

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20170141-SU,

KW RESORT UTILITIES CORPORATION RATE CASE

DIRECT TESTIMONY OF JEFFERY A. SMALL

March 14, 2018

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

2 A. My name is Jeffery A. Small, and my business address is 9525 Graystoke
3 Lane, Orlando, FL 32817. I am self employed as a consultant and majority
4 shareholder of OCBOA Consulting, LLC, which I founded in May 2016.

5

6 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?**

7 A. I am testifying on behalf of the Board of County Commissioners of Monroe
8 County, Florida. Monroe County receives and pays for wastewater treatment
9 service from Key West Resort Utilities Corp. (“KWRU” or the “Utility”).

10

11 **Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.**

12 A. I have a Bachelor of Science degree in Accounting from the University of South
13 Florida. I am also a Certified Public Accountant licensed in the State of Florida
14 since August 1995.

1 I was employed by the Florida Public Service Commission (FPSC) from
2 January 1994 through January 2016 as a Professional Accountant Specialist, with
3 my final two years of service as the supervisor of the FPSC's Miami District Office
4 audit staff. In those positions I was responsible for planning, directing and
5 supervising the most complex investigative audits. Audits or engagements that I
6 have performed and managed include staff-assisted rate cases and file and
7 suspend rate cases for water and wastewater utilities as well as cross-
8 subsidization issues, anti-competitive behavior, and predatory pricing cases
9 covering various other regulated industries. I was also responsible for creating
10 audit work programs to meet specific audit requirements and integrating EDP
11 applications into those programs.

12
13 **Q. DO YOU HOLD ANY PROFESSIONAL CERTIFICATIONS?**

14 A. Yes, I am a Certified Public Accountant (CPA) in the State of Florida.

15
16 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE FLORIDA PUBLIC
17 SERVICE COMMISSION ("THE COMMISSION")?**

18 A. Yes. I have submitted testimony during my previous employment with the FPSC
19 to support staff audits of multiple Nuclear Cost Recovery Filings for Progress
20 Energy Florida, Inc., Docket Nos. 20080009-EI through 20130009-EI. I have also
21 testified in the Southern States Utilities, Inc. rate case, Docket No. 19950495-WS,

1 the Cypress Lakes Utilities, Inc. transfer application, Docket No. 19971220-WS,
2 and the Utilities, Inc. of Florida file and suspend rate case, Docket No. 20020071-
3 WS, and the Florida Power & Light, Company, Fuel & Purchased Power Cost
4 Recovery Clause, Docket No. 2015001-EI.

5
6 **Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?**

7 A. Yes. I am sponsoring the following exhibits:

8 Exhibit JAS-01: Estimated Revenue Impact of Using Projected Billing
9 Determinants on Requested Revenues at Proposed Rates;
10 and

11 Exhibit JAS-02: Usage Information Provided by Monroe County.

12
13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

14 A. The purpose of my testimony is to present the estimated impact of using
15 projected billing determinants for the first year that the new rates (if any)
16 approved by the Commission in this case will be in effect to determine any
17 allowed revenue and rate increases that the Commission may approve in this
18 case.

19
20
21

1 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE COMMISSION.**

2 A. My analysis shows that incorporating the additional billing determinants (Base
3 Facility Charges and gallons treated for determining Gallonage Charge revenues)
4 identified in the testimony of Monroe County’s witness Kevin G. Wilson, P.E.,
5 into the revenue requirements determination for KWRU will reduce the amount
6 of any revenue increase by approximately \$185,406 (based on KWRU’s proposed
7 rates). This is shown in my Exhibit JAS-01. Additionally, using these adjusted
8 billing determinants (sales units) to set the Utility’s rates will result in lower rates
9 than if the billing units are not adjusted; this is especially appropriate to achieve
10 fair and reasonable rates because the Utility has proposed that additional costs
11 (pro forma increases in costs) beyond the actual costs in the test year be used to
12 set its rates, so for the rates to customers to be fair, the sales units over which
13 those costs will be recovered must match the period in which the Utility will
14 recover the additional, outside-the-test-year costs. This is called the “matching
15 principle,” which has been used by the Commission in previous cases, including
16 the last KWRU rate case in 2016, and which is supported in this case by former
17 Commission Chairman J. Terry Deason. I fully support and recommend that the
18 Commission apply the matching principle in this case, just as it did in the 2016
19 KWRU rate case.

20

1 **Q. How did you perform or prepare the analyses that support your testimony and**
2 **recommendations?**

3 A. I first examined the Utility’s billing units as shown in its Minimum Filing
4 Requirements. These are presented in MFR Schedule E-2, page 45, as being the
5 billing determinants used in estimating the Utility’s revenues at proposed rates
6 and in calculating the Utility’s rates, assuming that its total requested increase
7 was to be granted.

8 I then examined the estimated additional billing units that are projected to
9 be realized by KWRU in the twelve months beginning on July 1, 2018. These
10 additional billing units are the number of bills for which a Base Facilities Charge
11 is paid and gallons treated, for which Gallonage Charges are paid, identified in
12 the testimony of Mr. Kevin Wilson, P.E., the Assistant County Administrator for
13 Public Works and Engineering; Mr. Wilson also furnished information regarding
14 the estimated number of Equivalent Residential Connections, or “ERCs,”
15 associated with the additional, incremental usage. (The information provided by
16 Mr. Wilson is presented in my Exhibit JAS-02.) The twelve-month period
17 beginning on July 1, 2018 was chosen to correspond to the fact that KWRU’s
18 proposed test year ends on June 30, 2017; in fact, this is probably a conservative
19 assumption. My examination also included reviewing testimony from the 2016
20 KWRU rate case and the data provided by Mr. Wilson for this case.

21

1 **Q. Why do you say that this is conservative?**

2 A. This is a conservative assumption because these sales units are based on known
3 changes for the projected period. The actual change in sales units will likely be
4 greater during the year following the implementation of any new rates, e.g.,
5 September 1, 2018 through August 31, 2019, simply because there may be
6 additional growth in customers and sales during that period as compared to the
7 period that the County's other witnesses and I are using for our analyses and
8 recommendations. I mention the September 2018 to August 2019 period here
9 because the Commission Case Schedule indicates that the Commission will not
10 even vote on this case until August 7, 2018, such that any new rates probably
11 will not be effective until late August or early September, 2018.

12

13 **Q. What is your conclusion regarding likely additional revenues that should be**
14 **incorporated into the Commission's determination of new rates for KWRU in**
15 **this case?**

16 A. Based on the projected additional 10.54 Million Gallons of wastewater treated in
17 the July 2018-June 2019 period, I estimate that the additional sales would
18 produce approximately \$185,406 in additional revenues for the Utility. In turn,
19 this would reduce any allowed revenue increase by approximately \$ 185,406 on
20 an annual basis (approximately 5.0 percent of KWRU's total requested
21 revenues). This is shown in my Exhibit JAS-01. This reduction is appropriate

1 because otherwise, it is highly likely that KWRU would overearn because it would
2 collect revenues from sales when the new rates are in effect that were not
3 accounted for in its historical test year.

4
5 **Q. Does your Exhibit JAS-01 present Monroe County’s position on the revenue**
6 **increase that the Utility should be awarded in this case?**

7 A. No. That determination will ultimately depend on the resolution, by the
8 Commission, of the numerous investment, rate base, depreciation, net operating
9 income, and expense issues in this case. My analysis and my Exhibit JAS-01 show
10 by how much any revenue increase should be reduced to account for the fact
11 that KWRU will be realizing approximately \$185,406 in additional revenues
12 during the time that the new rates will be in effect.

13
14 **Q. How should the Commission use these values in setting rates for KWRU at the**
15 **conclusion of this case?**

16 A. In the simplest terms, rates are calculated by dividing allowed revenue
17 requirements by billing determinants. My revenue values reflect the additional
18 billing determinants – Base Facilities Charges and Gallonage Charges billed and
19 the associated revenues – based on the estimated incremental values supplied
20 by Mr. Wilson. Following the recommendations of former Chairman Deason,
21 and the Commission’s recognition of the “matching principle” in the 2016 KWRU

1 rate case, these billing units should also be used in calculating the rates for the
2 Utility for the period during which those rates will be in effect. I have not
3 performed that calculation, because, as noted above, the final revenue
4 requirements value will not be known until the Commission decides the
5 numerous investment, rate base, depreciation, operating income, and expense
6 issues in this case.

7

8 **Q. Please summarize your direct testimony.**

9 A. Using estimated additional usage values supplied by Monroe County's Witness
10 Kevin Wilson, P.E., for gallonage treated and ERCs served, I estimate that any
11 revenue increase that might be awarded to KWRU in this case should be reduced
12 to reflect the additional \$185,406 in revenues that the Utility would realize in the
13 first twelve months following implementation of new rates. Following the
14 recommendations of former Chairman Deason and the Commission's
15 appropriate recognition of the "matching principle" in the 2016 KWRU rate case,
16 the Commission should use these billing determinants to set final rates for
17 KWRU at the conclusion of this case.

18

19 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

20 A. Yes.

Line	Class	Meter Size	Meter Equiv. Factor	Historical 2017 Test Year			Projected 2019 Test Year			Historical 2017 K/Gal	Projected 2019 Test Year			Proposed Rates			Revenues at Proposed Rates for Historical 2017 Test Year			Revenues at Proposed Rates for Projected 2019 Test Year			Revenue Inc(Dec) TOTALS			
				Bills	ERC	Change In Bills	Bills	ERC	K/Gal		Change K/Gal	Test Year K/Gal	SBFCS	SGALS	TOTALS	SBFCS	SGALS	TOTALS	SBFCS	SGALS	TOTALS					
																						Change In Bills		Bills	ERC	Change K/Gal
1	Residential	5/8"x3/4"	1.0	18,027	18,027	792	18,819	18,819																		
2									66,995	4,140	71,135															
3	Harbor Shores Adjustment		1.0	(552)	(552)		(552)	(552)	(1,497)		(1,497)															
4	Total Residential Service			17,475	17,475		18,267	18,267	65,498		69,638															
5	Harbor Shores Adjustment		1.0	12	12	0	12	12	2,436	0	2,436	\$3,500.86	\$8.41		\$42,010	\$20,487	\$62,497	\$42,010	\$20,487	\$62,497	\$937,289	\$590,341	\$1,527,631	\$75,003		
6	General	5/8"x3/4"	1.0	1,660	1,660	0	1,660	1,660				\$50.74			\$84,228	\$0	\$84,228	\$84,228	\$0	\$84,228					\$0	
7		1"	2.5	108	270	12	120	300				\$126.84			\$13,699	\$0	\$13,699	\$15,221		\$15,221					\$1,522	
8		1-1/2"	5.0	60	300	0	60	300				\$253.69			\$15,221	\$0	\$15,221	\$15,221		\$15,221					\$0	
9		2"	8.0	100	800	48	148	1,184				\$405.90			\$40,590	\$0	\$40,590	\$60,073		\$60,073					\$19,483	
10		3"	16.0	5	80	12	17	272				\$811.79			\$4,059	\$0	\$4,059	\$13,800		\$13,800					\$9,741	
11		4"	25.0	12	300	0	12	300				\$1,268.43			\$15,221	\$0	\$15,221	\$15,221		\$15,221					\$0	
12		6"	50.0	12	600	0	12	600				\$2,536.85			\$30,442	\$0	\$30,442	\$30,442		\$30,442					\$0	
13		8"	80.0	12	960	0	12	960				\$4,058.96			\$48,708	\$0	\$48,708	\$48,708		\$48,708					\$0	
14		8" Turbo	90.0	12	1,080	0	12	1,080				\$4,566.33			\$54,796	\$0	\$54,796	\$54,796		\$54,796					\$0	
15									106,976	6,400	113,376		\$10.08		\$0	\$1,078,318	\$1,078,318			\$1,142,830	\$1,142,830				\$64,512	
16	Total General Service			1,981	6,050		2,053	6,656	106,976		113,376				\$306,964	\$1,078,318	\$1,385,282	\$337,711	\$1,142,830	\$1,480,541					\$95,259	
17		5/8"x3/4" PLS	0.8	2,001	1,601	0	2,001	1,601				\$40.59			\$81,221	\$0	\$81,221	\$81,221		\$81,221						\$0
18		1" PLS	2.0	104	208	0	104	208				\$101.47			\$10,553	\$0	\$10,553	\$10,553		\$10,553						\$0
19		1-1/2" PLS	4.0	58	232	0	58	232				\$202.95			\$11,771	\$0	\$11,771	\$11,771		\$11,771						\$0
20		2" PLS	6.4	58	371	0	58	371				\$324.71			\$18,833	\$0	\$18,833	\$18,833		\$18,833						\$0
21		3" PLS	12.8	0	0	0	0	0				\$649.44			\$0	\$0	\$0	\$0		\$0						\$0
22		4" PLS	20.0	0	0	0	0	0				\$1,014.74			\$0	\$0	\$0	\$0		\$0						\$0
23		6" PLS	40.0	36	1,440	0	36	1,440				\$2,029.48			\$73,061	\$0	\$73,061	\$73,061		\$73,061						\$0
24		8" PLS	64.0	12	768	0	12	768				\$3,247.17			\$38,966	\$0	\$38,966	\$38,966		\$38,966						\$0
25									42,269	0	42,269		\$10.08		\$0	\$426,072	\$426,072			\$426,072	\$426,072					\$0
26	Total LS Service			2,269	4,620		2,269	4,620	42,269		42,269				\$234,405	\$426,072	\$660,477	\$234,405	\$426,072	\$660,477						\$0
27	Total W/Water Service			21,737	28,157		22,601	29,555	217,179		227,719				\$1,480,483	\$2,080,400	\$3,560,883	\$1,551,416	\$2,179,730	\$3,731,145						\$170,262
28	Total Reuse Service			16		0	16		27,074	0	27,074		\$2.13		\$57,668	\$57,776		\$57,668	\$57,776							\$0
29	Total Other Revenues																\$78,700			\$78,700						\$0
30	TOTAL ALL SERVICE			21,753			22,617										\$3,697,359			\$3,867,622						\$170,262
31	Total Requested Annual Revenues per MFR Schedule B-1																		\$3,682,216			\$3,867,622			\$185,406	

USAGE INFORMATION PROVIDED BY MONROE COUNTY

Projected Additional Gallons Treated:

Residential	4.14 mg (annual)
Commercial	6.40 mg (annual)

Projected Additional Customers & ERC's:

Residential	66 customers	66 - 5/8"x3/4" meters	792 ERC (annual)
Commercial	5 customers	6 – meters (see below)	606 ERC (annual)

Oceanside	3" meter
Stock Island	2" meter
Bernstein Park	2" meter
	1" meter
Gerald Adams School	2" meter
FKSPCA	2" meter

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase)
In wastewater rates in Monroe) DOCKET NO. 20170141-SU
County by K W Resort Utilities)
Corp.) FILED: March 14, 2018
_____)

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing was furnished to the following, by electronic delivery, on this 14th day of March, 2018.

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