

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: April 17, 2018
_____)

MONROE COUNTY'S PREHEARING STATEMENT

Monroe County, Florida (the "County"), pursuant to the Order Establishing Procedure in this docket, Order PSC-2018-0039-PCO-SU, issued January 12, 2018, hereby submits its Prehearing Statement.

APPEARANCES:

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On behalf of Monroe County.

1. WITNESSES:

Monroe County intends to call the following witnesses, who will address the issues indicated next to each witness's name.

| <u>Witness</u> | <u>Issues</u> |
|-----------------------|--------------------|
| Kevin G. Wilson, P.E. | 6, 15, 16, 34, 35 |
| J. Terry Deason | 6, 15, 16, 35, 36 |
| Jeffery A. Small | 15, 16, 34, 35, 36 |

2. EXHIBITS:

KEVIN G. WILSON, P.E.

| | |
|--------|---|
| KGW-1 | Resumé of Kevin G. Wilson, P.E. |
| KGW-2 | List of Prior Testimonies |
| KGW-3 | Aerial Photo of Stock Island |
| KGW-4 | South Stock Island 2010 Census Information |
| KGW-5 | 2010-2014 American Community Survey 5-Year Estimates |
| KGW-6 | 2000 Monroe County Sanitary Master Wastewater Plan "Hot Spot" Excerpt, Exh. 6-1 |
| KGW-7 | Monroe County Code, Section 20-102 |
| KGW-8 | Excerpt from KWRU Stock Island WWTP, Public Utility Appraisal Report, Effective Date: December 31, 2014, Report Date January 2015 |
| KGW-9 | Projected Future 2018-2019 Sewer Demands (KWRU) |
| KGW-10 | Actual Usage Data for Stock Island Marina Village and Oceanside Properties, 2016-2018 |

J. Terry Deason

JTD-1 Terry Deason - Curriculum Vita

Jeffery A. Small

JAS-1 Estimated Revenue Impact of Using Projected Billing
Determinants on Requested Revenues at Proposed Rates

JAS-2 Usage Information provided by Monroe County

3. STATEMENT OF BASIC POSITION:

K W Resort Utilities Corp. ("KWRU" or the "Utility") is required by the provisions of Chapter 367, Florida Statutes, and Chapter 25-30, Florida Administrative Code ("F.A.C.") to provide safe, efficient, and sufficient service to all customers within its certificated service area on Stock Island, Florida, at fair, just, and reasonable rates, charges, and conditions of service. In this proceeding, the Commission will determine what rates and charges are to be imposed, charged, and collected by KWRU for the wastewater treatment service that it provides to its customers on Stock Island. Monroe County, one of KWRU's largest customers if not its largest customer, believes and asserts that the statutory requirement to provide "efficient" service must mean that KWRU must fulfill its statutory obligation to serve at the lowest possible total cost.

Monroe County further believes and asserts that the rates paid by KWRU's customers, and indeed by any utility's customers, must be matched to the costs incurred to serve them, including

matching the rates paid to the costs incurred in the same time periods in which such costs are incurred. This is the Commission's fundamental policy of ratemaking - that cost-causers should pay the costs incurred to serve them - and it should be followed in this case. Following this sound, established policy will ensure that KWRU's customers receiving service in 2016 will pay the costs to serve them in 2016, and that customers receiving service in 2017 and 2018 will pay the costs incurred to serve them in 2017 and 2018.

Like the 2016 KWRU rate case and other PSC cases, this case presents significant issues of achieving the proper matching of costs and rates because the Utility's filing is based on a 2016-17 "historic" test year with certain "pro forma" adjustments to rate base and expenses, chosen by KWRU, that the Utility asserts it has incurred or will incur well beyond the end of its "historic" test year, i.e., after June 30, 2017. The Utility proposes "pro forma" additions to rate base of more than \$6 Million, and "pro forma" additions of more than \$800,000 to Operating & Maintenance expenses outside its "historic" test year.

The rates to be paid by KWRU's customers, however, will not even begin to apply to their service until the imposition of the rates approved by the Commission at the conclusion of this docket, which will likely be in August or September of 2018, more

than a full year after the end of KWRU's proposed "historic" test year. Under these circumstances, in order to achieve fair, just, and reasonable rates and charges, the Commission must ensure that the rates paid by KWRU's customers are properly calculated to recover KWRU's costs during the time that those rates will be in effect. This can easily be accomplished by making corresponding "pro forma" adjustments in the relevant variables - including billing determinants and Contributions in Aid of Construction - to achieve proper matching of rates paid and costs incurred. The substantive point is this: customers should pay rates based on the cost to serve them and based on the amounts of service purchased in the time period in which those rates are to be in effect. The Utility wishes to have its revenue requirements based on future costs - costs incurred beyond the end of its "historic" test year - while ignoring additional sales and additional CIAC collected in the same future periods; this would result in rates that are unfair, unjust, and unreasonable, and the Commission should reject the Utility's attempts and set appropriate rates that match the rates paid to the costs incurred.

Regarding KWRU's total cost to serve, KWRU has overstated both its rate base and its operating and maintenance ("O&M") expenses, and the Commission should accordingly adjust these cost amounts to appropriate levels, as supported by the testimony of

the witnesses for the Citizens of the State of Florida ("Citizens"), represented by the Office of the Public Counsel ("OPC"). The Commission should adjust the plant accounts and other rate base accounts, notably working capital, as recommended by OPC's witnesses Andrew Woodcock and Helmuth Schultz, and the Commission should also adjust the Utility's requested O&M expenses as recommended by OPC's witness Helmuth Schultz.

In addition to the foregoing corrections to the Utility's plant, CIAC, revenues, and O&M expenses, which are necessary to **get the revenue requirements right** for the time periods in which customers will be receiving service, the Utility's proposed rates are unfair, unjust, and unreasonable because they include estimated costs that KWRU alleges will be incurred in future periods while the rates designed to recover those costs would, as requested by KWRU, be calculated using outdated billing determinants or sales units, from KWRU's proposed 2016-17 "historic" test year. Using costs for future years, including the last six months of 2017, 2018, and probably even 2019 to establish revenue requirements without correspondingly updating the billing determinants (number of bills rendered and number of gallons of wastewater billed for) will result in a mismatch of cost incurrence and cost recovery. Specifically, under the Utility's proposals, recovering the greater costs that the Utility claims it will incur - i.e., its "pro forma" adjustments

- in 2017, 2018, and 2019 over the smaller billing units experienced by the Utility in the twelve months ending on June 30, 2017, will result in such rates being greater than they should be. Rates collected should reflect costs incurred, and using mismatched costs and billing determinants will violate fundamental ratemaking principles, resulting in rates that are not fair, just, and reasonable. In other words, it is critical that the Commission not only get the revenue requirements right, but that it also get the rates right by matching costs incurred with the billing determinants that accurately reflect the amounts of wastewater service actually received and paid for by KWRU's customers during the time that the rates are in effect.

For purposes of using correct billing determinants and also using the appropriate amounts of CIAC that correspond to the time periods in which customers will be paying the rates set in this case, Monroe County relies on the testimony and exhibits of Kevin G. Wilson, P.E., which address likely additional customer connections in KWRU's service area. With regard to translating the additional customers and usage testified to by Mr. Wilson into the additional revenues that those customers will produce, Monroe County relies on the testimony and exhibits of Jeffery A. Small, formerly an auditor on the PSC Staff. The increased revenues from this additional usage are approximately \$185,000;

this in turn reduces the Utility's need for any revenue increase that the Commission may approve by this amount.

With regard to the fundamental ratemaking policy that costs incurred and units of sales should be matched to achieve fair, just, and reasonable rates, Monroe County relies on the prefiled direct testimony of J. Terry Deason, filed in this docket on March 14, 2018.

Finally, the need for close Commission scrutiny of all of KWRU's claims and assertions is critical, in light of the Utility's track record of representing costs to the Florida PSC that it cannot justify and has not justified. With regard to KWRU's claims to the PSC of costs that it cannot and has not justified, refer to Commission Order No. 09-0057-FOF-SU, the Commission's Final Order in Docket No. 070293-SU, In re: Application for Increase in Wastewater Rates in Monroe County by K W Resort Utilities Corp., hereinafter Order No. 09-0057, by which the Commission disallowed substantial amounts of costs claimed by KWRU because KWRU could not document them, because they were facially duplicative, because they involved payments to affiliates and family members, or because of combinations of these factors. The Utility's failure to support its requests is also demonstrated by the Commission's Final Order No. 2017-0091-FOF-SU, issued in KWRU's last rate case (Docket No. 20150071-SU), in which KWRU sought approval of a total revenue requirement of

\$3,345,357 but the Commission approved a substantially lower revenue requirement of \$2,436,418; the approved increase was \$901,618 per year, which was less than half the Utility's requested increase of \$1,866,050. Order No. PSC-2017-0091-FOF-SU at 65.

Finally, the need for close Commission scrutiny is further highlighted by KWRU's improper attempts to increase its requested rate increases by supplemental direct testimony in the guise of rebuttal testimony.

4. STATEMENT OF FACTUAL ISSUES AND POSITIONS:

Quality of Service

Issue 1:

Is the quality of service provided by K W Resort satisfactory?

Monroe County:

The quality of treatment by the Utility's wastewater treatment facilities appears to be adequate. With respect to customer service, this is a factual issue that is subject to determination based on the evidence that will likely be presented by customers at the Customer Service Hearings that will be held on May 15 and 16, 2018. Accordingly, for this good cause shown, Monroe County has no position at this time on this issue, pending receipt of the customers' testimony.

Rate Base

Contested Issue A:

Did the Utility have a reasonable and prudent amount of insurance coverage for damages associated with Hurricane Irma?

Monroe County:

In light of KWRU's request to add approximately \$288,000 to its rate base for a replacement building, and to recover other

costs related to Hurricane Irma, it appears that KWRU did not have sufficient insurance coverage to adequately protect either itself or its customers against the foreseeable costs of hurricanes and tropical storms.

Contested Issue B: Did the Utility reasonably and prudently pursue insurance claims for damages associated with Hurricane Irma?

Monroe County: Based on information available at this time, and subject to further discovery, it appears that KWRU has not reasonably or prudently pursued insurance claims for damages resulting from Hurricane Irma.

Issue 2: Was the Utility's use of single source bidding reasonable and prudent for certain pro forma plant additions, and if not, what action should the Commission take regarding these pro forma projects?

Monroe County: Agree with OPC.

Issue 3: What adjustments, if any, should be made to account for the audit findings related to rate base?

Monroe County: Agree with OPC.

Issue 4: What is the appropriate amount of plant in service to be included in rate base?

Monroe County: Pending further discovery and additional evidence developed at hearing, the proper amount of Plant in Service is \$19,226,696.

Issue 5: What is the appropriate amount of accumulated depreciation to be included in rate base?

Monroe County: Pending further discovery and additional evidence developed at hearing, the proper amount of Accumulated Depreciation is \$6,242,436.

Issue 6: **What is the appropriate amount of CIAC to be included in rate base?**

Monroe County: Pending further discovery and additional evidence developed at hearing, the proper amount of CIAC is \$10,406,318.

Issue 7: **What is the appropriate amount of accumulated amortization of CIAC to be included in rate base?**

Monroe County: Pending further discovery and additional evidence developed at hearing, the proper amount of Accumulated Amortization of CIAC is \$3,898,064.

Issue 8: **What are the used and useful percentages of the Utility's wastewater treatment plant and wastewater collection system?**

Monroe County: Agree with OPC.

Issue 9: **What is the appropriate working capital allowance to be included in rate base?**

Monroe County: Pending further discovery and additional evidence developed at hearing, the proper amount of Working Capital is \$1,222,459.

Issue 10: **What is the appropriate rate base? (fall out)**

Monroe County: Pending further discovery and additional evidence developed at hearing, the proper amount of Rate Base is \$5,421,208.

Cost of Capital

Issue 11: What is the appropriate capital structure?

Monroe County: Agree with OPC.

Issue 12: What is the appropriate return on equity?

Monroe County: Agree with OPC.

Issue 13: What is the appropriate cost of long-term debt?

Monroe County: Agree with OPC.

Issue 14: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure?

Monroe County: Agree with OPC.

Net Operating Income

Issue 15: What are the appropriate billing determinants (factored ERCs and gallons) to use to establish test year revenues?

Monroe County: The appropriate number of Bills is 22,601 and the appropriate number of Gallons is 227,719,000. Pending further discovery and evidence developed through discovery and at hearing, the appropriate number of Reuse Service gallons is 27,074,000 gallons.

Issue 16: What are the appropriate test year revenues?

Monroe County: Pending further discovery and evidence developed through discovery and at hearing, the appropriate test year revenues value, excluding any increases, is approximately \$2,502,000.

Issue 17: What adjustments, if any, should be made to account for the audit findings related to net operating income?

Monroe County: Agree with OPC.

Issue 18: What is the appropriate amount of salaries and wage expense?

Monroe County: Agree with OPC.

Issue 19: What is the appropriate amount of employee pensions and benefits expense?

Monroe County: Agree with OPC.

Issue 20: What is the appropriate amount of sludge hauling, chemicals, and purchased power expenses?

Monroe County: Agree with OPC as to the amount of these expenses based on the Utility's sales and gallons treated. Pending further discovery and evidence developed through discovery and at hearing, Monroe County agrees that, to the extent that KWRU incurs any truly incremental and variable amounts of these expense items in collecting and treating the additional gallons supported by Monroe County's witnesses, such truly incremental and variable costs are appropriately included in the revenue requirement for determining rates.

Issue 21: What is the appropriate amount of materials and supplies expense?

Monroe County: Agree with OPC as to the amount of these expenses based on the Utility's sales and gallons treated. Pending further discovery and evidence developed through discovery and at hearing, Monroe County agrees that, to the extent that KWRU incurs any truly incremental and variable amounts of these expense items

in collecting and treating the additional gallons supported by Monroe County's witnesses, such truly incremental and variable costs are appropriately included in the revenue requirement for determining rates.

Issue 22: **What is the appropriate amount of contractual services - engineering expense?**

Monroe County: Agree with OPC.

Issue 23: **What is the appropriate amount of rental of equipment expense?**

Monroe County: Agree with OPC as to the amount of these expenses based on the Utility's sales and gallons treated. Pending further discovery and evidence developed through discovery and at hearing, Monroe County agrees that, to the extent that KWRU incurs any truly incremental and variable amounts of these expense items in collecting and treating the additional gallons supported by Monroe County's witnesses, such truly incremental and variable costs are appropriately included in the revenue requirement for determining rates.

Issue 24: **What is the appropriate amount of insurance - worker's comp expense?**

Monroe County: Agree with OPC.

Issue 25: **What is the appropriate amount of bad debt expense?**

Monroe County: Agree with OPC.

Issue 26: **What is the appropriate amount to be recovered by the Utility for storm restoration expenses due to Hurricane Irma,**

and over what period should such expenses be recovered?

Monroe County: Pending further discovery and evidence developed through discovery and at hearing, Monroe County agrees with OPC.

Issue 27: **What is the appropriate amount of miscellaneous expense?**

Monroe County: Agree with OPC.

Issue 28: **What are the appropriate amounts of the Utility's pro forma expenses?**

Monroe County: Subject to further discovery and additional evidence developed at hearing, the appropriate amounts of pro forma expenses are those that are supported by a preponderance of competent substantial evidence in KWRU's direct testimony and the Citizens' testimony. The increased expenses claimed by KWRU in its rebuttal testimony are not appropriate for recovery in this case because they should have been supported by KWRU in its case in chief.

Issue 29: **What is the appropriate amount of rate case expense, and over what period should such expense be recovered?**

Monroe County: Agree with OPC.

Issue 30: **What, if any, further adjustments should be made to the Utility's O&M expense?**

Monroe County: Agree with OPC.

Issue 31: **What is the appropriate amount of O&M expense? (fall out)**

Monroe County: Monroe County agrees that this is a fallout issue to be determined by the Commission

based on the resolution of the foregoing O&M issues. As noted in its positions above, those values depend on further discovery and additional evidence that may be developed at hearing.

Issue 32: **What is the appropriate amount of depreciation expense?**

Monroe County: Agree with OPC.

Issue 33: **What is the appropriate amount of Taxes Other Than Income?**

Monroe County: Agree with OPC.

Revenue Requirement

Issue 34: **What is the appropriate revenue requirement?**

Monroe County: Pending further discovery and evidence developed through discovery and at hearing, the appropriate revenue requirement is approximately \$3,033,000, including an increase of approximately \$531,000.

Rate Structure and Rates

Issue 35: **What are the appropriate adjustments, if any, to test year billing determinants for setting final rates and charges?**

Monroe County: Pending further discovery and evidence developed through discovery and at hearing, as supported by Monroe County's witnesses, (a) the appropriate adjustment to the number of bills is an increase of 864 bills, yielding a total of 22,601 bills (assuming that Harbor Shores counts as only one bill); and (b) the appropriate adjustment to the number of Gallons is an increase of 10,540,000 Gallons, yielding a total of 227,719,000 Gallons.

Issue 36: **What are the appropriate rate structure and rates for wastewater service?**

Monroe County: The appropriate rate structure and rates are those that are based on (1) the BFCs and Gallons supported by Monroe County's witnesses, (2) a 40% BFC - 60% Gallonage charge structure, and (3) with residential gallons capped per standard Commission practice.

Other Issues

Issue 37: **What is the appropriate rate for KWRU's reuse service?**

Monroe County: Pending further discovery and evidence developed through discovery and at hearing, the appropriate rate for KWRU's Reuse Service is \$2.13 per 1,000 gallons.

Issue 38: **What are the appropriate miscellaneous service charges?**

Monroe County: Pending further discovery and evidence developed through discovery and at hearing, Monroe County agrees with OPC.

Issue 39: **What is the appropriate late payment charge?**

Monroe County: No position at this time.

Issue 40: **What is the appropriate Lift Station cleaning charge?**

Monroe County: Monroe County agrees that the current Lift Station Cleaning Charge should be approved for future service.

Issue 41: **What are the appropriate initial customer deposits?**

Monroe County: No position at this time, pending further discovery and evidence developed through discovery and at hearing, particularly any testimony that may be provided at the Customer Service Hearings.

Issue 42: What are the appropriate Allowance for Funds Prudently Invested (AFPI) charges?

Monroe County: Agree with OPC.

Issue 43: What is the appropriate amount by which rates should be reduced to reflect the removal of the amortized rate case expense?

Monroe County: Agree with OPC.

Issue 44: In determining whether any portion of the interim wastewater revenue increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Monroe County: Agree with OPC.

Issue 45: Should the Utility maintain an asset management and preventative maintenance plan? If so, what action, if any, should be taken?

Monroe County: Agree with OPC.

Issue 46: Should the Utility be required to notify, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission-approved adjustments?

Monroe County: Yes.

Issue 47:

Should this docket be closed?

Monroe County:

Yes, unless some reason to keep it open arises during the hearing, this docket should be closed after all opportunities for appeal have lapsed.

5. STIPULATED ISSUES:

Monroe County is not aware of any stipulated issues at this time, but will work in good faith to stipulate issues with all Parties.

6. PENDING MOTIONS:

None at this time.

7. STATEMENT OF PARTY'S PENDING REQUESTS OR CLAIMS FOR CONFIDENTIALITY:

None.

8. OBJECTIONS TO QUALIFICATION OF WITNESSES AS AN EXPERT:

The County does not expect to challenge the qualifications of any witness to testify, although the County reserves all rights to question witnesses as to their qualifications as related to the credibility and weight to be accorded their testimony.

9. STATEMENT REGARDING SEQUESTRATION OF WITNESSES

Monroe County does not intend to invoke the rule requiring the sequestration of witnesses. However, if KWRU invokes the

rule, then Monroe County will insist that the rule apply equally to all parties' witnesses.

10. STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE:

There are no requirements of the Order Establishing Procedure with which the County cannot comply.

Respectfully submitted this 17th day of April, 2018.



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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 17th day of April, 2018.

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