

**Brandy Butler**

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**From:** Asha Maharaj-Lucas  
**Sent:** Monday, August 06, 2018 10:55 AM  
**To:** Andrew Maurey; Mark Futrell; Mary Anne Helton; CLK - Agenda Staff; Commission Clerk  
**Cc:** Kate Hamrick; Tom Ballinger; Greg Shafer; Judy Harlow; Braulio Baez  
**Subject:** RE: Staff's request for Oral Modification to Item 12 on the 8/7/2018 Agenda - K W Resort Application for increase in wastewater rates

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**From:** Braulio Baez  
**Sent:** Friday, August 03, 2018 5:36 PM  
**To:** Andrew Maurey; Mark Futrell; Mary Anne Helton  
**Cc:** Asha Maharaj-Lucas; Kate Hamrick; Tom Ballinger; Greg Shafer; Judy Harlow  
**Subject:** Re: Staff's request for Oral Modification to Item 12 on the 8/7/2018 Agenda - K W Resort Application for increase in wastewater rates

Approved. Thanks.

Sent from my T-Mobile 4G LTE Device

----- Original message -----

**From:** Andrew Maurey <AMaurey@PSC.STATE.FL.US>  
**Date:** 8/3/18 11:43 AM (GMT-05:00)  
**To:** Braulio Baez <BBaez@PSC.STATE.FL.US>, Mark Futrell <MFutrell@PSC.STATE.FL.US>, Mary Anne Helton <MHelton@PSC.STATE.FL.US>  
**Cc:** Asha Maharaj-Lucas <AMaharaj@psc.state.fl.us>, Kate Hamrick <KHamrick@psc.state.fl.us>, Tom Ballinger <TBallinger@PSC.STATE.FL.US>, Greg Shafer <GShafer@PSC.STATE.FL.US>, Judy Harlow <JHarlow@PSC.STATE.FL.US>  
**Subject:** Staff's request for Oral Modification to Item 12 on the 8/7/2018 Agenda - K W Resort Application for increase in wastewater rates

Staff is requesting approval to make an oral modification to its recommendation filed in Docket No. 20170141-SU, Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp. currently scheduled for the August 7, 2018 agenda conference (Item 12).

The first modification relates to correction of a sentence found on page 39 that references the timing and applicability of Florida Statute 367.081(9). This modification has no effect on staff's recommended revenue requirement.

The second modification relates to rate case expense. Subsequent to filing its recommendation on July 26, 2018, staff was apprised that documentation to support rate case accounting costs had been entered into the hearing record. Based on this documentation, staff believes rate case expense should be adjusted to reflect the supported costs. Rate case expense is addressed in Issue 29.

The third modification is a scrivener's error in Issue 33. The conclusion paragraph references a decrease in Taxes Other Than Income, rather than an increase. The recommendation statement and the analysis both appropriately reference the term "increase." This scrivener's error has no effect on the revenue requirement. However, Issue 33 is affected by the change in rate case expense, as that change increases the total revenue requirement, and thus, increases Taxes Other Than Income.

Fall out issues affected by the modification to rate case expense include: Issue 31 (O&M Expense), Issue 33 (Taxes Other), Issue 34 (Revenue Requirement), Issue 36 (Rates), and Issue 43 (Amortization of Rate Case Expense). The modification results in an increase of \$14,408 to staff's originally recommended revenue requirement.

Staff is also requesting administrative authority to recalculate rates following the Commission's vote on this item.

(The oral modification is also attached as a Word file.)

**The following type and strike modifications reflect staff's recommended changes:**

### **Page 35**

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

**Recommendation:** The appropriate working capital allowance to be included in rate base is \$1,095,946. Therefore, working capital allowance should be reduced by \$1,123,186. (Sewards)

### **Page 39 – Modification to Deferred Rate Case Expense Section**

#### **Deferred Rate Case Expense**

KWRU included a 13-month average balance of \$385,087 in working capital allowance for deferred rate case expense. (EXH 2, P 22) This included an adjustment to reduce deferred rate case expense by \$53,854 to recognize six months of amortization. (EXH 2, P 6) As noted by OPC, Section 367.0816, F.S., was repealed and replaced by Section 367.081(9), F.S., which states "a utility may not earn a return on the unamortized balance of the rate case expense. Any unamortized balance of rate case expense shall be excluded in calculating the utility's rate base" (OPC BR 16) OPC noted the instant docket falls under the new statute; therefore, it claimed all deferred rate case expense should be removed. (OPC BR 16) Staff notes prior to implementation of the new statute, it was Commission practice to include one-half of the approved amount of rate case expense in working capital under the balance sheet method.<sup>1</sup> Staff agrees that one-half of the recommended amount of rate case expense in the instant docket should not be included in working capital pursuant to the updated Statute. However, as the previous Statute was in effect when the Utility filed its petition in the last docket Commission issued an Order in the previous docket a year ago, the amount of \$215,414 should be included in working capital to recognize one-half of previous rate case expense. Therefore, staff recommends that the \$169,673 associated with deferred rate case expense in the current case be removed from working capital allowance.

### **Page 92**

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

**Recommendation:** The appropriate amount of rate case expense is **\$436,049** **\$381,012**. This expense should be amortized over four years for an annual expense of **\$109,012** **\$95,253**. Based on the Utility’s original MFR filing, the annual amortization of rate case expense should be increased by **\$37,912** **\$24,153**. (Frank)

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**Table 29-1**

**Table 29-1  
KWRU’s Revised Rate Case Expense Request**

| Description                              | Actual Requested | Additional Estimated | Revised Total    |
|--|------------------|----------------------|------------------|
| Friedman & Friedman, PA                  | \$17,282         | \$26,399             | \$43,681         |
| Smith, Hawks, P.L.                       | 153,190          | 25,963               | 179,153          |
| Milian, Swain, & Associates              | 146,300          | 66,456               | 212,756          |
| M&R Consultants                          | 3,525            | 9,900                | 13,425           |
| Filing Fee                               | 4,500            | 0                    | <b>4,500</b>     |
| Customer Notices, Printing, and Shipping | <u>5,000</u>     | 930                  | <u>5,930</u>     |
| <b>Total</b>                             | <b>\$329,797</b> | <b>\$129,648</b>     | <b>\$459,445</b> |

Source: EXH 2 P 31; EXH 91, BSP 128

**Page 95**

**First paragraph.**

**Milian, Swain, & Associates (MSA)**

The Utility provided rate case expense, totaling \$212,756, for accounting services performed by Milian, Swain, & Associates (MSA). The actual fees and costs totaled \$146,300 with an estimated \$66,456 to complete the rate case. (EXH 82, BSP 8). ~~Although staff requested supporting documentation for all rate case expense, KWRU did not provide invoices for accounting services performed during the months of May 2017 and December 2018 through March 2018. This results in \$55,038 of unsupported rate case expense. It is the Utility’s burden to prove that its costs are reasonable. As such, staff recommends an adjustment to reduce MSA’s actual accounting fees by \$55,038.~~

**Page 96**

**Modification to the Conclusion.**

**CONCLUSION**

Based upon the adjustments discussed above, staff recommends that KWRU’s revised rate case expense of \$459,445 be decreased by **\$23,395** **\$83,613** to reflect staff’s adjustments, for a total of **\$436,049** **\$381,012**. A breakdown of staff’s recommended rate case expense is as follows:

**Table 29-2  
Staff Recommended Rate Case Expense**

| Description                 | Utility Revised Act. & Est. | Staff Adjustment                              | Recom. Total                              |
|-----------------------------|-----------------------------|---|---|
| Legal Fees                  | \$222,834                   | (\$8,495)                                     | \$214,338                                 |
| Accounting Consultant Fees  | 212,756                     | 0 ( <del>55,038</del> )                       | <del>212,756</del> 157,719                |
| Engineering Consultant Fees | 13,425                      | (9,900)                                       | 3,525                                     |
| Filing Fee                  | 4,500                       | 0   | 4,500                                     |
| Printing and Shipping       | 5,930                       | (5,000)                                       | 930                                       |
| <b>Total</b>                | <u>\$459,445</u>            | <del>(\$23,395)</del> ( <del>\$78,433</del> ) | <del>\$436,049</del> <del>\$381,012</del> |

Source: EXH 91, BSP 128

In its briefs, OPC and the County stated that rate case expense should be amortized over a five-year period. However, staff believes the record does not support using a five-year amortization period. (OPC BR 38; County BR 29) As such, the recommended total rate case expense of ~~\$436,049~~ ~~\$381,012~~ should be amortized over four years, pursuant to Section 367.081(8), F.S. This represents an annual expense of ~~\$109,012~~ ~~\$95,253~~. As stated previously, in its updated filing, the Utility requested \$459,445 for current rate case expense, with an annual amortization amount of \$114,861. (EXH 17, P 8) Based on the Utility's original MFR filing, the annual amortization of rate case expense should be increased by ~~\$37,912~~ ~~\$24,153~~.

**FALL OUT ISSUES**

**Page 100**

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

**Recommendation:** Based upon staff's recommended adjustments in Issues 17 through 30, the appropriate amount of O&M expense is ~~\$2,446,634~~ ~~\$2,432,875~~. (Sewards)

**Modification to the Analysis.**

**ANALYSIS**

This is fall out issue. Based upon staff's recommended adjustments in Issues 17 through 30, the appropriate amount of O&M expense is ~~\$2,446,634~~ ~~\$2,432,875~~. Schedule No. 3-A reflects staff's recommended O&M expenses. Schedule No. 3-B reflects staff's proposed adjustments to O&M expense.

**Page 103**

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

**Recommendation:** The appropriate amount of Taxes Other Than Income (TOTI) should be ~~\$299,822~~ ~~\$300,470~~. Accordingly, TOTI should be increased by ~~\$12,551~~ ~~\$11,903~~. (D. Andrews)

## Modification to the Analysis and Conclusion.

### ANALYSIS

This is a fall out issue. Based on staff's adjustments to test year revenues, RAFs should be reduced by \$59,517. To reflect staff's recommended adjustments to pro forma plant, property taxes should be reduced by \$458. To reflect staff's recommended adjustment to pro forma salaries, payroll taxes should be reduced by \$2,488. To reflect staff's recommended Non-used and Useful adjustment, property taxes should be increased by \$22,954. Lastly, to reflect staff's recommended revenue increase, RAFs should be increased by ~~\$52,060~~ ~~\$51,412~~. In total, TOTI should be increased by ~~\$12,551~~ ~~\$11,903~~ (-\$59,517 - \$458 - \$2,488 + \$22,954 + ~~\$52,060~~ ~~\$51,412~~) for an adjusted total of ~~\$300,470~~ ~~\$299,822~~.

### CONCLUSION

Based on staff's recommended adjustments, TOTI should be ~~increased~~ ~~decreased~~ by ~~\$12,551~~ ~~\$11,903~~. The appropriate amount of TOTI is ~~\$300,470~~ ~~\$299,822~~.

## Page 104

**Issue 34:** What is the appropriate revenue requirement? (fall out)

**Recommendation:** The appropriate revenue requirement is ~~\$3,516,506~~ ~~\$3,502,098~~. (Sewards)

## Modification to the Analysis.

### ANALYSIS

This is a fall out issue. In its filing, KWRU requested a revenue requirement to generate annual revenue of \$3,682,216, representing a revenue increase of \$1,551,910, or approximately 72.8 percent. Consistent with staff's recommendations regarding rate base, cost of capital, and operating income issues, the appropriate revenue requirement is ~~\$3,516,506~~ ~~\$3,502,098~~. Staff's recommended revenue requirement is ~~\$1,156,895~~ ~~\$1,142,487~~ greater than recommended test year revenues of \$2,359,611 or an increase of ~~49.03~~ ~~48.42~~ percent. Staff's recommended revenue requirement will allow the Utility the opportunity to recover its expenses and earn a 7.67 percent return on its investment in rate base. Schedule No. 3-A reflects staff's recommended net operating income, and resulting revenue requirement. Staff's proposed adjustments to net operating income are shown on Schedule No. 3-B.

## Page 108

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

**Staff seeks administrative authority to calculate the resulting rates after the Commission's vote on this item.**

## Pages 127

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

**Recommendation:** KWRU's wastewater rates should be reduced as shown on Schedule No. 4 to remove **\$114,149 \$99,741** of wastewater rate case expense, grossed-up for RAFs, 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. KWRU 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 one month prior to the actual date of the required rate reduction. If KWRU files this reduction in conjunction with a price index and/or pass through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Friedrich, Frank)

## **Modification to the Analysis and Conclusion.**

### **ANALYSIS**

Section 367.081 (8), F.S., requires that rates be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of **\$114,149 \$99,741** of revenue associated with the amortization of rate case expense, the associated return on deferred rate case expense included in working capital, and the gross up for RAFs. Using KWRU's current revenues, expenses, capital structure, and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

KWRU should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility should also be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If KWRU files this reduction in conjunction with a price index and/or pass-through adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and the reduction in the rates due to the amortized rate case expense.

### **CONCLUSION**

KWRU's wastewater rates should be reduced as shown on Schedule No. 4 to remove **\$114,149 \$99,741** of wastewater rate case expense, grossed-up for RAFs, 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 367.081(8), F.S. KWRU 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 one month prior to the actual date of the required rate reduction. If KWRU files this reduction in conjunction with a price index and/or pass through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

**KWRU**  
**Statement of Wastewater**  
**Operations**  
**Test Year Ended**  
**06/30/17**

**Schedule No**  
**Docket No. 2017014**

| Description   | Test Year Per Utility | Utility Adjustments | Adjusted Test Year Per Utility | Staff Adjustments                            | Staff Adjusted Test Year                 | Revenue Increase  | Revenue Requirement                      |
|---|-----------------------|---------------------|--------------------------------|--|--|---|--|
| 1 <b>Operating Revenues:</b>                            | <u>\$2,130,307</u>    | <u>\$1,551,910</u>  | <u>\$3,682,217</u>             | <u>(\$1,322,606)</u>                         | <u>\$2,359,611</u>                       | <u>\$1,156,895</u><br><u>\$1,142,487</u><br>49.03% 48.42% | <u>\$3,511,000</u><br><u>\$3,511,000</u> |
| 2 <b>Operating Expenses Operation &amp; Maintenance</b> | \$1,720,331           | \$812,727           | \$2,533,058                    | <u>(\$86,424)</u><br><u>(\$100,183)</u>      | <u>\$2,446,634</u><br><u>\$2,432,875</u> |   | <u>\$2,432,875</u><br><u>\$2,432,875</u> |
| 3 Depreciation  | 144,159               | 192,324             | 336,483                        | (33,349)                                     | 303,134                                  |   | 303,134                                  |
| 4 Amortization  | 0                     | 0                   | 0                              | 0  | 0  |   |  |
| 5 Taxes Other Than Income                               | 175,513               | 112,405             | 287,918                        | (39,508)                                     | 248,410                                  | <u>\$2,060</u><br><u>\$1,412</u>                          | <u>\$3,011,000</u><br><u>\$2,996,888</u> |
| 6 Income Taxes  | <u>0</u>              | <u>0</u>            | <u>0</u>                       | <u>0</u>                                     | <u>0</u>                                 | <u>0</u>  |  |
| 7 <b>Total Operating Expense</b>                        | <u>2,040,003</u>      | <u>1,117,456</u>    | <u>3,157,459</u>               | <u>(159,281)</u><br><u>(173,040)</u>         | <u>2,998,178</u><br><u>2,984,419</u>     | <u>\$2,060</u><br><u>\$1,412</u>                          | <u>3,011,000</u><br><u>3,011,000</u>     |
| 8 <b>Operating Income</b>                               | <u>\$90,304</u>       | <u>\$434,454</u>    | <u>\$524,758</u>               | <u>(\$1,163,325)</u><br><u>(\$1,149,566)</u> | <u>(\$638,567)</u><br><u>(\$624,808)</u> | <u>\$1,104,835</u><br><u>\$1,091,075</u>                  | <u>\$4,522,000</u><br><u>\$4,522,000</u> |
| 9 <b>Rate Base</b>                                      | <u>\$2,229,328</u>    |                     | <u>\$7,043,725</u>             |  | <u>\$6,080,883</u>                       |   | <u>\$6,080,883</u>                       |
| 10 <b>Rate of Return</b>                                | <u>4.05%</u>          |                     | <u>7.45%</u>                   |  | <u>-10.50%</u><br><u>10.27%</u>          |   |  |

**KWRU**  
**Adjustments to Operating Income**  
**Test Year Ended 06/30/17**

**Schedule No. 3-B**  
**Docket No. 20170141-WS**

| Explanation  | Wastewater   |
|--|--|
| <b>Operating Revenues</b>  |  |
| 1 Remove requested final revenue increase  | (\$1,349,690)                                      |
| 2 To reflect test year revenues. (Issue 16)                                      | 27,084   |
| <b>Total</b>   | <u>(\$1,322,606)</u>                               |
| <b>Operation and Maintenance Expense</b>   |  |
| 1 To reflect appropriate salaries & wage expense. (Issue 18)                     | (\$83,645)   |
| 2 To reflect appropriate pensions & benefits expense. (Issue 19)                 | (3,487)  |
| 3 To reflect pro forma purchased power expense. (Issue 20)                       | 13,237   |
| 4 To reflect appropriate test year materials & supplies expense. (Issue 21)      | (55,070)   |
| 5 To reflect appropriate test year cont. services - other expense. (Issue 21)    | 43,290   |
| 6 To reflect appropriate test year cont. services - eng. expense. (Issue 22)     | (11,370)   |
| 7 To reflect appropriate test year rental of equipment expense. (Issue 23)       | (1,258)  |
| 8 To reflect pro forma worker's comp expense. (Issue 24)                         | (3,861)  |
| 9 To reflect pro forma amortization of hurricane expenses. (Issue 26)            | (7,022)  |
| 10 To reflect appropriate test year miscellaneous expense. (Issue 27)            | (3,888)  |
| 11 To reflect pro forma telephone expense. (Issue 28)                            | (4,982)  |
| 12 To reflect appropriate rate case expense. (Issue 29)                          | 37,912 <del>24,153</del>                           |
| 13 To reflect appropriate test year Advertising Expense. (Issue 30)              | (4,775)  |
| 14 To reflect appropriate test year cont. services - testing expense. (Issue 30) | (1,504)  |
| <b>Total</b>   | <u>(\$86,424)</u><br><u><del>(\$100,183)</del></u> |
| <b>Depreciation Expense - Net</b>  |  |
| 1 To reflect pro forma depreciation expense. (Issue 32)                          | (\$8,565)  |
| 2 To remove annualization associated with routine plant additions. (Issue 32)    | (9,468)  |
| 3 To reflect appropriate annualization associated with AWT. (Issue 32)           | (47,772)   |
| 4 To reflect net non-used and useful adjustment. (Issue 32)                      | 32,457   |
| <b>Total</b>   | <u>(\$33,349)</u>                                  |
| <b>Taxes Other Than Income</b>   |  |
| 1 To remove RAFs on revenue increase. (Issue 33)                                 | (\$59,517)   |
| 2 To remove property tax on non U&U adjustment. (Issue 33)                       | 22,954   |
| 3 To reflect pro forma plant. (Issue 33)   | (458)  |
| 4 To reflect pro forma salaries. (Issue 33)                                      | (2,488)  |
| <b>Total</b>   | <u>(\$39,508)</u>                                  |