - \$8,488. The invoice was for costs incurred to prepare
5 the Utility’s Annual Report. We concur that it should be included in test year
6 O&M expense.
- 7 • Adjustment to Amortize Other Deferred Expenses - \$11,678. The adjustment
8 includes costs the Utility incurred in 2014 to compile and restate the Utility’s
9 books and Annual Reports for the period 2007 through 2012.

10 **Finding 12: Proforma Adjustments to O&M Expense**

11 The following finding was provided for staff’s consideration.

12 The Utility has included proforma adjustments in Schedule B-3 of the filing. The Utility
13 explained that these estimates are based on reviews conducted in previous years. We
14 received some documentation for the estimates for the Salary and Wages, Sludge
15 Disposal, Purchased Power and Chemicals. No documentation was received for the
16 remaining items. We believe the Commission Staff Engineer should review the proforma
17 adjustments.

18 **Finding 13: Contractual Service-Management Fee**

19 The following finding was provided for staff’s consideration.

20 The Utility has included \$60,000 in Account 73400 – Contractual Services Management
21 Fee. This represents a management fee from Green Fairways, Inc. The Utility explained
22 that Mr. William L. Smith, President of Green Fairways, Inc. does not keep time records
23 and that he spends approximately twenty-five percent of his time on Utility matters. His
24 duties include supervision of company officers, financial planning, reviewing the
25 treatment of customers, employees and vendors. Also included in his responsibilities are

1 reviewing the overall wastewater operations, planning for the expansion and dealing with
2 PSC rate and complaint matters.

3 The same fee was requested in the last rate case proceeding and was reduced by \$30,000
4 by Order No. PSC-09-0057-PAA-SU. The Utility explained that the increased cost from
5 the \$30,000 is significantly below the benchmark when compared to the increase in
6 number of customers and inflation.

7 **Finding 14: Taxes Other Than Income**

8 Taxes Other Than Income Expense should be reduced \$115, for the test year ended
9 December 31, 2014. Based on our calculations, the Utility owes an additional Regulatory
10 Assessment Fee (RAF) amount to the Commission of \$518, which represents the
11 difference between reported revenues on its RAF filing and the actual revenues
12 determined in Finding 9. $((\$1,528,004 - \$1,516,486) \times 4.50\%)$

13 **Finding 15: Monroe county-proceeds Received from Settlement of Dispute**

14 On April 17, 2013 the Utility filed a complaint against Monroe County, Florida, with the
15 Commission over the collection of excess capacity reservation fees as provided in the
16 Parties' Utility Agreement executed on August 16, 2001. Docket No. 130086-SU was
17 opened on April 18, 2013 to adjudicate the matter.

18 On December 13, 2013, an executed settlement agreement to resolve all of the
19 outstanding issues was executed by the Parties. The agreement was entered into the
20 docket file on February 17, 2014, with the Utility's voluntary withdrawal of its initial
21 complaint. Order No. PSC-14-0150-FOF-SU, issued April 3, 2014, acknowledged the
22 voluntary dismissal of the Utility's complaint with prejudice and closed the docket.

23 The Utility received \$500,000 in compensation and in exchange the Parties agreed that all
24 outstanding issues pertaining to the complaint were resolved. The Utility posted the
25 \$500,000 of funds received to the following accounts.

1 Account 14200 - Account Receivable Other

2 The Accounts Receivable Other amount was described by the Utility as an offset to
3 recognize prior unbilled wastewater service provided to the Monroe County Detention
4 Center (MCDC). The Utility contacted the Florida Keys Aqueduct Authority (FFAA), the
5 potable water provider for the Utility's customers, in April 2009 concerning questionable
6 water consumption history for MCDC. The Utility believed that FKAA was providing
7 inaccurate readings and that the MCDC was using more water than what was being
8 reported. The Utility continued to periodically contact FKAA concerning the water
9 readings and was told that they were correct. In November 2011 FKAA concurred that
10 there was an issue with the water consumption readings due to an employee's incorrect
11 interpretation of the consumption readings. This resulted in under billings for the period
12 April 2009 through April 2011. The issue was considered resolved as of June 14, 2011.

13 The estimated unpaid sewer usage totaled \$43,415. We do not believe that this is
14 appropriate accounting treatment for the compensation received in an unrelated incident.
15 The perceived income that the Utility would have received was for prior periods.
16 Additionally, the income was never recorded as receivable in the general ledger.
17 Therefore, there is no balance in a receivable account to offset when recorded.

18 NARUC USOA, Income Accounts, Account 433 – Extraordinary Income, states, upon
19 approval of the regulatory authority this account shall be credited with non-typical, non-
20 customary, infrequently recurring gains, which would significantly distort the current
21 years income computed before extraordinary items. We believe that the \$43,415 should
22 be considered as extraordinary revenue and reclassified from Account 1420 to Account
23 4330 per our discussions above. Additionally, the \$43,415 should also be considered as a
24 regulatory revenue recovery and be subject to RAFs. The effect of reclassifying of
25

1 \$43,415 from Account 1420 is also discussed in Finding 7. The amount of RAF owed the
2 Commission would be \$1,954 ($\$43,415 \times 4.50\%$).

3 Account 27110 - CIAC

4 The CIAC amount of \$367,740 was derived by multiplying the estimated outstanding
5 Equivalent Dwelling Units (EDU) of 136.2, times the authorized capacity reservation
6 tariff of \$2,700.

7 We traced this amount to the CIAC account in this proceeding with no exception noted.

8 Account 41900 – Non-Utility Income

9 The Utility explained that the \$88,845 posted to Account 4190 represents \$76,463 of legal
10 fees incurred for the dispute and \$12,382 of monies withheld from the South Stock Island
11 Capacity Reservation and Infrastructure Contract (CRI), an ancillary issue within the
12 dispute. The Utility believes that \$88,845 should be used to offset the costs that it
13 incurred to pursue this matter. We agree that the legal fees incurred for the dispute should
14 be offset by the compensation.

15 The Utility provided two schedules of legal expenses totaling \$76,463. We obtained and
16 reconciled each invoice on the schedule to the respective years' general ledger. The first
17 invoice was recorded in January 2004 and the last invoice was recorded in March 2014.

18 We found that \$829 of the legal expenses is recorded in the test year 2014. Finding 10
19 removes these legal fees from test year O&M expense since they are being offset by
20 proceeds received in the settlement.

21 The Utility's initial complaint over the CRI Contract as part of the overall dispute exceeds
22 the \$12,382 included as non-utility income. The amount recorded represents the
23 remaining portion of the \$500,000 settlement after accounting for the known CIAC,
24 unpaid sewer usage and the legal expense invoices. Therefore, there was no
25 documentation to support this amount.

1 **Finding 16: Wastewater Treatment Plant Permit Modification Fees**

2 On April 1, 2014 the Utility filed an application with the Florida Department of
3 Environmental Protection (FDEP) for authorization to substantially modify the operation
4 of its wastewater treatment plant by increasing wastewater flows from 0.499 million
5 gallons per day (MPG) to 0.849 MGP. The existing permit was issued on February 20,
6 2012, with an expiration date of February 19, 2017. The modification is a necessary
7 component of Utility's project to expand the wastewater treatment plant to comply with
8 the requirements for advanced wastewater treatment (AWT) mandated by FDEP for the
9 Florida Keys.

10 The FDEP issued the "Notice of Intent" to issue the modified permit on June 23, 2014.
11 FDEP's action was appealed by third-party respondents on August 5, 2014. Litigation
12 between the Utility, FDEP and the respondents ensued. The case went before an
13 Administrative Law Judge in the summer of 2015 and the parties are awaiting the final
14 ruling.

15 The Utility's filing includes a proforma average adjustment of \$467,625 on Schedule A-
16 17 as Miscellaneous Deferred Debits for the estimated costs to modify its wastewater
17 permit in conjunction with the wastewater plant expansion with a year end estimate of
18 \$519,593.

19 The Utility provided a schedule with supporting documents for \$477,436 of legal and
20 FDEP permit fees associated with the permit modification.

21 Finding 1 reclassified \$30,090 of permit fees that were recorded to UPIS in 2014. We
22 determined that these costs are included in the \$477,436 above.

23 Based on the information provided, we recommend reducing the balance for the permit
24 fees by \$42,157 (\$519,593-\$477,436) to the supported actual cost of \$477,436.

25

1 The Utility's filing includes an adjustment of \$103,887 to Operating & Maintenance
2 Expense that amortizes the \$519,593 over five years which is consistent with Rule 25-
3 30.433 (8), F.A.C.

4 We recommend that the existing five year period be maintained and that the deferred asset
5 account be reduced for permit fees by \$42,157 to actual costs incurred to date.

6 **Finding 17: Advance Waste Treatment Project**

7 The following finding was provided for staff's consideration.

8 The AWT was a project that upgraded and renovated the Utility's wastewater plant to
9 advanced treatment standards as required by the FDEP. The AWT project commenced in
10 2006 and it was completed in 2007. The Utility included \$606,580 in rate base and
11 \$1,139,707 of proforma cost as a rate base addition in the last rate case proceeding, in
12 Docket No. 070293-SU. Order No. PSC-09-0057-FOF-SU reduced the proforma amount
13 by \$124,921. The total AWT cost included in setting rates was \$1,621,366 for the test
14 year ended December 31, 2006.

15 We reviewed the Utility's 2006 and 2007 general ledgers and determined that the final
16 cost of the AWT project that was recorded to UPIS was \$2,591,652, based on two journal
17 entries that closed out the Construction Work in Progress account to various plant
18 accounts on March 28, 2007 and March 6, 2009.

19 In Finding 1, we disclosed that the Utility initiated a detailed review of its rate base
20 accounts for years 2005 through 2009. The Utility prepared schedules that analyzed and
21 restated its UPIS balances in a restatement schedule (RSS) for years 2006 through 2009
22 based on that review. The UPIS activity presented in the RSS for years 2007 through
23 2009 reflect the Utility's restated balances which differ from the Utility's historical
24 general ledgers.

25 We performed an analysis of the AWT project transactions between the information

1 recorded in the historical general ledger and the transactions included in the RSS. Our
2 analysis indicates that the RSS captures \$2,466,982 of the historical general ledger
3 balance or approximately 95 percent of the AWT cost originally recorded.
4 Adjustments in Finding 1 remove two unsupported amounts of \$80,000 in 2007 and
5 \$362,114 in 2008 that total \$442,114. They are for engineering fees paid to Weiler
6 Engineering. As of the date of this report the Utility has been unable to provide any
7 documentation to support either amount. We assume the engineering fees are for the
8 AWT project. However, the historical general ledger transaction analysis only reflects
9 \$11,868 of fees paid to Weiler Engineering.
10 Finding 6 of auditor's report, filed October 29, 2007, in Docket No. 070293-SU, provided
11 information concerning plant retirements when the AWT project is completed. As part of
12 the project a new expansion chamber and clarifying unit was installed, this required the
13 demolition or removal of the drying beds and sludge thickening unit. The information
14 states that the Utility planned to include a retirement adjustment when the AWT project
15 was completed. Our review of the RSS schedule through 2009 and the 2010 through
16 2014 general ledgers indicates that no retirement was ever recorded.

17 **Q. Does that conclude your testimony?**

18 **A. Yes.**

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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. 150071-SU

DATED: SEPTEMBER 23, 2016

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the foregoing TESTIMONY of ILIANA H. PIEDRA has been served and furnished to the following by electronic mail this 23rd day of September, 2016:

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