

**IN THE FLORIDA PUBLIC SERVICE COMMISSION**

**MONROE COUNTY,**

Appellant

v.

Lower Tribunal Case No.: 20170141-SU

**FLORIDA PUBLIC SERVICE  
COMMISSION,**

Appellee.

**NOTICE OF ADMINISTRATIVE APPEAL**

NOTICE IS GIVEN that Monroe County, Appellant, appeals to the First District Court of Appeal the Order of the Florida Public Service Commission, Order No. PSC-2018-0446-FOF-SU, rendered on September 4, 2018. A copy of Order No. PSC-2018-0446-FOF-SU is attached to this NOTICE OF ADMINISTRATIVE APPEAL as Exhibit A. The nature of the order appealed is the Florida Public Service Commission's Final Order granting an increase in wastewater rates in Monroe County to K W Resort Utilities Corp.

Respectfully submitted this 3rd day of October, 2018.

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**CERTIFICATE OF SERVICE**

**I HEREBY CERTIFY** that a true and correct copy of the foregoing **NOTICE OF ADMINISTRATIVE APPEAL** has been furnished by electronic mail on this 3rd day of October, 2018, to the following:.

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**MONROE COUNTY,**

Appellant

v.

Lower Tribunal Case No.: 20170141-SU

**FLORIDA PUBLIC SERVICE  
COMMISSION,**

Appellee.

**NOTICE OF ADMINISTRATIVE APPEAL**

**EXHIBIT "A"**

**FLORIDA PUBLIC SERVICE COMMISSION  
ORDER NO. PSC-2018-0446-FOF-SU**

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. 20170141-SU  
ORDER NO. PSC-2018-0446-FOF-SU  
ISSUED: September 4, 2018

The following Commissioners participated in the disposition of this matter:

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FINAL ORDER GRANTING AN INCREASE IN WASTEWATER RATES

BY THE COMMISSION:

I. BACKGROUND

K W Resort Utilities Corp. (KWRU or Utility) is a Class A utility providing wastewater service to approximately 1,865 customers in Monroe County. Water service is provided by the Florida Keys Aqueduct Authority (FKAA). Rates were last established for this Utility in a 2015 rate case.<sup>1</sup> According to the Utility's 2016 Annual Report, KWRU recorded total operating revenues of \$2,135,343 and operating expenses of \$1,815,421 during 2016. On November 21, 2017, KWRU filed its application for the rate increase at issue. KWRU requested to forego the Proposed Agency Action process and proceed directly to hearing. The test year established for final rates is the 13-month average period ended June 30, 2017.

The Utility's initial application did not meet the minimum filing requirements (MFRs). On December 7, 2017, Commission staff sent KWRU a letter indicating deficiencies in the filing of its MFRs.<sup>2</sup> The Utility filed a response to Commission staff's deficiency letter on December 12, 2017.<sup>3</sup> However, the Utility's response did not satisfy all of the deficiencies, and on December 13, 2017, Commission staff sent a second letter indicating the outstanding deficiencies.<sup>4</sup> On December 13, 2017, the Utility filed a response to Commission staff's second deficiency letter correcting its remaining deficiencies,<sup>5</sup> and thus the official filing date was established as December 13, 2017,<sup>6</sup> pursuant to Section 367.083, Florida Statutes (F.S.).

KWRU requested an increase in rates to recover all costs it asserts will be incurred in order to generate a fair rate of return on its investment and pro forma plant additions. The Utility requested final rates designed to generate annual revenues of \$3,682,216. This represents a revenue increase of \$1,349,690, or 57.9 percent.

The interventions of the Office of Public Counsel (OPC) and Monroe County (County) were acknowledged by Order No. PSC-2017-0460-PCO-SU, issued November 30, 2017 and Order No. PSC-2017-0472-PCO-SU, issued December 15, 2017, respectively.

On April 23, 2018, OPC and the County filed a joint motion to strike portions of the rebuttal testimonies of KWRU witnesses Johnson and Swain, or in the alternative, to reschedule the technical hearing and for leave to file surrebuttal testimony. At the Prehearing Conference held on May 1, 2018, the joint motion was denied in part.<sup>7</sup> The testimonies of witnesses Johnson

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<sup>1</sup> Order No. PSC-2017-0091-FOF-SU, issued March 13, 2017, in Docket No. 20150071-SU, In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

<sup>2</sup> Document No. 10413-2017.

<sup>3</sup> Document No. 10531-2017.

<sup>4</sup> Document No. 10575-2017.

<sup>5</sup> Document No. 10594-2017.

<sup>6</sup> Document No. 10630-2017.

<sup>7</sup> Order No. PSC-2018-0242-PHO-SU, issued May 10, 2018, in Docket No. 20170141-SU, In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.



and Swain were not stricken. However, OPC and the County were given until close of business on May 4, 2018, to file surrebuttal testimony. On May 4, 2018, OPC witnesses Woodcock and Shultz filed surrebuttal testimony addressing new cost information and revised MFRs provided by KWRU in its rebuttal.

On April 27, 2018, KWRU filed a motion to strike portions of the testimony of OPC witness Shultz. This motion was taken up at the technical hearing on May 16, 2018. We struck one portion addressing costs per square foot of witness Shultz's testimony, but allowed a second portion addressing pension plans to be included in the record.

A formal evidentiary hearing and two customer service hearings were held on May 15-17, 2018, in Key West, Florida. The parties filed briefs on June 6, 2018. This Final Order addresses the Utility's final requested rates. We have jurisdiction pursuant to Section 367.081, F.S.

## II. QUALITY OF SERVICE

### Parties' Arguments

#### **KWRU**

KWRU stated that the evaluation of quality of service is based on the quality of the utility's product, operating conditions, and attempts to address customer satisfaction. For the quality of the Utility's product, KWRU argued that no complaints made at the customer service hearings were in regards to the quality of service, but were only related to payment for service. Additionally, no odor complaints were received by the Department of Environmental Protection (DEP), and no notices of violation have been issued. KWRU affirmed that no deficiencies related to the operational conditions of the Utility's wastewater systems were identified during the test year and two years prior. The County entered into evidence information pertaining to two untreated wastewater spills which occurred during the test year, though no DEP action was required and KWRU was found to be in compliance based on its most recent DEP inspection.

KWRU argued that during the test year, the Utility did not receive any billing or service complaints. At the customer service hearings, KWRU stated that one customer testified on an issue related to customer service. The customer voiced frustration about being unable to connect to the Utility's wastewater system. KWRU argued that the customer was made aware of the options to connect previously, and the customer had chosen to wait for the County-funded line.

#### **OPC**

OPC argued that KWRU should implement asset management principles for the benefit of customers as this would produce lower costs and enhanced service. OPC also stated that there were issues with the Utility's wastewater operations, sewer service request, billing, and customer service. For the problems with operation, OPC argued that customer testimony was provided regarding "unattended lift station alarms" and personnel sleeping in a Utility truck, as well as two DEP reported wastewater spills. Two customers testified that wastewater service was

requested, but KWRU has not yet provided service. Related to billing, one customer testified to limited payment options, the format of bills, and checks that were not cashed by the Utility. Another customer testified to billing issues, and that when attempting to visit the Utility's office, the customer was treated disrespectfully. OPC argued that improvements should be made to KWRU's customer service and billing practices.

### **Monroe County**

The County argued that KWRU's quality of wastewater treatment was adequate, despite filing an out-of-date DEP permit and two occasions of untreated wastewater being released. However, based on customer testimony, the County stated that customers voiced dissatisfaction with the Utility's customer service and were opposed to the rate increase. Customers also testified to lift station alarms that were unattended, an employee sleeping in a Utility truck, failure to provide service, billing issues, and poor customer service.

### Analysis

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in wastewater rate cases, we shall determine the overall quality of service provided by a utility.<sup>8</sup> This is derived from an evaluation of three separate components of the utility operations. These components are the quality of the utility's product, the utility's attempt to address customer satisfaction, and the operational conditions of the utility's plant and facilities.

### **Quality of Utility's Product**

We reviewed KWRU's DEP inspection report dated March 10, 2016, and KWRU's effluent disposal was rated in compliance with DEP standards. Additionally, the DEP determined that residuals were disposed of in accordance with the facility's permit. Complaints filed with the Utility during the test year were also requested. No complaints were filed with the Utility regarding the quality of KWRU's product. Based on the discussion above, we find that the quality of KWRU's product is satisfactory.

### **The Utility's Attempt to Address Customer Satisfaction**

Two customer service hearings were held in Key West, Florida, on May 15, and 16, 2018. Eleven customers provided testimony at the two service hearings. We note that this represents approximately 0.6 percent of KWRU's 1,865 customers. The primary subject of the comments provided by customers was opposition to the rate increase. Table 1 provides a summary of the customer comments made at each service hearing.

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<sup>8</sup> Rule 25-30.433(1), F.A.C., was amended on July 11, 2018. Our analysis is based on the rule before it was amended as it was the rule in place at the time of the Utility's filing.

**Table 1**  
**Customer Testimony from May 15, and 16, 2018 Service Hearings**

|              | <b>Customer Testimony Total</b> | <b>Against Rate Increase</b> | <b>Quality of Service</b> | <b>Billing</b> |
|--------------|---------------------------------|------------------------------|---------------------------|----------------|
| May 15, 2018 | 6                               | 5                            | 1                         | 1              |
| May 16, 2018 | 5                               | 5                            | 0                         | 1              |
| <b>Total</b> | <b>11</b>                       | <b>10</b>                    | <b>1</b>                  | <b>2</b>       |

Note: Comments may be counted in more than one category.

One customer testified that despite having finished construction of a new building two years ago, his property still had not been connected to the wastewater system. The customer also stated that a complaint had been filed with us and the process was still on-going. Witness Johnson testified that he spoke with the customer about options for the infrastructure needed for his property. The customer could pay the costs or wait for infrastructure that the County and the Utility are planning to construct. Witness Johnson stated that the customer expressed interest in waiting for the planned infrastructure. Witness Johnson further testified that KWRU would give priority to this customer and other customers who wished to be hooked up to the system.

Two customers testified to billing issues, specifically too small “postcard” bills, uncashed checks by the Utility, and changing bill balances. Additional concerns that were raised at the two service hearings were a lift station alarm that was left unattended and a Utility employee that was sleeping in a Utility truck. KWRU did not provide specific follow-up action related to these customers; however, the Utility was present at the service hearings and stated it was available for questions from customers.

In addition to receiving customer testimony at the service hearings, complaints filed with the Utility, as well as complaints filed with DEP for the test year were also requested. As discussed under Section II. regarding quality of the Utility’s product, no complaints were recorded for the test year. Based on the limited number of complaints from the service hearings, we find that the Utility’s attempts to address customer satisfaction shall be considered satisfactory.

### **Condition of Facilities**

KWRU’s service area is located in Monroe County. The wastewater treatment plant (WWTP) uses extended aeration to treat wastewater. Effluent is passed through a sand filter and disinfection is provided by chlorine gas. Effluent is disposed of through reuse service or shallow injection wells when reuse demand is not sufficient.

We verified that the DEP Domestic Wastewater Facility Permit, provided as an exhibit by the County during the technical hearing, was up-to-date, and does not expire until February 19, 2022. On March 10, 2016, DEP conducted a compliance evaluation inspection of KWRU’s WWTP. By letter dated April 21, 2016, DEP notified KWRU that the WWTP was in compliance with DEP rules and regulations. Additionally, the Utility has no outstanding citations, violations, or consent orders on file with DEP or the Monroe County Health Department. Therefore, the condition of KWRU’s facilities shall be considered satisfactory.

Conclusion

We find that the quality of KWRU's product and the condition of the wastewater treatment facilities are satisfactory. Additionally, it appears that the Utility has attempted to address customers' concerns. Therefore, we find the overall quality of service for the KWRU wastewater system satisfactory.

III. RATE BASE

A. Single Source Bidding

Parties' Arguments

**KWRU**

KWRU stated that for the wastewater treatment plant rehabilitation, KWRU witness Castle testified that the project was sole sourced to the original plant designer, Evoqua, which was the only provider with access to the designs and specifications. The savings that could be seen from competitively bidding the project were not likely because of the additional costs associated with the development of the designs and specifications. The Utility stated that OPC witness Woodcock testified that the single source bid for the project was not reasonable and prudent, and the project costs should be reduced by 11.7 percent, which he derived from a wastewater treatment plant rehabilitation project undertaken by Utilities, Inc. of Florida (UIF).

KWRU argued that witness Woodcock testified at the hearing that in circumstances where proprietary information is involved, sole source bidding may be reasonable and prudent. KWRU asserted that when the Utility requested the designs and specification from Evoqua, it was denied because the information was proprietary. Based on an estimate from witness Castle, KWRU stated "the additional cost for designing the parts and creating bid documents would be \$170,000[,] . . . a 20 [percent] increase of the current project cost." Furthermore, even with the bid documents, KWRU argued that there would still be uncertainty on the proper sizing of parts.

For the lift station, KWRU affirmed that the Utility attempted to obtain more than one bid for the project; however, Wharton Smith declined to bid. In addition, KWRU witness Johnson testified that since Hurricane Irma, the number of contractors has been in short supply. Related to the modular office space, KWRU argued that the modular vendor works to obtain the best price and value from multiple modular manufacturers. Therefore, a sole source bid was not utilized for the modular office project. Instead, the project was presented to three modular builders and two of the builders provided bids before one was ultimately selected.

**OPC**

OPC argued that acquiring multiple bids allows a utility to complete a comparison of the bid amounts. As several of KWRU's requested pro forma projects have not been placed into service, OPC asserted that the project amounts should be reduced by 11.7 percent for only obtaining a single bid. Once the projects have been completed, OPC stated that we can verify the

expenditures and adjust rate base as needed. For projects where only one bid was received, OPC argued that the project should be re-bid to acquire additional bids, which allows for the selection of the best cost option. Furthermore, soliciting more than one bid is consistent with our past practices.

OPC argued that KWRU did not obtain competitive bids for the lift station replacement, WWTP rehabilitation project, or the modular office replacement. OPC witness Woodcock testified to his experience of using a service company to solicit bids, while KWRU witness Johnson testified that he had never utilized such a company. OPC argued that the Utility could have used a service company to request additional bids as “[w]ithout competitive bids, there is no way to verify whether KWRU received the lowest or best price for its sole source projects.” For the projects with only one bid, OPC affirmed that the reasonableness of each project was not demonstrated by the Utility, and the project amounts should be reduced.

### **Monroe County**

The County argued that obtaining competitive bids would result in lower costs and ensures that customers do not overpay for a utility’s assets. The County argued that it was imprudent of KWRU not to seek additional bids for the lift station, WWTP rehabilitation, and modular office projects. The County agreed with OPC’s recommendation of reducing the three projects requested amounts by 11.7 percent.

### Analysis

OPC witness Woodcock testified that competitive bids are important to ensure a utility and customers are not overpaying for a project. Additionally, the witness stated that this is true, particularly in an area such as the Florida Keys where there are high construction costs, limited resources, and restricted roadway access.

### **Wastewater Treatment Plants (WWTP) Rehabilitation**

In its filing, KWRU requested cost recovery for its WWTP rehabilitation project. For the bidding process, KWRU witness Johnson testified that the Utility utilized a sole source bid for the rehabilitation project based on the recommendation of KWRU witness Castle. In a memorandum to witness Johnson, witness Castle affirmed that the plants were originally designed by Evoqua, and the company should be a sole source provider for several reasons. First, dimensional and structural drawings of the plant and the individual components were not available to the Utility, and the fabrication of these components without the drawings could lead to an improper fit of the parts or structural failure. Additionally, the treatment units had specific characteristics to treat to advanced wastewater treatment (AWT) requirements, and changes to these characteristics could negatively impact the treatment process. The witness also stated that if the rehabilitation work was completed by another contractor, the Utility’s process warranty provided by Evoqua would be void.

OPC Witness Woodcock testified that none of the reasons discussed by witness Castle warranted KWRU not following this Commission’s practice of obtaining at least three

competitive bids. Addressing each reason, witness Woodcock contended that if the designs and drawings were unavailable, then they would also be unavailable to Evoqua. As for the treatment process and the rehabilitation of old components, witness Woodcock argued that the work needed for the rehabilitation project was not overly complex and was something that “another competent contractor could perform, if KWRU had competitively bid the project.” As for the Evoqua warranty, witness Woodcock testified that a warranty could be provided by another package WWTP provider.

Witness Woodcock cited a recent Utilities, Inc. of Florida (UIF) rate case in 2016, where UIF obtained three bids for its WWTP rehabilitation project. The witness affirmed that while some of the specifics differed between the projects, the scope of UIF’s project was similar to KWRU’s rehabilitation project. In UIF’s case, the three bids were from Evoqua, FEC, and ECO-2000, Inc., ranging from \$1.526 million to \$1.704 million. Witness Woodcock stated that this range represented “a spread from lowest to highest of 11.7 [percent],” with Evoqua being the lowest bidder. Due to the fact that KWRU did not solicit more than one bid, witness Woodcock recommended reducing the project cost by 11.7 percent for the Utility “failing to comply with the Commission’s practice.”

KWRU witness Castle rebutted witness Woodcock’s claim that the structural drawings were not available from Evoqua. Since Evoqua was the designer of KWRU’s original plants, the detailed drawings and specifications belong to Evoqua. Witness Castle argued that for another contractor to construct detailed drawings, each treatment train would have to be taken offline, emptied, and cleaned, all of which would take time. The witness stated that the costs for preparing a competitive bid are typically recovered in the bid amount. Alternatively, unknowns in a project can increase the costs or if a project was bid with a minimal scope, it may ultimately lead to change orders for the recovery of unforeseen costs. Witness Castle testified that Evoqua had first-hand knowledge of the characteristics and process that were designed to meet AWT requirements as it was involved in the original design. At the hearing, witness Woodcock provided specific instances when a single source would be appropriate, one of which was the involvement of proprietary information. The Utility argued that the structural drawings are an example of proprietary information.

Based on the rebuttal testimony of witness Castle, we find that KWRU has sufficiently demonstrated that sole source bidding was appropriate for the WWTP rehabilitation project. Specifically, the potential for additional costs associated with drawings, as well as Evoqua’s existing knowledge of the facility support a sole source process.

### **Lift Station**

KWRU requested recovery of the costs for a lift station replacement in its MFRs. The Utility stated that a sister lift station with the same design as the lift station in the present case was previously bid to two contractors, B&L Beneway and Wharton Smith, Inc. For the sister lift station, B&L Beneway was selected as it was “substantially less expensive, as a result of their local labor force and lack of need for housing.” In this case, KWRU attempted to again obtain bids from B&L Beneway and Wharton Smith, Inc.; however, Wharton Smith, Inc. declined to offer a bid.

OPC witness Woodcock testified that KWRU did not provide documentation that bids were obtained for the lift station replacement. When OPC requested the bids for the project, the Utility provided a bid from Wharton Smith, Inc. from 2014, which was for a nearby lift station, but not for the replacement of the requested lift station project. Additionally, the date when KWRU requested bids for the project was not clear, and considering that Wharton Smith, Inc. was mobilized on site for another project, witness Woodcock assumed that a competitive bid could be offered for the lift station. Witness Woodcock recommended that the lift station project cost, similar to the WWTP rehabilitation project, be reduced by 11.7 percent for failing to obtain three competitive bids.

As an exhibit to witness Johnson's rebuttal, an email from Wharton Smith, Inc. was provided specifying that the company did not submit a bid because of remobilization costs as the company had already left the area. Additionally, Wharton Smith, Inc. stated that it could not compete with bids from local contractors. OPC witness Johnson testified that this email supported KWRU's claim that it attempted to obtain two bids. Witness Woodcock argued in his surrebuttal testimony that an "after-the-fact-email" from Wharton Smith did not validate the bidding process used, and KWRU could have invited other local contractors to offer bids. Therefore, witness Woodcock held that the recommendation from his direct testimony remained the same.

We find that the Utility attempted to obtain competitive bids from two contractors, which was consistent with the process that was used for a sister lift station to the one in this case. While Wharton Smith, Inc. declined to provide a bid for comparison to the bid offered by B&L Beneway, the previous lift station project was ultimately awarded to B&L Beneway since they provided the lowest cost. Based on these reasons, we find that the bidding process used for the lift station project was reasonable in this case.

### **Modular Office Building**

In its original filing, KWRU requested cost recovery for a new modular office building. KWRU witness Johnson testified that the Utility had signed a contract with PP Keys 2016, LLC, later corrected to Pabian Outdoor-Southeast, Inc. KWRU stated that one of the reasons that Pabian Outdoor-Southeast, Inc. was selected for the installation of the modular office was because it was already mobilized in the area and due to its "relationships with modular manufacturers." However, OPC witness Schultz testified that the Utility did not utilize a bidding process for the new office.

Witness Johnson affirmed in his rebuttal testimony that the modular office was competitively bid and KWRU witness Pabian stated that Pabian Outdoor-Southeast, Inc. was a modular vendor and could acquire the best price based on multiple modular manufacturers. Witness Pabian testified that modular manufacturers do not usually sell directly to a consumer, but the sale occurs through a vendor. In response to discovery, the Utility identified three modular manufacturers, Champion, Palm Harbor, and Jacobsen, were contacted for KWRU's office project and Champion offered the lowest price. Witness Schultz rebutted that despite the additional information produced in witness Johnson's rebuttal testimony, requests for competitive bids were not provided.

As KWRU witness Pabian testified, costs from three different modular manufacturers were considered before a selection was made. Witness Pabian also affirmed that customers may not be able to purchase a modular building directly from a manufacturer; therefore, the customer may be required to go through a vendor. Considering witness Pabian's testimony, we do not find that a sole source bid was utilized for this project and that the bidding process used for the modular office building project was appropriate.

### Conclusion

As discussed above, we find that sole source bidding for the WWTP rehabilitation project was appropriate. The bidding process used for the lift station replacement and modular office building was also appropriate.

### B. Rate Base Audit Findings

#### Parties' Arguments

#### **KWRU**

In its brief, KWRU stated that all Commission ordered adjustments cited in Audit Finding 1 were recorded on the company books. Staff witness Glover agreed that all adjustments were recorded but to incorrect accounts. In her rebuttal testimony, KWRU witness Swain asserted that Audit Finding 1 should be reversed. Witness Glover deleted Audit Finding 2 after receiving further information from the Utility.

#### **OPC**

In its brief, OPC agreed with KWRU that no adjustments are necessary to plant or accumulated depreciation related the audit findings. KWRU witness Swain provided details behind plant adjustments from the Commission staff audit in the prior rate case.

#### **Monroe County**

In its brief, the County agreed with OPC that no adjustments to rate base are necessitated by the audit findings.

#### Analysis

Audit Finding 1 addresses prior ordered adjustments. Witness Swain's rebuttal testimony conveyed that all ordered adjustments from the prior rate case were recorded by KWRU. Witness Swain agreed with Staff witness Glover that all of the adjustments were made, but that some may have been to incorrect accounts. OPC agreed that KWRU's 2016 general ledger reflects the adjustments related to Audit Finding 1. Witness Glover testified that Audit Finding 2 was stricken. Therefore, no adjustments shall be made to rate base related to the audit.



Conclusion

Based on the above, no audit adjustments are necessary to rate base.

C. Plant in Service

Parties' Arguments

**KWRU**

KWRU argued that Staff witness Glover and KWRU witness Swain were in agreement on the amount of plant in service of \$13,541,772, not including the pro forma plant and retirements. The amount of plant in service was revised from \$19,252,125 to \$18,877,125, based on “known and measurable” updates to the costs and retirements. Furthermore, KWRU argued that the reasonableness and prudence of the projects were not questioned by any witness; however, OPC witnesses Woodcock and Schultz claimed revisions to the original MFRs should not be included. KWRU provided three cases, which the Utility argued demonstrate that “[r]atingmaking is prospective in natures [sic], and it is Commission practice to make known and measureable changes.”

KWRU summarized the adjustments to the requested pro forma projects, first stating that the WWTP rehabilitation project cost was updated and the reasonableness and prudence were not disputed in surrebuttal. The cost of the housing was increased for the chlorine contact chamber based on actual costs, and the generator cost was increased based on the purchase price of the generator and bids for the foundation. The tow-behind generator and sand sifter were also purchased and the project costs were updated. The service truck cost was adjusted based on the purchase price, as well as the costs related to the engine replacement. Finally, based on the invoice price, the cost of the telephone system was revised.

KWRU argued that the Utility reduced total plant in service based on retirements and adjustments to depreciation, all of which were a result of known and measurable costs. Including both pro forma adjustments and retirements, the total adjustment to plant in service is \$5,335,353, resulting in a total plant in service amount of \$18,877,125.

**OPC**

OPC argued that KWRU’s requested utility plant in service of \$19,887,796 should be reduced by \$1,172,360. This reduction includes adjustments to pro forma plant, related retirements, and new plant to serve customers. For pro forma plant, OPC asserted that the Utility did not seek competitive bids for the WWTP rehabilitation and lift station projects. OPC also argued that KWRU falsely claimed that the lift station was damaged during Hurricane Irma; however, OPC witness Woodcock “found the lift station functioning” and it did not appear to have structural damage upon inspection. For failing to secure competitive bids for these projects, OPC recommended that the project cost should be reduced by 11.7 percent.

OPC argued that, for the modular office replacement project, KWRU signed a contract with a non-existent company and did not solicit competitive bids from other contractors or modular suppliers. Based on the terms of the agreement with the selected modular office contractor, Pabian Outdoor-Southeast, Inc., the completion date of March 31, 2018, was not met; however, OPC stated that “[t]here are no penalty or enforcement provisions in the original or revised contract to protect KWRU.” Additionally, the Utility did not disclose a business partnership between the modular office contractor and KWRU’s ownership, which calls into doubt whether the contract is in the best interest of the customers. For these reasons, OPC asserted that the cost of the modular office replacement project should be disallowed. Related to the modular office, the requested telephone system depends on the modular office project. Based on the lack of evidence provided for the cost of the telephone system, as well as recommending that the new office be disallowed, OPC argued that the Utility’s request for the telephone system should be denied as well.

OPC argued that plant in service should be increased by \$566,134. OPC pointed to an agreement between KWRU and the County to add plant to serve an additional 80 equivalent dwelling units (EDUs). In this contract, the County agreed to pay for the work; therefore, OPC argued that it should be included in contributions-in-aid-of-construction (CIAC) as well as plant in service.

OPC argued that retirements for the pro forma plant additions should be included for the replacement of the lift station, chlorine contact chamber, and generator. OPC agreed with the retirements provided by KWRU witness Swain, which included the retirement amounts of \$109,706 for the lift station, \$832,470 for the chlorine contact chamber, and \$128,257 for the generator. Therefore, OPC recommended that the utility plant in service balance should reflect total retirements of \$1,070,522.

## **Monroe County**

In its brief, the County agreed with OPC.

### Analysis

In its filing, KWRU filed an adjusted test year plant in service amount of \$17,134,867. Neither OPC nor the County disputed this amount. Therefore, no adjustments shall be made to test year plant in service.

OPC and the County argued that \$566,134 should be added for pro forma plant in service to serve an additional 80 EDUs on South Stock Island. As discussed later in Section III.E., related to Contributions-in-aid-of-Construction (CIAC), and Section V.A., Test Year Billing Determinants, no adjustment shall be made to impute CIAC in this case.

Section 367.081, F.S., provides that, in fixing rates, we shall consider facilities to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates, unless we approve a longer period, to be Used and Useful (U&U) if such property is needed to serve current customers. KWRU’s initial filing

included 10 projects, each anticipated to be placed in-service within two years of the test year, totaling \$3,164,371. KWRU updated the costs for seven of the 10 projects, increasing the requested amount by \$128,646.

Table 2, below, summarizes the pro forma project amounts recommended by KWRU and OPC, and as we have approved herein. Our analysis of each pro forma project is also discussed below.

**Table 2**  
**Summary of Pro Forma Projects**

| <b>Pro Forma Project</b>            | <b>KWRU<br/>Initial<br/>Request<br/>(A)</b> | <b>KWRU<br/>Updated<br/>Request<br/>(B)</b> | <b>OPC<br/>Recom.<br/>Amount<br/>(C)</b> | <b>Commission<br/>Approved<br/>Amount<br/>(D)</b> | <b>Commission<br/>Approved<br/>Adj.<br/>(E = D - A)</b> |
|-------------------------------------|---|---|--|---|---|
| Sludge Drying Beds*                 | \$15,450                                    | \$15,450                                    | \$15,450                                 | \$15,450  | \$0   |
| Sand Sifter*                        | 44,300                                      | 43,110                                      | 43,110                                   | 43,110  | (1,190)   |
| Sand Sifter Retirement*             | (36,443)                                    | (36,443)                                    | (36,443)                                 | (36,443)  | 0   |
| Chlorine Contact Chamber            | 1,071,814                                   | 1,109,960                                   | 1,071,814                                | 1,102,080   | 30,266  |
| Chlorine Contact Chamber Retirement | 0   | (832,470)                                   | (803,861)                                | (826,560)   | (826,560)   |
| Tow-Behind Generator                | 83,470                                      | 57,916                                      | 0  | 57,916  | (25,554)  |
| Service Truck with Crane            | 74,174                                      | 65,105                                      | 44,777                                   | 65,105  | (9,069)   |
| WWTP Rehabilitation                 | 1,104,764                                   | 1,165,523                                   | 983,483                                  | 1,189,124   | 84,360  |
| Lift Station                        | 146,393                                     | 146,393                                     | 123,620                                  | 146,393   | 0   |
| Lift Station Retirement*            | 0   | (109,795)                                   | (92,715)                                 | (109,795)   | (109,795)   |
| Generator                           | 321,006                                     | 390,551                                     | 214,145                                  | 386,145   | 65,139  |
| Generator Retirement*               | 0   | (128,257)                                   | (160,609)                                | (128,257)   | (128,257)   |
| Office Structures & Improvements    | 288,000                                     | 288,000                                     | 0  | 240,257   | (47,743)  |
| Office Retirement                   | 0   | (68,975)                                    | 0  | (68,975)  | (68,975)  |
| Telephone System                    | 15,000                                      | 11,009                                      | 0  | 11,009  | (3,991)   |
| Roof Repair**                       | 0   | 4,680                                       | 4,680                                    | 4,680   | 4,680   |
| <b>Total</b>                        | <b>\$3,127,928</b>                          | <b>\$2,121,757</b>                          | <b>\$1,407,451</b>                       | <b>\$2,091,239</b>                                | <b>(\$1,036,689)</b>                                    |

Note: Monroe County agreed with OPC's recommended pro forma projects amount.

\*All parties agreed on the pro forma project amounts.

\*\*Project was not included in KWRU's pro forma request, but was encompassed in its hurricane expenditures.

### **Sludge Drying Beds and Sand Sifter**

In KWRU's initial filing, the Utility requested \$15,450 for the refurbishment of its sludge drying beds. KWRU stated that the project, completed in August 2017, was for the refurbishment of sand and rock media in one of the four drying beds. KWRU also provided invoices totaling \$15,450. OPC witness Woodcock testified that considering the size of the project, "KWRU has provided sufficient justification to support the \$15,450 in improvements."

KWRU's initial filing also included \$44,300 for a new sand sifter. KWRU witness Johnson testified that the project was for the replacement of an existing sand sifter that was inoperable following Hurricane Irma. The Utility received four bids for the project and selected the second lowest bid. KWRU asserted that the bid selected provided the best value in light of its warranty. We note that the difference between the two bids was \$1,265, which is less than 3 percent.

OPC witness Schultz testified that the actual cost of the sand sifter should be used, resulting in a decrease of \$1,190 from the original request. KWRU witness Swain agreed with witness Schultz, testifying that an amount of \$43,110 should be used for the sand sifter project.

We find that the proper documentation was provided to support the costs of sludge drying beds and sand sifter projects. Therefore, considering the parties agreement on the amounts for these projects, we find that \$15,450 and \$43,110 are reasonable for the sludge drying beds and sand sifter projects, respectively. In addition, we hereby approve a retirement amount of \$36,443 for the sand sifter. This amount was included in KWRU's MFRs and was not disputed by the parties.

### **Chlorine Contact Chamber**

KWRU's initial MFRs included \$1,071,814 for the chlorine contact chamber project. KWRU witness Johnson testified that the scope of the project was to replace the chlorine contact chamber, which had been identified as a capital replacement prior to its rupture and failure following Hurricane Irma. The Utility solicited three bids from Wharton Smith, Inc., Reynolds Construction of Florida LLC, and Evoqua; however, Evoqua had a conflict of interest and did not provide a bid. Wharton Smith was the lowest cost option, and the agreement between Wharton Smith and KWRU listed the project cost as \$935,000. Witness Johnson testified that the Utility would ensure housing for the Wharton Smith employees at a cost of \$29,325. Witness Johnson explained that this saved over \$100,000 from the Wharton Smith bid. Including the housing, as well as the associated engineering costs, witness Johnson testified that the total cost for the chlorine contact chamber project was \$1,071,814. In his direct testimony, OPC witness Woodcock agreed with KWRU's requested amount of \$1,071,814.

In rebuttal, KWRU witness Johnson updated the cost of the housing to \$61,271, stating that "costs are higher than previously anticipated due to the project start-up coinciding with the most expensive rental weeks during peak tourist season." Witness Johnson also testified that an additional cost, in the amount of \$6,200, had been added for testing of the coating system to be performed on the chlorine contact chambers and filters. Witness Woodcock rebutted that these additional costs were not provided with enough time for discovery or review, and should be deferred to the Utility's next rate case.

OPC witness Schultz testified that a retirement amount was not reflected in KWRU's filing, but should be included for the chlorine contact chamber. Witness Schultz calculated a retirement amount of \$803,861 based on our precedent of utilizing 75 percent of the replacement cost. KWRU witness Swain testified that she agreed with witness Schultz that the chlorine contact chamber should be retired and 75 percent of the replacement cost was appropriate.

Both OPC and KWRU agreed on the original costs for the chlorine contact chamber, but disagreed on the updated cost for housing and inclusion of the work directive. We find that the necessary documentation was offered by KWRU for the work directive, which was provided through discovery. For the updated housing, we made adjustments to the total cost based on invoices that were double counted or support was not provided. We find that the appropriate amount for housing is \$54,627. Therefore, we hereby approve a total amount for the chlorine contact chamber of \$1,102,080, and a retirement amount of \$826,560.

### **Tow-Behind Generator**

A total of \$83,470 was requested for a new tow-behind generator to replace KWRU's portable generator, which was used to power lift stations in the event of a power outage. The Utility asserted that the original tow-behind generator became inoperable during Hurricane Irma and was beyond repair. KWRU witness Johnson testified that DEP requires KWRU to operate its collection system at all times including when power is not available from an electric utility.

A quote was provided in an exhibit to witness Johnson's testimony, which totaled \$83,470 including shipping and tax. In response to staff discovery, the Utility affirmed that two additional bids had been obtained for a new generator at a cost of \$70,263 and a used generator at a cost of \$29,412. KWRU further stated that the bidding process was still ongoing.

Witness Woodcock testified that KWRU had given the bid amounts in response to discovery; however, the Utility did not provide copies of the two other bids not included as an exhibit to witness Johnson's direct testimony. Considering the range of bids for both new and used tow-behind generators, OPC witness Woodcock stated that "KWRU should make a prudent decision that fits best with its operations to meet the needs of its customers at the lowest possible cost." However, since the Utility had not yet selected a tow-behind generator, witness Woodcock recommended that no amount be included for this project.

In his rebuttal testimony, witness Johnson testified that a tow-behind generator had been selected and purchased. The invoice was provided at a total cost of \$57,916. Witness Johnson stated that the Utility had purchased a new tow-behind generator as it delivered "the best value-for-money to the utility," had lower expected maintenance costs, and included a 2 year or 2,000 hour warranty. Witness Johnson also testified that KWRU will continue to utilize a rental portable generator until delivery of the new tow-behind generator, which it expected in mid-July.

Taking into consideration that back-up power is needed for continued operation of the Utility's lift stations associated with complying with the DEP and the project was not disputed, we find that the tow-behind generator is prudent. Based on the three bids and the invoice provided by the Utility, as well as the considerations described by witness Johnson, we hereby approve the cost of \$57,916 as reasonable for the tow-behind generator.

### **Service Truck with Crane**

In witness Johnson's direct testimony, he testified that the Utility requested recovery for a service truck with crane for sewerage pump removals. Historically, KWRU utilized a third party for these services; however, they are not always available in emergency situations and delays in such situations can cause sewage back up. Witness Johnson specifically testified that this caused problems after Hurricane Irma when third parties were not available. Witness Johnson additionally testified that the Monroe County Jail routinely requires this type of equipment. The need for the truck was not disputed by parties in this docket. We find that the record evidence sufficiently demonstrates that the proposed project will help the Utility provide adequate and reliable service.

The Utility estimated the cost of the service truck with crane to be \$74,174. OPC witness Schultz testified that KWRU, through discovery, presented updated amounts for the costs that had been incurred so far. The service truck was purchased at a price of \$40,163, and including additional costs such as tax, title, and license fees, the Utility determined the cost of the truck was \$44,777. Witness Schultz recommended that the amount for the truck should be the costs that KWRU has incurred which was \$44,777, a reduction of \$29,397 from the original estimate.

Witness Johnson testified in his rebuttal testimony that he would agree with witness Schultz on the cost of the service truck with crane if additional costs had not arisen. Prior to purchasing the truck, KWRU employed an independent Ford mechanic to inspect the service truck. Following the purchase of the service truck, it was discovered that the engine had locked up and would require replacement. The cost of the new engine, associated parts and labor, and towing costs were established by the Utility to be \$20,328, bringing the total cost of the service truck to \$65,105.

Based on the testimonies of KWRU witness Johnson and OPC witness Schultz, there appears to be agreement on the purchase price of the service truck. For the additional expenditures related to the engine replacement, KWRU has shown due diligence prior to purchasing the truck by having a Ford mechanic perform an inspection. Furthermore, the Utility provided invoices for the engine replacement and towing costs. Considering the arguments presented by KWRU and OPC, we hereby approve \$65,105 as reasonable for the service truck with crane project.

### **WWTP Rehabilitation**

KWRU requested \$1,104,764 for the rehabilitation of its wastewater treatment plant in its original filing. Based on information provided by the Utility, periodic rehabilitation is required for steel plants and is necessary to ensure environmental and OSHA compliance. No party presented evidence that the WWTP rehabilitation was not needed.

Witness Johnson testified that the project cost included the materials, equipment, demolition, installation, and paint to rehabilitate the existing wastewater treatment plants, as well as the clarifier and digester. The total project amount also contains the costs for blasting and repairing the air headers on each plant, surfacing epoxy for each plant and digester, and the engineering fees for the project. Based on the recommendation of KWRU's witness Castle, the rehabilitation project was sole source bid to Evoqua, who designed and fabricated the existing

wastewater treatment plants. KWRU witness Castle testified that the structural drawings and specifications for the Evoqua fabricated plants were not available to the Utility. As a result, the generation of this information would present an additional cost if the project were to be undertaken by a WWTP fabricator other than Evoqua. Witness Castle also emphasized that since Evoqua had designed the original plants, any modifications to the systems would void an existing warranty.

OPC witness Woodcock testified that the argument laid out by witness Castle did not give Evoqua a significant advantage over other potential contractors. Based on the information provided, other contractors would presumably be able to complete the necessary rehabilitation work and would be able to offer a warranty of their own in the event of a void warranty from Evoqua. Therefore, the Utility should have obtained three competitive bids considering the scale of the project.

Witness Woodcock cited a recent rate case with UIF in 2016, where the Utility obtained three bids for its WWTP rehabilitation project. Witness Woodcock affirmed that while some of the specifics differed from the project in the present case, the scope of UIF's WWTP project was similar to KWRU's. In UIF's case, the three bids were from Evoqua, FEC, and ECO-2000, Inc., ranging from \$1.526 million to \$1.704 million. Witness Woodcock stated that this range represented a spread of 11.7 percent from lowest to highest with Evoqua being the lowest bidder. Due to the fact that KWRU did not solicit more than one bid, witness Woodcock recommended reducing the project cost by 11.7 percent or \$114,075 for the Utility "failing to comply with the Commission's practice."

In his rebuttal testimony, KWRU witness Johnson included additional costs for liquid hauling, debris removal, and the replacement of davits and a gear clarifier drive. Witness Johnson testified that the Utility has the ability to pump the treatment plants down to four feet using in-house employees, but the remaining sludge must be removed by a subcontractor. In-house employees will handle the labor for debris removal; therefore, KWRU included the cost of dumpsters for debris disposal. Witness Johnson also testified that the Utility's maintenance staff discovered several davits and the gear clarifier drive that needed replacement, both of which were not originally known. These additional costs total \$60,759, resulting in an updated project cost of \$1,165,523.

In OPC witness Woodcock's surrebuttal, the witness testified that the inclusion of costs for liquid hauling and debris removal in witness Johnson's rebuttal testimony were known costs. Since these costs were known and excluded from the contract with Evoqua, they should have been included in witness Johnson's direct testimony to allow for discovery review of the costs. For the davits and gear clarifier drive costs, witness Woodcock recommended that these costs be deferred until the Utility's "next rate case when the project is complete and documentation is available so that all changes can be considered."

As discussed in Section III.A. pertaining to single source bidding, we found that the use of a sole source bid was appropriate in this case given that Evoqua was the original manufacturer of the wastewater treatment plants and the production of new structural drawings would have

added additional costs to the project. Based on the presented testimony, the rehabilitation project appears to be prudent.

While we agree with the presented costs for the WWTP rehabilitation, sludge hauling, dumpsters, and replacement parts, two adjustments shall be made to the engineering costs. We included the engineering invoices provided by witness Johnson, as well as additional engineering invoices that were incorrectly assigned to the chlorine contact chamber project. We also included engineering invoices that were originally charged to contractual services – engineering expense, but OPC witness Schultz identified the costs to be related specifically to the WWTP rehabilitation project. For the engineering invoice additions, we made corresponding adjustments to the chlorine contact chamber project and contractual services – engineering expense.

We hereby approve a total cost of \$1,189,124 for the WWTP rehabilitation, which is comprised of the contract amount for the rehabilitation of the two plants, engineering and man hours, sludge hauling, dumpsters, clarifier drive and davits replacements, and KWRU's employee salaries for the tanks' pump down and cleaning. We note that the total cost for the WWTP rehabilitation project includes employee salaries for the tanks' pump down and cleaning, which is not reflected in the Utility's total cost, as well as the invoices that were re-classified to the rehabilitation project.

### **Lift Station**

In its original filing, KWRU requested \$146,393 for a new lift station and electrical panel, which was damaged during Hurricane Irma. Witness Johnson testified that even before Hurricane Irma, the lift station had been identified as part of the capital improvement replacement schedule due to its poor condition and advanced age. When soliciting bids, the Utility was only able to obtain one bid for the project. When initiating the bidding process for another lift station with the same design in 2014, KWRU had obtained bids from B&L Beneway and Wharton Smith, Inc. B&L Beneway was ultimately awarded the bid due to the lower project cost and the ability to provide local labor. For the present case, the Utility attempted to obtain bids for the lift station from the same two contractors; however, Wharton Smith, Inc. declined to submit a bid. KWRU provided the contract with B&L Beneway for the replacement of the lift station at a cost of \$140,000. KWRU also included an amount for the replacement of the lift station's electrical panel for a total project cost of \$146,393.

OPC Witness Woodcock stated that the Utility's explanation for only obtaining one bid for the lift station replacement did "not sound plausible." The witness affirmed that Wharton Smith, Inc. is mobilized onsite for the chlorine contact chamber replacement project, and could have provided a competitive bid for the lift station. Since the Utility did not secure at least three competitive bids for the lift station, witness Woodcock testified that the same method that was used for the WWTP rehabilitation project should be applied. Thus, the lift station project cost of \$140,000 should be reduced by 11.7 percent or \$16,380. Additionally, at the time of filing of witness Woodcock's testimony, the quote for the electrical panel had not been provided by the Utility, and the witness disputed the inclusion of the electrical panel costs due to a lack of documentation. Therefore, witness Woodcock recommended that the project cost should be reduced by a total of \$22,773.



In his rebuttal testimony, witness Johnson contested witness Woodcock's claim that the Utility only acquired one bid. As discussed in witness Johnson's direct testimony, Wharton Smith, Inc. declined to offer a bid for the lift station project. Through correspondence with witness Johnson, a division manager of the company stated that the company declined to offer a bid "due to the high cost of our remobilization considering we had already left the area. Consequently, we assumed that our number would not be competitive with any of the local contractors that decided to bid..." Witness Johnson also contended that the same bidding process was used in 2014, when the cost of the lift station replacement in that case was determined to be reasonable.

Considering the lift station was previously identified for replacement and the damage sustained during Hurricane Irma, we find the project necessary. As discussed in Section III.A., KWRU provided support that the Utility attempted to obtain competitive bids and B&L Beneway, which had provided the lowest bid for a similar lift station replacement in 2014, was the only contractor to offer a bid. KWRU provided the contract with B&L Beneway, as well as documentation for the electrical panel replacement. Therefore, we hereby approve \$146,393 for the lift station project, which includes the B&L Beneway contract amount of \$140,000, and the electrical panel replacement of \$6,393. OPC witness Schultz and KWRU witness Swain agreed that the lift station should be retired and 75 percent of the replacement cost was appropriate. Thus, we approve a retirement amount of \$109,795 for the lift station.

### **Generator**

KWRU requested \$321,006 for the replacement of a backup generator to replace its existing standby generator, which the Utility indicated was nonoperational. KWRU witness Johnson asserted that the requested cost included the price of the generator, installation, the associated parts and materials, foundation pad and anchoring, and engineering costs. At the time of filing of witness Johnson's testimony, the costs for the installation and foundation pad were based on estimates, and neither invoices nor bids had been provided for these two components. As previously mentioned for the tow-behind generator, witness Johnson testified that the Utility is required to have backup power generation to maintain its treatment process at all times, as required by DEP.

OPC witness Woodcock testified that the original cost listed in witness Johnson's testimony for the generator was \$230,736, which witness Johnson had supported with a quotation from a generator manufacturer. However, witness Woodcock stated that through discovery, KWRU provided an invoice of \$189,875. For the installation and foundation pad estimates, witness Woodcock asserted that these costs were unsupported and should not be included. Witness Woodcock testified that the engineering costs provided were reasonable and the amount should be included in rate base. Taking into account these adjustments, witness Woodcock recommended a total cost of \$214,145 for the backup generator.

In his rebuttal, witness Johnson agreed with witness Woodcock that the correct cost of the generator was \$189,874. Witness Johnson also included two bids from Wharton Smith, Inc. and Coral Construction, Inc., for the foundation pad, and stated that a third contractor had

declined to provide a bid. Despite its bid being higher than Coral Construction, Inc., Wharton Smith, Inc. was awarded the project because the contractor could begin work immediately and would be able to complete the project “a minimum of 3 weeks sooner than other contractors.” Based on the updated costs, witness Johnson testified that the total project cost was \$390,552.

OPC witness Schultz testified that a retirement amount of \$160,609 should be included for the generator using 75 percent of the replacement cost. KWRU witness Swain agreed that the generator should be retired, but disagreed with witness Schultz on the amount. Witness Swain testified that the cost of the generator being replaced was known; therefore, the appropriate retirement amount was \$128,257.

Considering that witness Woodcock did not dispute the need for the WWTP backup generator, and that backup power is required by DEP, we find that the generator project is prudent. We find the requested cost for the generator is reasonable as it was the lowest bid out of three bids, and the generator invoice was provided by KWRU. We also find that the engineering costs are reasonable as they were not disputed by witness Woodcock, and the Utility provided documentation to support the amount. KWRU also offered two bids for the generator foundation pad of \$176,407 and \$172,000, and stated that the higher bid was selected due to Wharton Smith, Inc.’s ability to complete the project three weeks earlier. However, the Utility indicated that the generator project was dependent on both the chlorine contact chamber and WWTP rehabilitation projects, which have been delayed. We do not find this reasoning justifies the selection of the higher bid, and therefore approve \$172,000 for the foundation pad. We also approve a total cost for the generator project of \$386,145, which includes the costs of the generator, engineering, and foundation pad. Additionally, we approve a retirement amount of \$128,257 for the generator.

### **Office Structures & Improvements**

KWRU requested \$288,000 for a new modular office in its initial filing. The project amount includes the costs for the modular office, demolition and removal of the Utility’s existing office trailer, and the materials and labor for the new office’s concrete slab. Witness Johnson testified that the Utility has had its current office trailer since 2002, and it was determined following Hurricane Irma that the trailer had sustained water damage. Additionally, witness Johnson noted that “[t]he office has mold which led to an employee’s resignation due to workplace conditions.” For the design of a new office, KWRU used 1,200 as the square footage for a modular office and signed a modular office installation agreement with PP Keys 2016, LLC. The Utility and PP Keys 2016, LLC agreed to a cost cap of \$250,000 and installation of the office by March 31, 2018. The other project costs include \$13,000 for the demolition and hauling of the old trailer and \$25,000 for the concrete slab.

OPC witness Schultz testified that based on information provided by the Utility, it did not appear that the installation date of March 31, 2018 would be met. Also, witness Schultz affirmed that KWRU did not use a bidding process for the selection of a builder, and the witness was unable to identify a company by the name of PP Keys 2016, LLC through the State of Florida Division of Corporations. While witness Schultz agreed that a new office building was needed, the witness testified that the cost was excessive and unsupported.

In witness Johnson's rebuttal testimony, he testified that the size of the office building had been updated to 1,577 square feet, and supplied the floor plan for the office. Witness Johnson agreed that the office had not been installed by March 31, 2018, due to revisions to the design and manufacturer delays, but projected a completion date of December, 2018. Regarding the agreement with PP Keys 2016, LLC, the witness asserted that the company name was a "scrivener's error," and Pabian Outdoor-Southeast, Inc. is the correct entity. Witness Johnson testified that the office was competitively bid as Pabian Outdoor-Southeast, Inc., a modular office vendor, which acquires "quotations from multiple manufacturers to obtain the best potential pricing." Witness Johnson also testified that construction costs in the Florida Keys are high due to materials being shipped in and the high cost of living. For the demolition costs, witness Johnson provided two bids, and stated that until the office plans are approved, the Utility cannot yet solicit bids for the concrete slab.

OPC witness Schultz identified a payment of \$19,393 that KWRU received for an insurance claim on the existing office trailer. Witness Schultz contended the insurance proceeds should be recognized by offsetting the total requested hurricane expenses. In her rebuttal testimony, KWRU witness Swain agreed that the insurance proceeds should be used to reduce hurricane costs. However, as the insurance proceeds are directly related to the existing office trailer, we find it is more appropriate to apply the \$19,393 as a reduction to the cost associated with the replacement project.

Witness Schultz testified that a retirement amount for the office was not included in KWRU's filing; however, an amount was not determined by the witness based on his recommendation that the office be excluded from rates. KWRU witness Swain testified that using the original costs of the office to be replaced, the appropriate retirement amount was \$68,975.

In view of the current condition of KWRU's office, which was damaged during Hurricane Irma, and the agreement of witness Johnson and witness Schultz that a new office is needed, we find that the new office project is prudent. The Utility affirmed that quotations from three manufacturers were considered before a manufacturer was selected. Considering this, as well as a signed contract with Pabian Outdoor-Southeast, Inc. and a not-to-exceed cost of \$250,000, we find that the cost of the modular office is reasonable. For the demolition of the old office, witness Johnson testified that two bids in the amounts of \$14,000 and \$9,650 had been received, and the Utility was waiting on a third bid. Witness Johnson also testified that until the modular plans were approved, bids for the concrete slab could not be obtained. We included \$9,650 for the demolition costs, and excluded the estimate for the concrete slab as the Utility did not provide support for this cost. We approve a total cost of \$240,257 for the modular office building, which includes the costs of the office and demolition of the old office, as well as the insurance claim reduction. In addition, we approve a retirement amount of \$68,975 for the new office building.

### **Telephone System**

In its original filing, KWRU requested \$15,000 for a new telephone system. Witness Johnson testified that the Utility's voice and data communication through Comcast had been knocked out completely following Hurricane Irma. Furthermore, KWRU continued to experience service issues and decided to switch its primary provider to AT&T for better reliability. The project costs include the service contract, set-up in the temporary office and then relocation to the modular office, equipment, and labor. The monthly service amount of \$1,054 for the phone system will be discussed in Section VI.L. pertaining to pro forma expenses. KWRU witness Johnson affirmed that the Utility will be keeping the Comcast phone system for redundancy related to the supervisory control and data acquisition system (SCADA).

OPC Witness Schultz testified that he did not agree that redundancy of phone service was necessary. The witness stated that he had "not encountered a utility requesting a phone system redundancy such as in this case" and it was unreasonable to require ratepayers to pay for two separate phone systems. However, Witness Schultz recommended that the monthly costs for the new system should be included, but did not recommend any capital costs for the project.

Witness Johnson rebutted that a backup phone service was necessary due to KWRU's employment of a SCADA, which allows the Utility to operate with one shift instead of two shifts, pursuant to its DEP operating permit. Since SCADA requires an internet connection to operate, reliable telecommunications is needed. Witness Johnson included a letter from Information Technology Solutions, LLC, which outlined that backup internet service for redundancy purposes was key to "critical safety operation of machinery that requires internet connectivity for offsite monitoring." Witness Johnson further stated that interruptions to service could result in the potential for system-wide failures and the possibility of sewer backups and spills.

We agree with KWRU that reliable phone and internet service is necessary for the operation of SCADA, which ensures that the Utility is in compliance with its DEP operating permit. Therefore, we find that the redundancy of services is reasonable for the present case. In response to discovery, the Utility provided invoices for monthly phone service and installation costs. Witness Johnson included equipment and installation costs of \$3,989 for the new phones, as well as installation costs of \$7,020 for the voice, data, and computer infrastructure into the new office. We find that the documentation provided by KWRU supports a total cost of \$11,009 for the new phone system.

### **Roof Repair**

In KWRU witness Johnson's direct testimony, the witness testified that an amount of \$4,680 for a roof repair was included in the Utility's requested hurricane expense. We determined that this was a capital cost, and was removed from hurricane expenditures. In his direct testimony, KWRU witness Johnson included a quote for the roof repair as an exhibit. The amount for the roof repair was not disputed by OPC witness Schultz, and we approve a cost of \$4,680 is reasonable for the roof repair.

### Conclusion

Based on the discussion above, the appropriate balance of plant in service is \$18,851,106, not including land. Accordingly, plant shall be decreased by \$1,036,689.

### D. Accumulated Depreciation

#### Parties' Arguments

##### **KWRU**

KWRU argued that after adjustments related to updated pro forma plant requests and retirements identified by OPC witness Shultz, accumulated depreciation should be reduced to \$5,140,844. The Utility also argued that further adjustments should be made to reduce accumulated depreciation by \$101,079 to correct annualization and reclassification adjustments.

##### **OPC**

OPC argued that adjustments related to pro forma projects and retirements discussed in Section II.C. regarding plant in service should reduce accumulated depreciation by \$17,587 and \$1,070,522, respectively. Witness Shultz also reviewed the annualization adjustments and contended that correctly annualizing accumulated depreciation would reduce it by \$21,539. OPC also increased accumulated depreciation by \$25,162 in relation to the addition of \$566,134 for prospective Stock Island customers as discussed in Section II.C. These adjustments resulted in OPC recommending \$5,193,207 of accumulated depreciation to be included in rate base.

##### **Monroe County**

In its brief, the County agreed with OPC that accumulated depreciation in rate base should be \$5,193,207.

#### Analysis

In KWRU's filing, the Utility reflected test year accumulated depreciation of \$6,490,653 along with adjustments to decrease accumulated depreciation by \$265,211 in the test year and to increase accumulated depreciation by \$52,251 as corresponding adjustments to its pro forma plant request.

In its filing, KWRU reflected test year adjustments to annualize accumulated depreciation for plant added during the test year. However, KWRU only annualized plant in service related to the AWT plant expansion. OPC argued that KWRU incorrectly calculated this annualization adjustment and should reduce this adjustment by \$21,539. In her rebuttal testimony, KWRU witness Swain agreed that these adjustments were incorrect but argued that they were unnecessary because the Utility had already included six months of depreciation in accumulated depreciation. Only accumulated depreciation related to the AWT plant expansion shall be annualized. Witness Swain also argued that correcting adjustments should be made to reclassify accumulated depreciation with a one-half year convention related to a reclassification adjustment

for the AWT plant expansion which was made in the MFRs. We agree with witness Swain that accumulated depreciation be reclassified but find it appropriate to include a full year of depreciation for the AWT plant expansion. Therefore, we approve increasing accumulated depreciation by \$10,842 for the AWT plant expansion. We shall also reduce accumulated depreciation by \$7,845 to remove annualization adjustments for routine plant additions.

Additionally, the appropriate corresponding adjustments to accumulated depreciation for pro forma plant discussed in Section II.C. (plant in service) is a decrease of \$1,044,031 to reflect the pro forma plant projects, along with associated retirements. OPC argued to increase plant by \$566,134 for plant additions to serve additional customers. OPC proposed a related adjustment to increase accumulated depreciation by \$25,162. As discussed Sections II.C. and V.A., no adjustment shall be made related to this contract.

### Conclusion

Based on our adjustments, the appropriate balance of accumulated depreciation to be included in rate base shall be \$5,236,657, which reflects a decrease of \$1,041,034 (\$10,842 - \$7,845 - \$1,044,031).

### E. Contributions in Aid of Construction (CIAC)

#### Parties' Arguments

#### **KWRU**

KWRU witness Swain proposed \$10,406,318 of CIAC in the original MFRs. The Utility stated that the audit agreed with this number and no other testimony was provided at the hearing to dispute this. KWRU argued that any attempt to impute CIAC for future connections is prohibited by Section 367.081(2)(a)1., F.S.

#### **OPC**

OPC argued that CIAC should be increased by \$566,134 for a total of \$10,972,452 in order to provide service to an additional 80 EDUs. OPC stated that KWRU entered into an agreement to add plant to serve new customers and that the County has agreed to pay \$566,134 to KWRU to help provide this service to all new customers in its service territory.

#### **Monroe County**

The County also argued that CIAC should be increased by \$566,134 for a total of \$10,972,452. The County pointed to witness Swain's testimony where she agreed that if the County does pay for additional work that is agreed upon in a contract between the County and KWRU, it should be included in CIAC.

### Analysis

In its filing, KWRU reflected test year CIAC of \$10,406,318. The Commission staff audit found no issue with this amount and neither OPC nor the County argued against the test year balance.

OPC and the County argued that both CIAC and plant in service should be increased by \$566,134. This argument is based on a contract signed between the County and KWRU on March 21, 2018, whereby the County will pay \$566,134 to KWRU for additional work to complete connection points for 80 equivalent dwelling units on South Stock Island. Although this contract does signify the intent of KWRU to build \$566,134 worth of plant, paid for by the County, it does not provide assurance that this amount has been put into service by the Utility. Witness Swain agreed that this amount should be included in CIAC at the time it is paid. However, KWRU argued that this and any other amount of CIAC related to future connections should not be included in this case.

Section 367.081(2)(a)1., F.S., states that we shall not impute prospective future CIAC against a utility's investment. Additionally, witness Swain testified that it is inappropriate to use the matching principle as justification for the addition of CIAC from future customers while excluding the impacts these future customers would have on other ratemaking components contained within the MFRs in this case. As discussed in Section V.A., we agree with KWRU's position that the pro forma investment is not growth related, the anticipated growth is not extraordinary, and there are no additional quantified expenses associated with the additional demand. Based on the above, \$566,134 shall not be included in CIAC.

### Conclusion

The appropriate amount of CIAC to be included in rate base is \$10,406,318. Accordingly, there shall be no adjustments to CIAC.

### F. Accumulated Amortization of CIAC

#### Parties' Arguments

##### **KWRU**

KWRU argued that the staff audit took no exception with the MFR amount of \$3,898,064 and no other testimony or evidence at hearing disputed this amount.

##### **OPC**

OPC argued that an adjustment should be made to reflect a half-year of amortization for the proposed adjustment to CIAC in the previous section. OPC asserted that the accumulated amortization of CIAC should increase by \$25,162 for an adjusted balance of \$3,923,226.

## **Monroe County**

The County argued that accumulated amortization of CIAC should be \$3,923,226 to account for the corresponding proposed adjustment in the previous issue.

### Analysis

In KWRU's filing, the Utility reflected test year accumulated amortization of CIAC in the amount of \$3,898,064. The Commission staff audit made no finding opposing this amount and there was no evidence submitted to dispute this as the test year amount. As discussed in Sections III.E. (CIAC) and V.A. (billing determinants for test year revenues), we do not agree with OPC and the County's proposed adjustment to include additional CIAC and the associated accumulated amortization of CIAC for increased plant. Therefore, there shall be no adjustments to accumulated amortization of CIAC.

### Conclusion

The appropriate amount of accumulated amortization of CIAC to be included in rate base is \$3,898,064. Accordingly, there shall be no adjustments to accumulated amortization of CIAC.

### G. Used and Useful

We approved the proposed stipulation that the Wastewater Collection System is 100% Used and Useful, and the Wastewater Treatment Plant is 71.5% Used and Useful.

### H. Working Capital Allowance

### Parties' Arguments

#### **KWRU**

KWRU stated the appropriate working capital allowance is \$2,269,090. The components of working capital that KWRU specifically addressed include: cash, deferred rate case expense, and the Florida Public Service Commission (FPSC) escrow funds.

The Utility asserted that reduction of cash approved in the previous rate case was made in error.<sup>9</sup> According to KWRU, the capital account was not utilized in the previous case due to a permit appeal filed. The Utility contended that since the conclusion of the permit appeal case, it has spent over seven million dollars on capital projects. KWRU stated that each month of the test year, at least one million dollars passed through the Utility's bank accounts. The Utility indicated this significant cash flow necessitates cash on hand of \$911,826.

The Utility stated that deferred rate case expense from the last rate case should only be adjusted for two months of amortization. KWRU continued that Schedule A-3 of the MFRs

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<sup>9</sup> Order No. PSC-16-0123-PAA-SU, pp. 9-10.



included an adjustment of six months for deferred rate case expense. Therefore, the Utility contended that working capital allowance should be increased by \$24,798 to reflect only two months of amortization.

In its brief, KWRU also contended that the “FPSC Escrow Funds” should be included in working capital allowance. The Utility stated that the escrow account was a collection of 43.94 percent of all revenues collected per Order No. PSC-16-0123-PAA-SU, and was deposited into an interest bearing account as required. At the conclusion of the previous rate case, KWRU was only required to refund 7.43 percent of revenues collected. The Utility claimed that the remaining balance of \$197,697 was transferred to the operating account and, therefore, should be included in working capital allowance.

## **OPC**

In its brief, OPC stated the requested working capital allowance of \$2,269,090 is excessive and should be reduced. OPC contended the cash balance of \$911,826 represents 25 percent of the Utility’s requested revenue requirement and argued this amount represented an excessive increase over the amount approved in the most recent rate case, less than a year ago. OPC asserted that working capital allowance is a measurement of cash required to fund day-to-day operations. As such, OPC refuted the Utility’s claim that it required infusions to meet financial obligations in July and August of 2016. OPC also indicated that the Final Order in the last rate case reduced the cash balance to recognize that building a major plant expansion did not support the need for such a large balance of cash.<sup>10</sup> OPC concluded that cash in working capital should be established as \$284,573.

OPC also addressed the inclusion of the FPSC escrow account and customer escrow account. OPC opined that these accounts were interest bearing and should not be included in working capital based on our practice.

OPC also discussed unamortized rate case expense. OPC stated that the Utility included a balance of \$438,000 from its prior rate case. However, OPC contended that an amount of \$430,828 was approved in the Order of the last rate case; therefore, the 13-month average should not exceed our previously allowed expense. OPC noted that it is our practice to include one-half of the previously approved amount of rate case expense in working capital. OPC further noted that according to Section 367.081(9), F.S., 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.” As such, the total Utility adjusted balance of \$385,087 should be removed from working capital.

OPC further indicated that the working capital balance of \$43,206 for unamortized debt discount & expense is also included on Schedule D-6 of the MFRs. OPC claimed that it was inappropriate to include this amount in two places as it would allow for double recovery.

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<sup>10</sup> Order No. PSC-2017-0091-FOF-SU, p. 32.

In regards to Hurricane expenses, OPC contended the use of a four-year amortization period is unsupported by KWRU. OPC asserted a five-year amortization period, pursuant to Rule 25-30.433(8), F.A.C., should be used.

OPC concluded in its brief, based on adjustments discussed above, working capital allowance should be reduced from \$2,219,132 to \$684,336. However, OPC contends that working capital allowance should be \$935,853. We are unable to reconcile this difference.

### **Monroe County**

In its brief, the County stated that the proper amount of working capital is \$935,853. The County contended KWRU's requested working capital is excessive. The County noted operating revenues are approximately \$177,000 per month, and average monthly expenditures are \$133,510. As such, the County claimed that the Utility has sufficient funds to finance its operating needs.

### Analysis

Rule 25-30.433(2), F.A.C., requires that Class A utilities use the balance sheet method to calculate the working capital allowance. Based on the balance sheet method, working capital is calculated as current assets less current liabilities. In its original filing, KWRU presented a working capital balance of \$2,219,132. Subsequently, Utility witness Swain updated this amount to \$2,269,090 on her revised Schedule A-2. We find multiple adjustments are necessary to the components of working capital, including cash, special deposits, unamortized debt discount and expense, deferred rate case expense, and other miscellaneous deferred debits as discussed below.

### **Cash**

KWRU included a 13-month average cash balance of \$911,826 in working capital. OPC witness Schultz testified this was an excessive amount which surpassed the cash balance approved in the previous rate case by \$593,848. Witness Schultz also cited to the decision made by us in that case to reduce cash requested in working capital from \$877,289 to \$317,978.<sup>11</sup> Witness Schultz asserted KWRU should find alternate uses for cash not needed to operate the Utility on a daily basis, such as investment in an interest bearing account, paying off debt, or another alternate use for the excess cash.

During the technical hearing, KWRU witness Swain identified an account with a 13-month average balance of \$101,933 included in working capital cash titled "BB&T Operating Account" and explained this is the primary checking account utilized for day-to-day operations. Witness Swain also identified an account with a 13-month average balance of \$627,253 included in working capital cash titled "BB&T Capital Account" and stated that this account is primarily used for capital expenditures.

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<sup>11</sup> Id.

KWRU witness Swain testified the requested cash balance of \$911,826 is the appropriate amount needed to meet its financial obligations. To demonstrate the Utility's need for its requested cash, witness Swain detailed two occasions in which the Utility relied on a loan transfer of \$681,780 and capital contributions of \$530,000 to cover the costs of construction. OPC acknowledged that the general ledgers do show multiple loans and equity contributions. However, it also stated these infusions appear to be associated with capital projects and not normal day-to-day operations. OPC asserted that working capital should be a measurement of cash required to fund day-to-day operations, and not funds needed for capital projects. OPC continued that, in the past, we have determined plant assets should not be funded by working capital.<sup>12</sup>

We agree that working capital allowance should reflect day-to-day operations. We also agree that expenditures for capital projects do not exemplify day-to-day operations. As such, the BB&T Capital Account shall be removed from the working capital cash balance.

In response to an interrogatory, the Utility also identified an account with a 13-month average balance of \$175,541 included in working capital cash titled "BB&T Customer Escrow Account" and stated this was a holding account for customer deposits. OPC witness Schultz asserted this was an interest bearing escrow account; therefore, it should not be included in working capital. We note interest cannot be fully recognized for this account above the line as customer deposits are continually added and refunded from the account. Based on our decisions in the past regarding interest bearing accounts, we agree with witness Schultz, and the BB&T Customer Escrow Account shall be removed from the working capital cash balance.<sup>13</sup>

Based on the discussion above, we calculated a reduction to working capital cash of \$802,794 (\$627,253 + \$175,541), resulting in a balance of \$109,032. However, we reviewed the test year general ledger and recognize that the BB&T Capital Account was utilized for day-to-day operations on a minimal basis. We also note that if KWRU did not use the Capital Account in situations where the Utility suffered from shortfalls, the BB&T Operating Account would have been maintained at a higher amount to recognize variation in cash expenditures month-to-month. Witness Schultz testified it was appropriate to hold the balance of cash to the amount approved in the previous rate case, as this decision was reached a year ago by this Commission. We agree with OPC that KWRU has not provided support for its claim that \$911,826 is the proper cash balance needed for day-to-day operations. As such, the total cash included in working capital be held at \$317,978, as suggested by OPC witness Schultz and approved by this Commission in the last rate case a year ago.<sup>14</sup> We note that a cash balance of \$317,978 would encompass the post-test year transfer of FPSC escrow funds, as discussed below. This reflects a decrease of \$593,848 to working capital.

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<sup>12</sup> Order No. PSC-97-0847-FOF-WS, issued July 15, 1997, in Docket No. 960234-WS, In re: Investigation of rates of Gulf Utility Company in Lee County for possible overearnings. Docket No. 960329-WS, In re: Application for increase in rates and service availability charges in Lee County by Gulf Utility Company.

<sup>13</sup> Order No. PSC-97-1225-FOF-WU, issued October 10, 1997, in Docket No. 970164-WU, In re: Application for increase in rates in Martin County by Hobe Sound Water Company; Order No. PSC-96-1404-FOF-GU, issued November 20, 1996, in Docket No. 960502-GU, In re: Application for rate increase by City Gas Company of Florida.

<sup>14</sup> Order No. PSC-2017-0091-FOF-SU, p. 31.

### **Special Deposits (FPSC Escrow Account)**

The Utility included a 13-month average balance of \$281,123 in working capital for special deposits. In response to an interrogatory, KWRU specified this account was the FPSC Escrow Account established in the last rate case following the protest of PAA Order PSC-16-0123-PAA-SU, to collect revenues during the Hearing process.<sup>15</sup> The Utility also noted a refund was completed in August 2017, and the money in the FPSC escrow account was transferred to the operating account. Ratemaking is prospective in nature, and it is our practice to recognize known and measureable changes.<sup>16</sup> As such, we find, as this account has been closed and the funds transferred to another account, it is a known and measurable adjustment to the test year to remove this account. Therefore, \$281,123 shall be removed from working capital allowance.

### **Unamortized Debt Discount and Expense**

KWRU included a 13-month average balance of \$43,206 in working capital allowance for unamortized debt discount and expense. The Utility indicated the unamortized debt cost is included in the capital structure as set forth on Schedule D-6 of the MFRs. We note Schedule A-17 of the MFRs explains “[t]he calculation should not include accounts that are reported in other rate base or cost of capital accounts.” We agree with OPC that it would be inappropriate to include this amount in two places. As such, \$43,206 shall be removed from working capital allowance.

### **Deferred Rate Case Expense**

KWRU included a 13-month average balance of \$385,087 in working capital allowance for deferred rate case expense. This included an adjustment to reduce deferred rate case expense by \$53,854 to recognize six months of amortization. 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 noted the instant docket falls under the new statute; therefore, it claimed all deferred rate case expense should be removed. We note prior to implementation of the new statute, it was this Commission’s practice to include one-half of the approved amount of rate case expense in working capital under the balance sheet method.<sup>17</sup> We agree that one-half of the approved amount of rate case expense in the instant docket shall 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, the amount of \$215,414 shall be included in working capital to recognize one-half of previous rate case expense. Therefore, the \$169,673 associated with deferred rate case expense in the current case shall be removed from working capital allowance.

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<sup>15</sup> Document No. 03435-16

<sup>16</sup> Order No. PSC-2017-0091-FOF-SU, p. 12.

<sup>17</sup> Id.

## **Other Miscellaneous Deferred Debits**

### **Last Stand**

The Utility included a balance of \$496,973 in working capital allowance for other miscellaneous deferred debits. This represented the full balance of Last Stand litigation fees approved to be amortized over a five-year period in the previous rate case. KWRU made a reduction of \$49,697 to amortize six months of the deferred debit. We find that an adjustment shall be made to recognize an additional six months of amortization, as a full year has passed since we issued the Order in the previous rate case. As such, an additional reduction of \$49,697 shall be made yielding a total deferred Last Stand expense of \$397,579.

### **Hurricane Expense**

In its original filing, KWRU included an adjustment of \$189,063 to recognize the unamortized portion of requested hurricane expense. As will be discussed in Section VI.J. pertaining to storm restoration expenses due to Hurricane Irma, the unamortized portion of hurricane expenses shall be \$187,983. This represents a decrease of \$1,080 to the originally filed request.

### **Other Expenses**

As will be discussed in Sections VI.C. and VI.F., we approve the costs associated with the DEP permit renewal, the defaulted employee loan, and the profit sharing plan setup costs be amortized over five years. As such, working capital shall be increased by \$15,441 to recognize the unamortized portion of the DEP permit renewal, employee loan, and pension plan setup costs.

To recognize the above adjustments to other miscellaneous deferred debits, \$35,336 ( $-\$49,697 + \$1,080 + \$15,441$ ) shall be removed from working capital allowance.

### Conclusion

Based on the discussion above, working capital allowance shall be reduced by \$1,123,186 ( $\$593,848 + \$281,123 + \$43,206 + \$169,673 + \$35,336$ ). Therefore, the appropriate working capital allowance is \$1,095,946.

### I. Total Rate Base

This is a fall out issue. Applying the approved Used and Useful percentages, we calculated adjustments to increase rate base by \$155,998. Based on our adjustments, the appropriate rate base to be used in setting rates is \$6,080,883. The schedule for rate base is attached as Schedule No. 1-A, and the adjustments to rate base are shown on Schedule No. 1-B.

#### IV. COST OF CAPITAL

##### A. Capital Structure

We approved the proposed stipulation that the appropriate capital structure consists of 49.43 percent common equity and 50.57 percent long-term debt based on investor sources before reconciliation to rate base.

##### B. Return on Equity

We approved the proposed stipulation that the appropriate return on equity is 10.39 percent based on the current leverage formula.

##### C. Cost of Long-term Debt

#### Parties' Arguments

##### **KWRU**

KWRU argued the BB&T promissory notes 007 and 009, admitted into evidence as Exhibit 94, include interest at a rate of the prime rate plus 0.50 percent. We note that the BB&T promissory notes 007 and 009, are identical to Exhibits 151-152. In rebuttal testimony, KWRU witness Swain testified that the prime rate plus 0.50 percent is 5.25 percent currently, which when adding amortization of debt costs, totals 5.39 percent. This represents an increase of 0.50 percent after the filing of pre-filed direct testimony. KWRU argued that OPC witness Schultz testified that the interest rate should not be updated after the direct testimony. KWRU opined that witness Schultz did not testify that the rate is incorrect; just that the interest rate cannot be updated after the initial MFRs. KWRU argued that it is our policy to update costs throughout a rate case based on known and measurable information.

##### **OPC**

OPC argued that in KWRU's originally filed MFRs, the Utility indicated its cost of long-term debt was 4.88 percent. OPC further argued that, in rebuttal testimony, KWRU witness Swain testified the prime rate increased to 4.75 percent on March 22, 2018, and requested a higher revenue requirement to reflect a revised overall rate of return of 7.70 percent. OPC argued that the only evidence provided in witness Swain's testimony was a screen shot from the Wall Street Journal webpage showing the prime rate is 4.75 percent. OPC argued the document is insufficient to prove that KWRU's originally requested rate should be increased. OPC also argued Exhibits 151 and 152 are incomplete loan agreements as there are no bank signatures indicating they were ever executed. In addition, OPC argued KWRU did not provide any evidence of monthly bank notices or documentation or communications from its lenders that demonstrate the interest and principal amounts due for each loan or that KWRU's loan payments had increased. OPC opined that the Utility has failed to meet its burden to show its actual interest expense has increased and therefore, the cost of capital should continue to reflect a 4.88 percent cost rate for long-term debt.

## **Monroe County**

The County agreed with OPC's arguments regarding the evidence related to KWRU's cost of long-term debt and argued that the appropriate cost of long-term debt is 4.88 percent rate.

### Analysis

In its initial MFR Schedule D-6, KWRU requested a cost rate for long-term debt of 4.88 percent. Neither OPC nor the County objected to the 4.88 percent cost rate for long-term debt. In subsequent filings, the Utility revised its Schedule D-6, thereby increasing its cost of long-term debt to 5.39 percent. The increase in the Utility's cost of long-term debt is due to a known and measurable change in the U.S. prime interest rate. The U.S. prime interest rate increased from 4.50 percent, by 25 basis points to 4.75 percent, as published by the Wall Street Journal (WSJ) on March 22 2018. The U.S. prime rate is used to determine the variable rate of the Utility's BB&T loan instrument document. The variable rate listed in the loan agreement is the prime rate (4.75 percent) plus 50 basis points.

As evidence the U.S. prime rate increased, KWRU submitted into the record a printed screen shot of the WSJ page denoting the U.S. prime rate. OPC witness Schultz testified that a printed screenshot of the WSJ webpage is not adequate documentation to justify changing the cost debt rate. While witness Schultz testified that he has no reason to disagree that the interest rate on the loan agreements is the prime rate plus 0.50 percent, witness Shultz also testified that the increase in the interest rate is outside of the test year and pro forma adjustments and should not be considered. We do not find witness Schultz's testimony persuasive. The printed screenshot of the WSJ webpage displayed the U.S. prime rate as of March 22, 2018, which included the proper URL, date of publication, date of printing and the trademarked "The Wall Street Journal" character mark. We agree with KWRU that it is our practice to update costs throughout rate case proceedings for known and measurable changes. Further, County witness Deason testified during cross examination that he agreed that to better match the cost that exists with the revenues during the time that rates are to be in effect, if the interest rate change is going to take place, then matching of costs and revenues should take place. We recognize the WSJ as a reliable and accurate source for financial information purposes. For example, Rule 25-30.360 F.A.C., requires that the WSJ shall be used to determine the commercial paper rate when calculating the interest rate for refund calculations.

At the hearing, KWRU questioned OPC witness Schultz about the terms of the Utility's loan agreements and provided hearing Exhibits 151 and 152, which purport to be the complete loan agreement. Witness Shultz testified during cross examination that he had no reason to disagree that the interest rate on the loan documents is prime rate plus 0.50 percent. OPC argued that the loan agreements are not sufficient and incomplete because of "no bank signature" on either promissory note. The record and evidence demonstrates that KWRU signed Promissory Notes 007 and 009 and is liable for the corresponding loan payments to BB&T. The Promissory Notes held by BB&T have been executed by the maker, KWRU, by its authorized representatives, William L. Smith on Promissory Note 007 and Christopher Johnson on Promissory Note 009. We reviewed Promissory Notes 007 and 009 and determined there is no space that requires signature by the lender, BB&T. Prior to the increase in the U.S. prime rate on

March 22, 2018, neither OPC nor any intervener took issue with the validity of Promissory Notes 007 and 009 or the variable interest rate methodology used in the two loan agreements interest rates.

### Conclusion

Neither OPC witness Schultz nor any other intervener took issue with the use of the U.S. prime rate as a variable of the Utility's cost of long-term debt prior to the recorded change in the U.S. prime rate and revision of MFR schedule D-6. We find the known and measurable changes regarding the prime rate in the record are reasonable and adequately substantiated. The cost rate is prospective in nature and it is appropriate based on the preponderance of information and evidence in the record. Therefore, the appropriate cost rate of long-term debt is 5.39 percent.

### D. Weighted Average Cost of Capital

#### Parties' Arguments

##### **KWRU**

In its initial filed MFRs, KWRU requested a weighted average cost of capital (WACC) of 7.45 percent. In its brief, KWRU argued that based on witness Swain's testimony as to the current leverage formula and the current prime rate, the correct weighted average cost of capital is 7.70 percent.

##### **OPC**

OPC argued that this is a fall-out issue based on the previous issues and the reconciliation of capital structure to rate base. The appropriate weighted average cost of capital is 7.37 percent.

##### **Monroe County**

The County argued that this is a fall out issue. The County agreed with the other parties on the capital structure and cost of equity pursuant to the leverage formula, and agrees with OPC's analysis and conclusions regarding the cost of long-term debt, resulting in the weighted average cost of capital of 7.37 percent.

#### Analysis

In its initial filed MFRs, KWRU requested a WACC of 7.45 percent. In the Utility's revised MFRs and the Utility's brief, KWRU proposed a weighted average cost of capital of 7.70 percent. The increase of 25 basis points in KWRU's proposed weighted average cost of capital was due to an increase in the Utility's long-term debt cost rate. The lower weighted average cost of capital in the OPC's brief was based on a lower long-term debt cost rate (4.88 percent), which was also addressed in Section IV.C. regarding the cost of long-term debt. The proposed KWRU WACC is slightly higher than our approved WACC of 7.67 percent due to our smaller approved rate base, which when reconciled to the capital structure, yields a lower WACC amount.



KWRU included \$201,041 in its proposed capital structure for customer deposits and applied a cost rate of 2.00 percent consistent with Rule 25-30.311, F.A.C., Customer Deposits. Neither OPC nor the County objected to the amount of or cost rate for customer deposits in KWRU’s proposed capital structure. The weighted average cost of capital and capital structure is presented below in Table 3.

**Table 3**  
**Approved Weighted Average Cost of Capital**

| <b>Cost Component</b> | <b>Total Capital</b> | <b>Pro Rata Adjustment</b> | <b>Capital Reconciled to Rate Base</b> | <b>Ratio</b>   | <b>Cost Rate</b> | <b>Weighted Average Cost of Capital</b> |
|-----------------------|----------------------|----------------------------|--|----------------|------------------|---|
| Long-term Debt        | \$2,209,292          | \$764,089                  | \$2,973,381                            | 48.90%         | 5.39%            | 2.64%                                   |
| Common Equity         | 2,159,569            | 746,893                    | 2,906,461                              | 47.80%         | 10.39%           | 4.97%                                   |
| Customer Deposits     | <u>201,041</u>       | <u>0</u>                   | <u>201,041</u>                         | <u>3.31%</u>   | 2.00%            | <u>0.07%</u>                            |
| Total Capital         | <u>\$4,569,902</u>   | <u>\$1,510,982</u>         | <u>\$6,080,883</u>                     | <u>100.00%</u> |                  | <u>7.67%</u>                            |

The weighted average cost of capital is a fall out issue that combines the cost rate and amount of the capital components into a final overall rate of return. As discussed in prior sections, the cost rate of common equity of 10.39 percent was stipulated based on the leverage formula in effect at the time the record closed, and we approve cost rate of 5.39 percent for long-term debt as discussed in Section IV.C.

Conclusion

Based on the proper components, amounts and cost rates associated with the capital structure for the test year ended June 30, 2017, the appropriate weighted average cost of capital for purposes of setting rates in this proceeding is 7.67 percent.

V. TEST YEAR REVENUES

A. Billing Determinants for Test Year Revenues

Parties’ Arguments

**KWRU**

KWRU contends that the appropriate billing determinants for test year revenues are reflected in KWRU’s MFRs. KWRU argued against the County’s position to include additional billing determinants to calculate test year revenues. Further, the Utility asserted the testimonies of County witnesses Wilson and Small were incorrect with respect to additional meters being

added for certain customers because some of those customers are already online and served by the Utility. KWRU argued that witness Wilson's testimony with respect to projected flows are not known and measurable because his projections were based on personal estimations and not fact. Therefore, witness Wilson's projections are inappropriate for consideration in a historical test year with pro forma adjustments.

Additionally, the Utility stated it was inappropriate for witness Wilson to provide projected flows for Sunset Marina based on the assumption that every unit would be occupied immediately and be utilizing maximum flows because the witness was unsure if the units would be rentals or sales. In addition, KWRU argued that witness Wilson's projected flows are overstated because he utilized gallonage data during tourist season which could also overstate KWRU's flows. Further, witness Johnson testified that Rule 64E-6.008, F.A.C., of the Department of Health, contemplates an estimate of the maximum flows, not average daily flows. KWRU argued that if daily flows were projected utilizing maximum flows instead of average flows, it would grossly overstate gallonage.

KWRU noted two recent rate cases in which we utilized a historic test year with pro forma adjustments, but did not adjust billing determinants for future growth. KWRU further argued that witness Deason's testimony regarding the matching principle failed to consider our recent decisions that have been based on historic test years with pro forma adjustments. Additionally, KWRU pointed out that witness Deason's testimony was theoretical and did not reflect the specific facts of this proceeding. Further, the Utility disagreed with witness Deason's position that CIAC can be imputed because there is a clear statutory prohibition.

## **OPC**

In its brief, OPC stated the appropriate billing determinants to use to establish test year revenues are those set forth within the E-2 Schedule of KWRU's MFRs updated to be consistent with the matching principle. OPC agrees with the County that billing determinants should be increased by 1,386 ERCs and 9.26 million gallons.

## **Monroe County**

The County asserted the appropriate billing determinants to establish test year revenues are 22,601 bills, 226,439,000 gallons, and at least 37,253,000 reuse gallons. The County argued that in order to ensure that rates are fair, just, and reasonable, we must follow the matching principle. The County described the matching principle as matching the incurred costs of the Utility to sales of wastewater service during the time that rates will be in effect. Therefore, the County disagreed with the Utility's request to include pro forma adjustments without the inclusion of projected sales during the same time period.

On behalf of the County, witness Wilson testified to include an additional 9.26 million gallons per year in the Utility's billing determinants. As a result, this would increase KWRU's total gallons for the time period rates will be in effect by 4.26 percent. The County defended the conservative nature of witness Wilson's estimated growth by comparing it to KWRU's estimated growth in its 2016 annual report of seven percent and KWRU's projected growth used for

calculating U&U percentages of five percent per year. The County also asserted that at least 37,253,000 reuse gallons should be in KWRU's billing determinants based on the average reuse sales for 2015 through 2017 and a new customer, Bernstein Park, which will be receiving reuse service.

### Analysis

In its MFRs, KWRU provided historical billing determinants for test year revenues adjusted to reflect known and measurable changes. The Utility's adjustments include a reduction to the usage of Stock Island Apartments (18 million gallons), reclassification of Harbor Shores as a General Service customer, and additional gallons attributable to incorrect FKAA billings (10.8 million gallons). There was no testimony refuting these adjustments. Witness Swain testified that the E-2 Schedule of the MFRs serves two purposes: (1) to prove the billing determinants generate both the revenues that are on the Utility's books and (2) to demonstrate the effects on revenues of annualizing KWRU's current rates at the time of filing had they been in effect through the duration of the test year.

Both KWRU and the County provided testimony regarding the matching principle. Witness Deason testified to the test year selection considerations and outlined the premise for historic and projected test years. We agree with witness Deason's statement that it is important for the test year to be representative of the period in which rates will be in effect and that key variables, such as investment, expenses, and billing determinants are all representative of the same time period in setting rates. Additionally, witness Deason recognized Order Nos. 15725 and PSC-01-2511-PAA-WS in which we utilized projected test years. Of the two orders witness Deason discussed, Order No. PSC-01-2511-PAA-WS, a staff-assisted rate case for Burkim Enterprises, Inc. (Burkim), demonstrated growth at an exceptionally high rate. In Burkim's rate case, billing determinants were projected to increase by approximately 16 percent for water and 13 percent for wastewater. Additionally, we adjusted expenses based on the percent increase in gallons in the projected test year. Comparatively, the County proposed to increase KWRU's gallons by approximately 4.26 percent. Witness Deason also identified Order No. 15725, rate case for Martin Downs Utilities, Inc.; however, based on the Order, we were unable to quantify the anticipated rapid growth that led us to using a projected test year for this case. Additionally, we agree with KWRU witness Swain's distinction between the Burkim rate case brought forth by witness Deason from the current rate case because there was continued, extraordinary high growth in that case. While KWRU continues to experience growth, the growth does not appear to be extraordinary.

At the hearing, witness Swain agreed that during KWRU's last rate case, Docket No. 20150071-SU, additional billing determinants were added to test year revenues to set final rates because the pro forma projects included in rate base were growth related.<sup>18</sup> We agree with KWRU witnesses Johnson and Swain that the pro forma projects the Utility requested in this proceeding, the office building, generator, and phone systems, are not associated with growth. Additionally, in Docket No. 20160101-WS, a recent Utilities, Inc. of Florida rate case, the test

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<sup>18</sup>Order No. PSC-17-0091-FOF-SU, issued March 13, 2017, in Docket No. 20150071-SU, In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities, Corp.

year was based on historical billing determinants. Although pro forma projects were included in rate base, those projects were not growth related and projected billing determinants were not used to set final rates.<sup>19</sup>

County witness Wilson testified to the appropriate amount of additional bills and gallons that should be imputed in billing determinants and witness Small further testified to the possible effects of including additional billing determinants. While these witnesses provided analysis pertaining to the revenues and sales components, their testimony did not quantify associated projected expenses, nor were they quantified at the hearing. However in its brief, the County quantified projected expenses by increasing sludge removal, chemicals, and purchased power expenses by the same 4.26 percent factor applied to projected billing determinants. Witness Swain testified that in order to quantify the matching costs, an in-depth analysis of each expenditure with consideration to a variety of factors, would need to be conducted. We agree with witness Swain that an analysis of each expenditure should be considered when quantifying matching costs. We do not find that the County's position was sufficiently developed to quantify all expenses that would be impacted assuming the growth factor considered by the County.

All parties agreed as to the basic concept of the matching principle; however, they disagreed as to how it should be applied in this case. We agree with the Utility's position on the matching principle and find that the anticipated growth is not extraordinary. We find that a historic test year, which includes non-growth related pro forma investment out two years, pursuant to Section 367.081, F.S., but no adjustments for projected expenses or billing determinants, best represents the conditions when rates will be in effect in 2018. Based on the above, we agree with KWRU that the annualized billing determinants set forth in the Utility's MFRs are appropriate to establish test year revenues, and are reflected in Table 4.

**Table 4**  
**Test Year Billing Determinants**

| <b>Customer Class</b> | <b>Factored ERCs</b> | <b>Gallons (000's)</b> |
|-----------------------|----------------------|------------------------|
| Residential Service   | 17,475               | 65,498                 |
| General Service       | 6,050                | 106,976                |
| Private Lift Station  | 5,775                | 42,269                 |
| Harbor Shores         | 828                  | 2,436                  |
| <b>Total</b>          | <b>30,128</b>        | <b>217,179</b>         |

The total reuse gallons within the Utility's MFRs of 27,074,000 only account for eight months of usage out of the total 12-month test year because the Utility's plant expansion project occurred during the last four months of the test year (March 2017 through June 2017) and temporarily prevented KWRU from providing reuse service. We disagree with the County's argument that KWRU is requesting lower reuse gallons because the reuse gallons within KWRU's MFRs represented only 8 months of the entire test year. Annualizing the actual reuse

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<sup>19</sup>Order No PSC-2017-0361-FOF-WS, issued September 25, 2017, in Docket No. 20160101-WS, In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.

gallons sold during the eight months of the test year in order to most accurately depict reuse sales for the entire test year instead of an average based on past annual reports and the MFRs, which the County recommended. Therefore, the appropriate amount of reuse gallons to include in billing determinants is 40,608,000 gallons ((27,074,000 gallons / 8 months) x 12 months).

### Conclusion

The appropriate billing determinants to use to establish test year revenues are 30,128 factored ERCs, 217,179,000 gallons for wastewater service, and 40,608,000 gallons for reuse service.

### B. Appropriate Test Year Revenues

#### Parties' Arguments

##### **KWRU**

KWRU argued that the appropriate test year revenues are \$2,332,526. The Utility refuted Audit Finding 3 containing adjustments to revenues; witness Swain argued that the finding of \$20,789 should not be added to test year revenues. Additionally, as discussed in Section V.A., KWRU disagreed with the County's projected billing determinants.

##### **OPC**

OPC stated that this is a fall-out issue. Based on the amounts included in other issues, test year revenues should be \$2,513,596.

##### **Monroe County**

The County stated that KWRU's historic test year revenues are \$2,353,316. Additionally, the County argued the appropriate revenues to account for the first year that new rates will be in effect are \$2,513,596 which includes additional revenues attributable to projected billing determinants as discussed in Section V.A.

#### Analysis

As discussed in Section V.A. regarding billing determinants for test year revenues, we agree with the Utility's billing determinants as set forth in its MFRs with the inclusion of additional reuse gallons to account for the last four months of the test year in which the Utility could not provide reuse service due to plant expansion. As a result, the appropriate service revenues are \$2,226,496. Further, we agree with the Utility's proposed miscellaneous revenues within its MFRs. Therefore, the appropriate miscellaneous revenues are \$113,115. The appropriate test year revenues are show in Table 5 below.

We agree with witness Swain's rebuttal testimony that Audit Finding 3, which recommends an increase of \$20,789 to test year revenues, not be applied. Witness Swain

testified that the adjustment of \$9,623 reflected revenues that KWRU incurred in the prior period, but inadvertently omitted from the RAF report as of June 30, 2016. Therefore, this amount shall not be an adjustment to test year revenues because it occurred prior to the test year. Further, we agree with witness Swain that the remaining adjustment relating to service revenues not be made because it appears the audit did not consider applicable adjustments or credits to customer bills when calculating service revenues.

**Table 5**  
**Test Year Revenues**

| <b>TY Service Revenues</b>                    |                      |                        |                          |
|---|----------------------|------------------------|--------------------------|
| <b>Customer Class</b>                         | <b>Factored ERCs</b> | <b>Gallons (000's)</b> | <b>Total TY Revenues</b> |
| Residential Service                           | 17,475               | 65,498                 | \$902,583                |
| General Service                               | 6,050                | 106,976                | \$869,911                |
| Private Lift Station                          | 5,775                | 42,269                 | \$414,760                |
| Harbor Shores                                 | 828                  | 2,436                  | \$39,242                 |
| <b>Total Test Year Service Revenues</b>       | <b>30,128</b>        | <b>217,179</b>         | <b>\$2,226,496</b>       |
| <b>TY Miscellaneous Revenues</b>              |                      |                        |                          |
| Reuse Service                                 | -                    | 40,608                 | \$54,415                 |
| Miscellaneous Revenues                        |                      |                        | \$78,700                 |
| <b>Total Test Year Miscellaneous Revenues</b> |                      |                        | <b>\$133,115</b>         |
| <b>Total Test Year Revenues</b>               |                      |                        | <b>\$2,359,611</b>       |

Conclusion

The appropriate test year revenues are \$2,359,611.

V. NET OPERATING INCOME

A. Net Operating Income Operating Expenses

Parties' Arguments

**KWRU**

KWRU asserted that no adjustments are necessary because an audit finding was removed by Commission Staff witness Glover.

**OPC**

In its brief, OPC detailed its recommendations on Audit Findings 3, 4 and 5, as follows:

### **Audit Finding 3**

Audit Finding 3 addressed adjustments to test year revenues. OPC argued test year revenues should be increased by \$10,807 for service revenues. Although KWRU witness Swain refuted this adjustment, the Utility did not provide documentation in support of its argument. Therefore, OPC believes this adjustment should be made in addition to an increase of \$486 to taxes other than income for the related increase in RAFs. OPC additionally indicated the monthly "MCDC revenues" and the 12 monthly amounts in the general ledger reconcile to the amount reflected in the MFRs Schedule E-5 in order to account for the adjustment to miscellaneous revenues contained within Audit Finding 3.

### **Audit Finding 4**

In its brief, OPC agreed with Audit Finding 4 which addressed adjustments to O&M expenses. Additionally, OPC recognized that KWRU witness Swain agreed with Audit Finding 4. OPC stated that sludge removal expense should be increased by \$23,523, purchased power expense should be decreased by \$11,521, materials and supplies expense should be decreased by \$11,780, and miscellaneous expense should be reduced by \$2,100. This results in a net decrease to O&M expense of \$1,878.

### **Audit Finding 5**

In its brief, OPC agreed with Audit Finding 5 which addressed adjustments to hurricane expenses. Additionally, OPC recognized that witness Swain agreed with Audit Finding 5. OPC asserted that Hurricane Irma expense should be reduced by \$305.

## **Monroe County**

In its brief, the County agreed with OPC that test year revenues should be increased by \$10,807, sludge removal expense should be increased by \$23,523, purchased power expense should be decreased by \$11,521, materials & supplies expense should be decreased by \$11,780, miscellaneous expense should be reduced by \$2,100, and Hurricane Irma expenses should be reduced by \$305.

### Analysis

Commission staff's audit report was originally filed in the docket file on February 13, 2018 and entered into the record during the technical hearing. Staff Audit Finding 3 is addressed in Section V.B., regarding appropriate test year revenues. Staff Audit Finding 5 is addressed in the Section VI.J., pertaining to storm restoration expenses due to Hurricane Irma. Regarding Commission staff Audit Finding 4, Staff witness Glover testified that: (1) sludge removal expense should be increased by \$23,523; (2) purchased power expense should be decreased by \$11,521; (3) materials and supplies expense should be decreased by \$11,780; and (4) miscellaneous expense should be reduced by \$2,100. The net effect of these adjustments would reduce O&M expenses by \$1,878. Although KWRU argued in its brief that no adjustments should be made, KWRU witness Swain testified that she agreed with Audit Finding 4.

Furthermore, both OPC and the County agreed with Audit Finding 4 in their briefs. Therefore, we find that O&M expense shall be decreased by \$1,878 to account for Audit Finding 4, as reflected in Sections VI.D., VI.E., and VI.K.

### Conclusion

O&M expense shall be adjusted to account for Audit Finding 4, as reflected in Section VI.D., VI.E., and VI.K.

### B. Salaries and Wage Expense

#### Parties' Arguments

##### **KWRU**

KWRU asserted that the appropriate amount of salaries and wage expense should be based on the Utility's full staff of 14 employees. KWRU witness Johnson testified that KWRU was fully staffed before Hurricane Irma and has been fully staffed for all of 2018. Four additional employees were approved in Order No. PSC-16-0123-PAA-SU, raising the Utility's staffing from 9.5 to 13.5 positions. KWRU argued that the Utility was unable to recover the full salaries of all 13.5 employees because the salaries of the four new employees were simply added to test year salaries, which included vacancies during the test year, instead of using all 13.5 positions at full salary. KWRU requested an additional 0.5 employees, testifying that a full 14 employees is needed to properly operate the plant and complete small capital improvements in house.

KWRU stated that salaries and wage expense should be updated to show current salary conditions. KWRU asserted that all known salary increases that are anticipated in the near future should be included in salaries and wage expense. In addition, KWRU anticipated that a new and competitive pension plan will lead to higher employee retention. KWRU argued that OPC witness Shultz utilized data prior to when KWRU's third treatment plant went on-line which results in costs that use less than KWRU's full compliment of employees. KWRU added that witness Shultz agreed that KWRU currently has 14 employees, 12 full-time staff members, and two full-time officers.

##### **OPC**

OPC argued that vacancies are a reality for all organizations and should be accounted for when budgeting salaries and wage expense. OPC further argued that KWRU has had major vacancy issues over time. Witness Johnson testified that KWRU has had employee retention issues and had frequent turnover on a year-over-year basis. In addition, KWRU experienced 11 vacancies in 2015, 10 in 2016, and 16 in 2017. OPC submitted that positions were vacant for an average of 60 days and the Utility averaged 12 vacancies over a three-year period. Using the average test year salary for employees of \$59,451, OPC concluded that an employee vacancy adjustment of \$117,273 (  $\$59,451 \times 12/365 \times 60$  ) should be made to reduce salary expense.



KWRU requested an across the board 4 percent increase to all salaries which results in a \$38,957 increase, \$10,061 for officers and \$28,536 for employees. However, the Utility stated that the purpose of KWRU witness Johnson's Exhibit CAJ-23 was to "provide a theoretical projection of salaries and wages based on the November 2017 wages and staffing levels for the 2018 calendar year. The 4 percent was not based on actual raises given, nor annual raises anticipated to be given." OPC asserted that there was no evidence provided to demonstrate that significant increases were needed across the board. OPC further emphasized that there was no evidence provided to support the requested \$38,597 increase due to future raises. OPC concluded that only half the amount should be included and salary expense should be reduced by \$19,299.

OPC asserted that KWRU's requested overtime expense of \$48,288 is significantly higher than the average overtime KWRU has experienced over the previous four years. The Utility indicated its average overtime pay was \$20,947 for the years 2013-2017. OPC further argued that KWRU failed to meet its burden of proof to support the requested \$48,288 in overtime and therefore believes overtime expenses should be reduced to the five-year average of \$20,947, for a reduction of \$27,341.

In addition, KWRU is requesting extraordinary event overtime of \$10,605, which is the five-year amortization portion of a hypothetical \$53,025 spent in overtime pay on a future extraordinary event. KWRU witness Johnson testified that "KWRU analyzed the potential additional impact of an extraordinary event and determined that we could have reasonably needed staff to work three hours per day overtime for a period of six weeks." Witness Johnson described this as the time that would have been incurred preparing for a direct hit and the restoration work after the impact. OPC added that KWRU is seeking the recovery of actual overtime incurred related to Hurricane Irma in the amount of \$7,440. OPC argued that prudent ratemaking does not include the amortization of costs for both past and future events, nor does OPC believe KWRU should collect money in advance of future storms. OPC concluded that the \$10,605 should be removed from salaries and wage expense.

In conclusion, OPC believes that the requested salary expense of \$1,014,130 should be reduced to \$839,613, to reflect the vacancy adjustment of \$117,273, to reduce the 4 percent raise by \$19,299, to reduce the overtime by \$27,341, and to remove the extraordinary event overtime amount of \$10,605.

### **Monroe County**

In its brief, the County agreed with OPC that the appropriate amount of salaries and wage expense should be \$839,613.

### Analysis

In the Utility's original MFRs, KWRU requested total salaries and wage expense of \$1,014,130, \$752,549 for employees and \$261,581 for officers. This request equates to a pro forma increase of \$211,484 for employees and \$15,957 for officers. The Utility's request consists of four parts: (1) the Utility at full employment with 12 employees and two officers, totaling \$124,055 and \$5,896, respectively; (2) a 4 percent raise for all employees totaling

\$38,597, \$28,536 for employees and \$10,061 for officers; (3) employee overtime expense of \$48,288; and (4) overtime for a future extraordinary event of \$10,605.

### **Annualization**

In KWRU's last rate case, Docket No. 20150071-SU, the Utility began with 9.5 positions and had four additional positions approved to operate the third plant and the entire AWT system. KWRU witness Johnson testified that the pro forma expense for the four additional employees was not added to the 9.5 positions based on the annualized salary for the existing staff. Instead, the pro forma expenses were added to the employee expenses for the prior 12 months. KWRU believes this was in error because the prior 12 months had several vacancies which dramatically reduced the total salaries expense. This led to the Utility being unable to recover the full cost of its salaries and wages. KWRU is now requesting salaries and wage expense for the annualized salaries of 14 positions: 12 employees and two officers.

OPC witness Schultz testified that vacancies are a reality for any organization and must be factored into the budgeted salaries and wage expense. OPC contended that vacancies should be considered in this case because KWRU has had major issues with vacancies over time. In addition, witness Johnson testified that KWRU had employee retention issues and had frequent turnover on a year-to-year basis. However, witness Johnson further testified that KWRU can improve retention and reduce turnover by implementing a more traditional pension plan. As will be addressed in Section VI.C. pertaining to employee pensions and benefits expense, we agree that the new profit sharing plan could reduce turnover and improve employee retention. Furthermore, witness Johnson testified that the Utility has been fully employed with 14 positions filled during 2018. Therefore, we find it appropriate to use the annualized salaries of the 12 employees and two officers on KWRU's staff. Annualizing the most recent salaries provided by KWRU results in pro forma salaries of \$129,610 for employees and \$7,021 for officers. This results in an increase of \$5,555 to salary and wage-employees expense and an increase of \$1,125 to salary and wage-officers expense.

### **Requested 4 Percent Increase**

Additionally, KWRU requested a 4 percent increase to salary and wage expense for all of its employees to be given January 1, 2018. However, the Utility later stated that "the four percent was not based on actual raises given, nor annual raises anticipated to be given." KWRU asserted that the 4 percent raise was a projection for all potential salary increases from January 1, 2018 to December 31, 2018. Nevertheless, KWRU did not submit any substantive evidence for specific raises to be given in 2018. We used current salary information, provided by the Utility on April 25, 2018, to annualize employee salaries. Therefore, we do not find it appropriate to include a 4 percent raise for all of KWRU's employees. As a result, there shall be an adjustment of \$38,597 to decrease salary and wage expense.

### **Overtime**

The Utility's requested overtime expense of \$48,288 is comprised of \$29,426 of projected scheduled overtime and \$18,863 of projected unscheduled overtime. In response to

interrogatories, KWRU stated that, “there is no meaningful distinction between scheduled and unscheduled overtime. Overtime, whether scheduled or unscheduled, is paid at the same rate.” Table 6 below shows KWRU’s historical overtime expense by year.

**Table 6**  
**KWRU’s Historical Overtime Expense**

| <b>Year</b> | <b>Overtime Expense</b> |
|-------------|-------------------------|
| 2013        | \$13,167                |
| 2014        | \$22,037                |
| 2015        | \$14,734                |
| 2016        | \$15,653                |
| 2017        | \$38,995                |

The Utility’s requested overtime expense of \$48,288 is significantly higher than any amount spent on overtime in the recent five years. KWRU failed to submit sufficient documentation supporting such a large amount in projected overtime expense. In addition, witness Johnson testified that a full staff could reduce the amount of overtime needed. OPC witness Schultz recommended a four-year average from 2013-2016. We find it is reasonable to include the \$38,995 of overtime incurred in 2017 due to periodic events such as hurricanes and plant expansions. In addition, KWRU estimates four years as the anticipated time until another similar event like Hurricane Irma occurs. Therefore, there shall be a four-year average of overtime expense from 2014-2017. This results in overtime expense of \$22,855, which is a \$25,433 reduction to KWRU’s request of \$48,288.

### **Overtime for Extraordinary Events**

The Utility is also requesting \$10,605 for overtime associated with extraordinary events. \$10,605 represents the five-year amortization portion of \$53,025, which is a projected amount to cover overtime associated with a hypothetical future extraordinary event. Witness Johnson testified that “the Utility analyzed the potential additional impact of an ‘extraordinary event,’ and determined that we could have reasonably needed staff to work three hours per day overtime for a period of six weeks.” In addition to this request, KWRU is requesting the amortization of \$7,440 of overtime incurred relating to Hurricane Irma, an extraordinary event that affected the Utility in 2017. The large amount of overtime spent in 2017 was included in our calculated average overtime to incorporate a year with an extraordinary event. By including the salaries and wage expense for the full complement of 14 employees and an allowance for overtime, it would be duplicative to include additional overtime for a potential extraordinary event. Therefore, we approve a decrease of \$10,605 for overtime associated with extraordinary events.

### **Capitalized Labor**

As discussed Section III.C. regarding plant in service, we are capitalizing employees’ salaries related to the future WWTP rehabilitation projects. Therefore, salaries and wage expense shall be reduced by \$15,690.

**Table 7**  
**Approved Adjustments**

| <b>Description</b>     | <b>Requested</b>   | <b>Adjustment</b> | <b>Approved</b>         |
|------------------------|--------------------|-------------------|-------------------------|
| Employee Expense       | \$124,055          | \$5,555           | \$129,610               |
| Officer Expense        | 5,896              | 1,125             | 7,021                   |
| 4 Percent Raise        | 38,597             | (38,597)          | 0                       |
| Overtime               | 48,288             | (25,433)          | 22,855                  |
| Extraordinary Event    | <u>10,605</u>      | <u>(10,605)</u>   | <u>0</u>                |
| Total                  | <u>\$1,014,130</u> | <u>(\$67,955)</u> | <u>\$946,175</u>        |
| Less Capitalized Labor |                    |                   | <u>(15,690)</u>         |
| <b>Total</b>           |                    |                   | <u><b>\$930,485</b></u> |

Conclusion

Based on our adjustments, total salaries and wage expense shall be \$930,485. Accordingly, salaries and wage expense shall be decreased by \$83,645. Table 7 above summarizes our approved adjustments.

C. Employee Pensions & Benefits Expense

Parties' Arguments

**KWRU**

In its brief, the Utility stated that the disagreement between the parties is the allowance of the pension plan. KWRU argued the appropriate amount of employee pensions and benefits expense is \$236,540. KWRU asserted the pension plans of FKAA and Keys Energy exceed the cost of the Utility's plan. The Utility added the plan had been well received and employment levels have been consistent since implementation of the profit sharing plan.

Also, in its brief, KWRU refuted OPC and the County's insinuation that because the plan is terminable, the Utility can discontinue it to obtain additional profits. KWRU maintained that it did not believe the plan could be terminated because the Utility has made a promise and agreement with employees to fund the plan. KWRU further elaborated that termination of the plan would require IRS approval and would incur penalties.

**OPC**

In its brief, OPC asserted that the originally requested pensions and benefits expense should be reduced to reflect a corresponding adjustment to OPC's recommended reduction to salaries and wage expense and to reduce employee training expense. Overall, OPC presented an adjusted pension and benefit expense of \$167,056.

OPC stated that the Utility did not justify the additional expense to recognize the new pension plan. OPC noted that companies are replacing traditional pension plans with 401K

arrangements, yet are able to hire and retain employees. As such, OPC argued it is not appropriate for KWRU to “offer gold-plated benefits to its employees.” OPC cited KWRU’s claim that the pension plan was a significant factor in retention of employees; however, the Utility also claimed retention issues were due to excessive overtime. OPC contended the Utility did not provide evidence supporting the actual cost of the proposed pension plan. OPC asserted that based on the discussion above, the requested additional expense of \$10,141 should not be included.

OPC agreed with KWRU’s calculation of pensions and benefits expense using 20.67 percent multiplied by the salaries and wage expense. However, OPC clarified if an adjustment is made to salaries and wage expense, a corresponding adjustment to pensions and benefits expense is also necessary.

OPC asserted \$10,383 for employee training expense was excessive. OPC indicated this expense fluctuated from year-to-year and that the test year is considerably higher than actual amounts in 2014, 2015, and 2017. OPC stated the test year included two trips for \$3,061 and \$5,512 that appear to be excessive in the same year. OPC made an adjustment based on a four-year average of employees training expense, resulting in a reduction of \$4,171.

### **Monroe County**

In its brief, the County agreed with OPC.

### Analysis

In its original filing, KWRU requested an increase of \$54,961 to pensions and benefits expense for a total of \$217,557. The Utility included this increase to recognize the requested pro forma salaries and wages, as well as the replacement of KWRU’s 401K plan with a profit sharing plan. However, the Utility subsequently increased its request by \$18,983 for a total of \$236,540 to reflect the full incremental additional cost of the new profit sharing plan, as well as an update to the requested salaries and wage expense.

### **Profit Sharing Plan**

KWRU witness Johnson testified the Utility has faced retention problems and employee turnover on a yearly basis. He also identified at least five people in the last five years that left, in part, because KWRU did not offer competitive retirement benefits. Witness Johnson contended KWRU could improve retention and reduce turnover through implementation of the profit sharing plan. Witness Johnson specified the profit sharing plan stated the Utility will provide five percent of salaries towards a retirement plan for each employee. He elaborated the vesting plan would begin after two years of employment, and the employee would be fully vested after six years, which provides incentive for employees to remain for at least six years.

OPC witness Schultz testified the Utility did not provide sufficient evidence supporting its claim of high employee turnover is due to its current benefits package or that the new pension plan would solve the retention problem. In its brief, OPC contended that the document provided

in support of the profit sharing plan included language that was incomplete and did not address all employees. OPC explained the document indicated that non-highly compensated employees may be paid five percent or one-third of the highest allocation rate for any highly paid employee. A highly paid employee is defined as a five percent owner, or an employee with compensation in excess of \$80,000. However, the document did not include a provision indicating the contribution amount that would be made for the employees and officers who earn more than \$80,000.

We agree that employee retention has been a long-standing issue for the Utility. The new profit sharing plan could reduce turnover and improve employee relations. As such, we find it is appropriate to recognize the new profit sharing plan.

However, we reviewed the document provided in support for the profit sharing plan and recognize OPC's concern regarding the lack of important details. Furthermore, the document specifies the non-elective contribution made by KWRU is a discretionary amount decided by the Utility on a yearly basis. KWRU witness Johnson stated he did not believe the Utility could terminate the profit sharing plan. KWRU witness Swain added that the IRS would not allow termination without proper documentation and could reverse tax deductions taken by the Utility in prior years. Notwithstanding the foregoing, witness Johnson agreed the contribution was a discretionary amount. As such, KWRU shall submit documentation to this Commission, detailing the total amount and the percentage of contribution allocated to each employee and officer of the Utility on a yearly basis as a supplemental schedule to be included with the Company's annual report. If the Utility reduces its contribution or terminates the plan, the Utility shall notify this Commission in writing within 30 days. If the plan is modified or terminated, we may take further action, if necessary.

KWRU witness Swain indicated in the original filing, an adjustment of \$10,141 was made to add one percent of salaries for the additional cost of the new pension plan. Subsequently, witness Swain determined this number did not represent the full incremental costs of implementing the profit sharing plan. Witness Swain stated the increase in expense should be calculated as five percent of the total requested salaries and wage expense, plus setup costs of \$5,200, less the test year amount of \$18,001 paid toward the 401K plan.

We agree with KWRU witness Swain's updated methodology to calculate the incremental cost of the profit sharing plan. However, the incremental cost shall be calculated at five percent of our approved salaries and wage expense as detailed in Section VI.B.. Additionally, as setup costs are a one-time, nonrecurring expense, it shall be amortized over a five-year period, pursuant to Rule 25-30.433(8), F.A.C. This results in setup costs of \$1,040 ( $\$5,200 / 5$ ). A corresponding adjustment to increase working capital allowance by \$4,160 shall be made to reflect the unamortized balance. As such the incremental increase shall be \$30,348 ( $\$946,175 \times 5\% + \$1,040 - \$18,001$ ). This represents an increase of \$20,207, based on KWRU's originally filed MFRs.

### Pro Forma Pensions and Benefits

KWRU witness Swain stated pensions and benefits expense should be increased further as a corresponding adjustment to requested pro forma salaries. Witness Swain utilized a percentage increase of 20.67, calculated as the total test year pensions and benefits expense divided by salaries and wage expense as presented in the MFRs (\$162,596 / \$786,689). We agree with this methodology. However, the test year balance utilized for salaries and wages shall be adjusted to recognize the removal of test year pension plan expense of \$18,001 identified above, as well as to reduce test year employee training expense by \$4,310 and to increase employee relations by \$489, as discussed below. As such, the proper test year ratio to be applied to pro forma salaries is 17.89 percent (\$140,774 / \$786,689).

As such, we hereby approve pro forma pensions and benefits expense of \$28,539 to reflect the proper test year ratio. This represents a decrease of \$16,281, based on KWRU's originally filed MFRs.

### Employee Training

In direct testimony, OPC witness Schultz presented an adjustment to employee training expense. Witness Schultz testified that, when compared to the balances of 2013 to 2016, the test year balance of \$10,383 is too high. Witness Schultz recommended the use of a four-year average from 2013 to 2016 to normalize the fluctuation observed from year-to-year. In rebuttal testimony, KWRU witness Swain disagreed with this methodology. Witness Swain noted the use of calendar years was not representative of the current test year. We agree with OPC witness Schultz that the expense is volatile and should be normalized. However, the use of a three-year average based on the most recent three years is more representative of ongoing operations. As such, employee training expense shall be reduced by \$4,310 based on a three-year average as detailed in Table 8 below.

**Table 8**  
**Employee Training Expense – Three-Year Average**

| <b>Year</b> | <b>Amount</b>    |
|-------------|------------------|
| 2015        | \$3,937          |
| 2016        | \$12,348         |
| 2017        | \$1,934          |
|             |                  |
| Average     | \$6,073          |
| Test Year   | <u>\$10,383</u>  |
| Adjustment  | <u>(\$4,310)</u> |

### Employee Relations

As will be addressed in Section VI.I. pertaining to bad debt expense, bad debt expense of \$2,443, representing an employee loan, shall be reclassified as an employee relations expense, and amortized over five years. As such, employee relations expense shall be increased by \$489

(\$2,443 / 5). A corresponding adjustment shall be made to increase working capital allowance by \$1,954 to reflect the unamortized balance.

### **Capitalized Labor**

As discussed in Section III.C. regarding plant in service, employees' salaries related to the future WWTP rehabilitation projects shall be capitalized. A corresponding adjustment shall be made to decrease pensions and benefits expense by \$3,592 to reflect the pension and benefits ratio approved herein.

### Conclusion

In total, we've made an adjustment to decrease pensions and benefits expense by \$3,487 (\$16,281 - \$20,207 + \$4,310 - \$489 + \$3,592), based on the originally filed request of \$217,557. Therefore, the appropriate amount of employee pensions and benefits expense is \$214,070.

KWRU shall be required to submit documentation to this Commission for the profit sharing plan detailing the percentage of contribution allocated to each employee and officer of the Utility on a yearly basis as a supplemental schedule to be included with the Company's annual report. If the Utility reduces its contribution or terminates the plan, it should notify this Commission in writing within 30 days. If the plan is modified or terminated, we may take further action, if necessary.

### D. Sludge Hauling, Chemicals, And Purchased Power Expense

#### Parties' Arguments

#### **KWRU**

In its brief, KWRU stated OPC initially agreed with the costs of sludge hauling, chemicals, and electrical costs. The Utility claimed OPC and the County no longer agree due to an update introduced by KWRU in rebuttal testimony which documented an increase in electric rates for the Utility.

#### **OPC**

In its brief, OPC stated the Utility did not properly support the calculation of its updated adjustment to purchased power expense. OPC contended KWRU used an inappropriate 14-month period to calculate average use. OPC also noted the Utility's calculation did not include all components of the invoices. OPC concluded the annual purchased power expense should be \$186,185, based on the most recent rates applied to the most recent 12 months.

OPC stated that KWRU did not revise its requested amounts for chemicals expense; therefore, no adjustment should be made, and the annual test year expense for chemicals should be \$231,742. OPC argued that an adjustment was made to the sludge hauling expense after the test year amount was updated by the Utility. OPC affirmed that the appropriate sludge removal



expense should be the amount included in KWRU's original filing of \$164,848 with an adjustment of \$23,523 made by the staff auditor. As a result, the annual adjusted sludge hauling expense should be \$188,372.

### **Monroe County**

In its brief, the County recommended an increase of 4.26 percent to the amounts provided by OPC for sludge removal expense, chemicals, and purchased power expenses. The County explained the increase of 4.26 percent was based on the increase of gallons treated as presented by County witnesses. The County stated KWRU agreed these three expenses would change if additional gallons were treated by the Utility.

#### Analysis

As discussed in Section V.A. pertaining to test year billing determinants, no adjustments were made related to the County's proposal to increase gallons treated by 4.26 percent. As such, there shall be no corresponding adjustments to sludge hauling, chemicals, and purchased power expenses be made as proposed by the County.

### **Sludge Hauling**

As addressed in Section VI.A. regarding net operating income, Audit Finding 4 included an adjustment to increase sludge removal expense by \$23,523. KWRU witness Swain recognized this adjustment in her updated Schedule B-6. We accept this adjustment; therefore, the audited test year balance is \$118,124 (\$94,601 + \$23,523). However, the Utility reduced its pro forma request by the same amount to maintain a total requested sludge hauling expense of \$164,849, as established in its originally filed MFRs.

Due to the increased flows at KWRU's WWTP, the production of biosolids correspondingly increased and the drying beds were unable to handle the amount of biosolids produced during peak periods. Consequently, the Utility required hauling of liquid sludge. KWRU witness Johnson provided a sludge hauling cost estimate calculated by the Utility's engineer of record. The annual cost for sludge hauling for 2018 was estimated to be \$164,859. The Utility's estimate was based on actual historic operating and cost data, as well as estimated future flows. Based on our review, the variables and assumptions relied on by the Utility to calculate the 2018 costs for sludge hauling appear to be appropriate. We find the Utility's total requested expense of \$164,849 is reasonable. As such, we approve an increase of \$46,724 to sludge hauling expense, based on the audited test year balance of \$118,124.

### **Chemicals**

In its original filing, the Utility included a test year balance of \$142,466 for chemicals expense. Subsequently, KWRU increased its test year balance by \$587 to \$143,053 to recognize an error in the originally filed MFRs. Using the general ledger, we verified KWRU's increase of \$587 is appropriate and should be made to the test year balance. However, the Utility reduced its

pro forma request by the same amount to maintain a total requested chemicals expense of \$231,742, as established in its originally filed MFRs.

KWRU's filing also included a test year adjustment of \$89,276. In response to discovery, KWRU explained that the test year did not fully capture operation of the new treatment plant. The adjustment was made to reflect the amount of chemicals that will be needed to meet the DEP permit conditions on a consistent basis with all three treatment plants on-line. In response to discovery, KWRU provided support for the adjustment to chemicals with the annual cost of chemicals totaling \$231,742. We find the Utility's total requested expense of \$231,742 is reasonable. As such, chemicals expense shall be increased by \$89,276 based on the originally filed request of \$142,266.

### **Purchased Power**

As addressed in Section VI.A., Audit Finding 4 included an adjustment to decrease purchased power expense by \$11,521. We accept this adjustment; therefore, the appropriate test year purchased power expense is \$207,246 (\$218,766 - \$11,521).

In its original filing, the Utility requested an increase of \$46,154 to purchased power expense for a total of \$218,766. KWRU witness Johnson testified that to calculate the increase, the Utility used the months in which all three plants were online and annualized this information to represent a full year of purchased power expense with all three plants online. In his rebuttal testimony, Utility witness Johnson increased the request to \$79,014, for a total of \$240,106, to recognize the audit adjustment discussed above and an increase in rates from Keys Energy Services (KES). Witness Johnson testified purchased power is projected to cost \$20,008 each month as a result of the higher rates. However, based on the information provided, we were unable to determine how the projected increase in costs was calculated.

Utility witness Johnson also provided bills from KES for January of 2017 through April of 2018. In addition, at the technical hearing, KWRU presented the 2016 and 2018 Tariffs for KES detailing the increase in rates for the Utility. We agree that an additional adjustment to purchased power expense to recognize all three plants in service and the increase in rates from KES is appropriate. However, as we are unable to verify witness Johnson's calculation, we find it is appropriate to calculate purchased power expense using the most recent 12 months of billed usage at the rate KES placed into effect in January 2018. As such, purchased power expense shall be increased by \$24,757, based on the audited test year balance of \$207,246.

### **Conclusion**

Sludge hauling expense shall be increased by \$46,724 based on the audited test year balance of \$118,124. As such, the appropriate amount of sludge hauling expense is \$164,848. We made an adjustment to increase chemicals expense by \$89,276 based on the originally filed request of \$142,466. As such, the appropriate amount of chemicals expense is \$231,742. We made an adjustment to increase purchased power expense by \$13,237 based on the originally filed request of \$218,766. As such, the appropriate expense amounts are \$164,848 for sludge hauling, \$231,742 for chemicals, and \$232,003 for purchased power.

E. Materials And Supplies Expense

Parties' Arguments

**KWRU**

In its brief, KWRU asserted that the appropriate amount of materials and supplies expense is the test year amount as presented in the updated MFRs. The Utility explained the originally filed MFRs required correction as certain general ledger entries included in materials and supplies should have been classified under contractual services – other.

The Utility contended that the price of labor and materials has increased since 2014. KWRU noted that materials in the Keys are significantly higher due to the high cost of living, lack of skilled workers, and the need to ship items long distance. Additionally, the Utility stated it planned to use in-house labor to perform work required to prepare for the rehabilitation of the original two treatment plants. KWRU indicated that if fully staffed, the Utility can perform project work that would normally require an outside contractor. However, an adequate amount of materials and supplies expense is necessary for work to be completed. In addition, performing work in-house would provide the Utility with overall cost savings on future projects.

**OPC**

In its brief, OPC stated materials and supplies expense is significantly higher than the test year amount provided in the last rate case. OPC noted that the Utility made an adjustment to categorize expenses correctly between material and supplies expense and contractual services – other. However, OPC contended KWRU did not address the fact that the test year total amount of both accounts was still 28 percent higher than the amounts for the two accounts approved in the last rate case. As such, OPC recommended that materials and supplies and contractual services – other should be decreased to the amounts approved in the last rate case.

**Monroe County**

In its brief, the County agreed with OPC.

Analysis

In its original filing, the Utility included a test year balance of \$97,538 for materials and supplies. Subsequently, KWRU decreased its test year balance by \$11,497 to recognize an error in the originally filed MFRs. However, Audit Finding 4 included an adjustment to decrease materials and supplies expense by \$11,780. As addressed in Section VI.A. regarding net operating income, we find that Audit Finding 4 shall be accepted. Therefore, the audit adjustment shall be recognized in lieu of KWRU witness Swain's test year adjustment.

KWRU witness Swain indicated another error was discovered in the originally filed MFRs. Witness Swain stated \$43,290 of the test year balance should have been included in contractual services – other. To correct this error, witness Swain decreased materials and

supplies expense by \$43,290 and increased contractual services – other by the same amount. In its brief, OPC did not refute this reclassification; however, it maintained that the total balance of the two expenses is 28 percent higher than the amounts approved in the last rate case and should be decreased to match the previously approved amounts of \$31,119 for materials and supplies expense, and \$45,054 for contractual services – other. OPC concluded that the Utility can expect expenses included in these two accounts to decrease, as it has increased salaries and benefits expense to improve retention and perform more in-house maintenance. This would result in a reduction of \$21,365 to the total amount requested for materials and supplies expense and contractual services – other.

We examined the 2016 and 2017 general ledgers provided and verified KWRU misclassified the two accounts as presented in the MFRs. As such, materials and supplies expense shall be reduced by an additional \$43,290 and contractual services – other be increased by the same amount.

It is not appropriate to make an adjustment to reduce the expenses to the levels approved in the last rate case as suggested by OPC. The amounts approved in the last rate case were based on annualizing nine months of actual 2016 expenses to reflect a full year of expenses.<sup>20</sup> We reviewed the 2016 general ledger and note actual expenses in 2016 were \$45,257 and \$46,929 for materials and supplies expense and contractual services – other, respectively. As such, we find the current test year more representative of ongoing operations and no further adjustment is necessary.

### Conclusion

Based on the above, the balance of materials and supplies expense shall be \$42,468 (\$97,538 - \$11,780 - \$43,290). Accordingly, materials and supplies expense shall be decreased by \$55,070. Further, there shall be a corresponding adjustment to increase contractual services – other by \$43,290.

### F. Contractual Services – Engineering Expense

#### Parties' Arguments

#### **KWRU**

KWRU stated that the engineering expense of \$20,765 for the test year, as provided in the MFRs, should be adjusted to account for the permit renewal cost of \$11,168. Contrary to OPC's assertion, the Utility did not believe that a five-year average was appropriate to determine engineering expense, since the third treatment plant was not operational in prior years and the expenses did not reflect the plant addition. KWRU stated that OPC identified WWTP rehabilitation project engineering costs totaling \$7,206, which did not relate to that specific project. If removed from engineering expense, the Utility specified that contractual services – engineering expense should be increased by this amount.

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<sup>20</sup> Order No. PSC-17-0091-FOF-SU, pp. 45-46.

## **OPC**

In its brief, OPC stated that the contractual services – engineering expense of \$20,765 included costs totaling \$11,659 for permit renewal. The FDEP operating permit was last renewed during the test year, and requires renewal every five years. Therefore, OPC asserted that the permit costs totaling \$11,659 are nonrecurring and should be amortized over five years, corresponding to the permit renewal period, and would result in a reduction to engineering expense of \$9,327.

## **Monroe County**

In its brief, the County agreed with OPC.

### Analysis

The engineering expense for the test year, as recorded in KWRU's filing, was \$20,765. As discussed by both KWRU and OPC, the engineering expense of \$20,765 included permit renewal costs of \$11,658. KWRU and OPC agreed that engineering expenses related to the permit renewal should be amortized over five years, pursuant to Rule 25-30.433(8), F.A.C. As such, amortizing the permit costs over five years results in a decrease to contractual services – engineering expense of \$9,327. Additionally the unamortized balance of \$9,327 shall be added to the working capital allowance.

OPC witness Schultz identified in his direct testimony several invoices totaling \$1,425, which were related to pro forma plant projects and should be included in Utility Plant in Service. We verified that the costs were related to the WWTP rehabilitation project and the amounts were removed from contractual services – engineering and reclassified to the rehabilitation project. Additionally, we identified two invoices totaling \$618 that were included in both contractual services – engineering expense and in the engineering invoices for the WWTP rehabilitation project. Therefore, these costs shall be removed from contractual services – engineering expense.

### Conclusion

Based on the above, the balance of contractual services – engineering expense is \$9,395 (\$20,765 - \$9,327 - \$1,425 - \$618). Accordingly, contractual services – engineering expense shall be decreased by \$11,370.

## G. Rental Of Equipment Expense

### Parties' Arguments

#### **KWRU**

In its brief, the Utility asserted that the purchase of the crane truck may eliminate some rental expense. However, larger equipment will still be required periodically. KWRU claimed the proper amount of rental expense is the test year balance as presented in the updated MFRs.

## **OPC**

In its brief, OPC contended rental of equipment expense has fluctuated over the previous five years, including years in which no rental expense was booked. OPC also noted the Utility admitted the expenses were anticipated to occur less frequently in the future; however, it could not determine the number of future equipment rentals. OPC claimed that as KWRU could not support a specific expense level on a going forward basis, the expense should be disallowed.

## **Monroe County**

In its brief, the County agreed with OPC.

### Analysis

In its original filing, the Utility included a test year balance of \$1,723 for rental of equipment expense. Subsequently, KWRU decreased its test year balance by \$244 to \$1,479 to recognize an error in the originally filed MFRs. Using the general ledger, we verified that KWRU's reduction of \$244 is appropriate and shall be made.

As reflected in its filing, the Utility requested a pro forma plant adjustment to purchase a crane truck. As addressed in Section III.C. regarding plant in service, we have held that the pro forma plant adjustment for a crane truck shall be included. OPC asserted that if KWRU is including a pro forma adjustment to purchase a crane truck, it should also recognize the cost savings achieved through reduced rental expense. The Utility stated rental expense was anticipated to occur less frequently in the future due to the purchase of the crane truck. OPC witness Schultz testified there was no evidence to support future equipment rental and recommended an adjustment to remove the Utility adjusted test year amount of \$1,479.

We agree that a corresponding adjustment is appropriate to recognize expenses that will be avoided in the future due to the purchase of a crane truck. However, we do not agree that the entire expense should be removed. KWRU specified the crane truck would obviate the need for fork lift rentals as required for maintenance of pump stations. However, rental of a full size crane is still periodically necessary for heavy work that the crane truck can not perform. We reviewed the test year general ledger and find that an adjustment to remove rental expense related to fork lifts needed for pump stations is appropriate. As such, there shall be an additional reduction of \$1,014.

### Conclusion

Based on the above, rental of equipment expense shall be \$465 ( $\$1,723 - \$244 - \$1,014$ ). Accordingly, rental of equipment expense shall be decreased by \$1,258.

## H. Worker's Comp Expense

### Parties' Arguments

#### **KWRU**

In its brief, KWRU stated that worker's comp expense is a fall out calculation. The Utility proposed that the amount of worker's comp expense should be increased by 4.4 percent of requested pro forma salaries and wage expense as established in the previous rate case.

#### **OPC**

OPC asserted that since worker's comp expense is established as a percentage of salaries, the historic percentage of 3.5 percent, as shown in the test year, should be the basis for this expense. OPC stated that because they are recommending no increase for pro forma salaries and wages, worker's comp should stay the same as well. However, OPC also indicated that worker's comp should be calculated as 3.5 percent of OPC's recommended salaries of \$839,613.

#### **Monroe County**

In its brief, the County agreed with OPC.

### Analysis

In its original filing, KWRU requested an increase of \$8,839 to insurance – worker's comp expense for a total of \$36,073. KWRU calculated the increase by multiplying its requested pro forma salaries and wage expense by 4.4 percent. The Utility contended 4.4 percent was the approved ratio determined in the previous rate case.<sup>21</sup> Therefore, KWRU argued that it is appropriate to apply this percentage to requested pro forma salaries.

In its brief, OPC argued that the percentage used to increase worker's comp should be updated to reflect the ratio demonstrated in the current test year. We agree that it is appropriate to update the percentage applied to pro forma salaries and wage expense to reflect the current test year. Based on the MFRs, test year worker's comp was \$27,234 and total salaries and wage expense was \$786,689 (\$541,065 + \$245,624), resulting in a ratio of 3.46 percent ( $\$27,234 / \$786,689$ ). Based on our approved salaries and wage expense, the Utility's pro forma request shall be decreased by \$3,318.

As discussed in Section III.C. regarding plant in service, we capitalized employee's salaries related to the future WWTP rehabilitation projects. A corresponding adjustment shall be made to decrease insurance – worker's comp expense by \$543 ( $\$15,690 \times 3.46\%$ ) to reflect the test year ratio as well.

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<sup>21</sup> Order No. PSC-17-0091-FOF-SU, p. 48.

Conclusion

Therefore, we shall make an adjustment to decrease insurance – worker’s comp expense by \$3,861 (-\$3,318 - \$543), based on the originally filed request of \$36,073. As such, the appropriate amount of insurance – worker’s comp expense is \$32,212.

I. Bad Debt Expense

Parties’ Arguments

**KWRU**

In its brief, the Utility stated this expense is due to an unpaid loan made to a former employee. KWRU witness Johnson explained the Utility did not pursue recovery of the loan prior to writing it off as doing so would have likely caused KWRU to incur more costs than would have been recovered. KWRU witness Swain added it is common to record uncollectable funds from customers as bad debt and to write off the expense, rather than turn it over to a debt collector.

**OPC**

In its brief, OPC asserted that, because KWRU did not make an effort to collect the unpaid loan, the amount should be removed from rates as ratepayers should not be burdened with a cost the Utility did not try to recover. In addition, OPC stated it should not be considered a recurring expense because the employee is no longer with KWRU. OPC claimed the Utility did not provide evidence that this is a recurring expense, and had made no effort to collect the loan.

**Monroe County**

In its brief, the County agreed with OPC.

Analysis

In its original filing, the Utility included a test year balance of \$0 for bad debt expense. Subsequently, KWRU increased its test year balance to \$2,443 to recognize an error in the originally filed MFRs. Using the general ledger, we verified KWRU’s increase of \$2,443 to correct this error is appropriate and shall be made. However, as discussed below, this amount shall be reclassified as a pensions and benefits expense.

In its brief, OPC contended that bad debt expense should be zero. OPC further contended that the Utility included bad debt expense of \$2,443 in miscellaneous expense in the originally filed MFRs. Therefore, bad debt expense should be zero and an additional adjustment should be made to remove \$2,443 from miscellaneous expense. We reviewed the general ledger entries for miscellaneous expense and has determined KWRU did not include the bad debt expense in miscellaneous expense; as such, an adjustment to remove this expense from miscellaneous expense is not necessary.



KWRU witness Johnson testified the \$2,443 included in bad debt expense was due to a defaulted loan granted to an employee for relocation expenses. Witness Johnson further explained that the Utility unsuccessfully attempted to fill this position with an individual who did not require relocation assistance. However, the Utility needed the position filled quickly and decided to offer relocation assistance to this employee. OPC witness Schultz argued that since the employee defaulted on the loan and the Utility did not pursue repayment, the amount should be excluded from rates.

We agree that the loan was a reasonable expense to incur, given the difficulty to fill a necessary position quickly as described by witness Johnson. However, we do not agree this is a recurring expense. Witness Johnson indicated KWRU has only provided assistance for relocation three times in the past, and in each previous occasion, the employees did not default on any loans provided. As such, the bad debt expense shall be amortized pursuant to Rule 25-30.433(8), F.A.C., which states that non-recurring expense shall be amortized over a five-year period unless a shorter or longer period of time can be justified.

In addition, upon review of the National Association of Regulatory Utility Commissioners (NARUC) uniform system of accounts (USOA), as adopted in Rule 25-30.115, F.A.C., we find the defaulted loan was incorrectly classified as a bad debt expense. The NARUC USOA details that “this account shall be charged with an amount sufficient to provide for losses from uncollectible utility revenues.” Additionally, we note that upon review of the general ledger, the loan was originally booked as an employee relations expense. As such, the defaulted loan shall be reclassified as an employee relations expense in the determination of pensions and benefits expense.

### Conclusion

Based on our adjustments above, bad debt expense of \$2,443 shall be reclassified to pensions and benefits expense and amortized over a five-year period. Therefore, the appropriate amount of bad debt expense is zero.

### J. Storm Restoration Expenses Due to Hurricane Irma

### Parties' Arguments

#### **KWRU**

KWRU argued that witness Johnson's direct testimony contained support for hurricane costs totaling \$216,072. As addressed and agreed upon in the testimony of both OPC witness Schultz and KWRU witness Swain, several duplicate costs (\$4,764) and insurance proceeds (\$19,393) were excluded from the total amount. In witness Johnson's rebuttal, the hurricane expense amount was updated based on the additional time needed for generator rentals. The updated hurricane costs totaled \$273,169, which was an increase of \$57,095.

KWRU argued that the total hurricane cost was not disputed by either OPC witness Schultz or Woodcock. However, the Utility argued that while witness Schultz claimed he was

unsure of how the additional generator rental charge was calculated, the witness did not disagree to the calculation or costs. KWRU stated that the witness could have verified this calculation if the total rental months from witness Johnson's rebuttal was multiplied by the rental charge. Instead, witness Schultz asserted that he did not have adequate time to review rebuttal testimony.

The Utility argued that the amortization period should not be based on non-recurring expense, but on the "expected frequency of similar occurrences." KWRU argued that based on the Commission's decision in Order No. PSC-06-0170A-PAA-WS,<sup>22</sup> the expenses should be amortized over four years as related to a four-year rate case cycle.

## **OPC**

In its brief, OPC stated that witness Schultz made an adjustment of \$19,144 due to overstated costs. KWRU witness Swain agreed that duplicate charges should be removed, but the costs for the generator rental should remain and extended to 11 months instead of the original estimate of six months. OPC argued that witness Swain did not provide support for the addition of five months, and did not address the \$5,000 reduction to the estimated outstanding expenses.

OPC stated that witness Schultz identified duplicate overtime amounts in salaries and wages of \$7,440. OPC argued that this expense should not be included in the amortization of hurricane expense, as an adjustment for the duplicate amounts was made in salaries and wage expense (see Section VI.B.). For the insurance proceeds of \$19,393, OPC argued that this amount should be used to "offset" the hurricane costs, and witness Swain agreed that a reduction of \$19,393 should be made.

OPC affirmed that pursuant to Rule 25-30.433(8), F.A.C, "non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified." Based on this rule, witness Schultz testified that the hurricane expense should be amortized over five years. Furthermore, OPC asserted that the Utility argued that according to Order No. PSC 2006-0170A-PAA-WS, hurricane costs were amortized over four years, rather than five years. From the cited order, the utilization of four years was used to recover hurricane costs until the Utility's next rate case. OPC stated that based on the discussion rate case expense (see Section VI.M.), "it is not apparent that KWRU will file another rate case within the next four years" and there is not past evidence of the Utility filing a rate case every four years.

OPC argued that a reduction of \$31,098 should be made to hurricane expense. Additionally, the costs should be amortized over a five-year period with an annual expense of \$36,995, which is a reduction of \$17,023 to the requested expense.

## **Monroe County**

In its brief, the County agreed with OPC.

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<sup>22</sup> Order No. PSC-06-0170A-PAA-WS, issued March 9, 2006, in Docket No. 050281-WS, In re: Application for increase in water and wastewater rates in Volusia County by Plantation Bay Utility Company.

Analysis

In its original filing, KWRU requested \$216,073 for hurricane costs amortized over four years, which reflects an annual amortization of \$54,018 in miscellaneous expense. The Utility's request included expenditures for rental equipment as well as other expenditures such as water, food, and hotel rooms. KWRU witness Johnson also provided a roof estimate; however, this project was removed from hurricane expense as discussed in Section III.C. regarding plant in service.

OPC witness Schultz testified that he identified several amounts included in hurricane expense that were duplicates or were already captured in the Utility's MFRs, and should therefore be removed. The amounts identified were charges related to information technology services, electrical setup for the temporary office, employee overtime, and the tow-behind generator. Witness Schultz testified that KWRU included \$15,000 for estimated hurricane repair; however, the invoices for this amount were not provided. Subsequently, the Utility provided these invoices in response to discovery and witness Schultz asserted that approximately \$10,000 of the costs could be substantiated. For the remaining \$5,000, witness Schultz recommended these costs be removed. Additionally, witness Schultz argued that insurance proceeds received for damages to the existing office should be used to offset the hurricane expenses. Considering all of the adjustments, witness Schultz decreased the requested amount of hurricane costs to \$177,535.

KWRU witness Swain testified in rebuttal that she agreed with the adjustments to hurricane expense that witness Schultz made related to the information technology services and electrical setup for the temporary office. Witness Swain also agreed the insurance proceedings received should be used to offset hurricane expenses. However, as discussed in Section III.C., insurance proceeds shall not be applied to the hurricane expenses. For the overtime charges discussed by OPC witness Schultz, witness Swain argued that these charges were not duplicates and were not already accounted for in KWRU's MFRs.

Witness Swain additionally testified that the rental for the tow-behind generator and the large generator was expected to continue for another four months. Witness Johnson elaborated that the original estimates for the generator rentals were revised due to updated delivery dates for the permanent backup and tow-behind generators. Considering the additional months for the two rentals, witness Swain testified that the updated hurricane costs totaled \$273,168.

OPC witness Schultz, in his surrebuttal, testified that no supporting documents were presented to verify the additional hurricane costs. Taking into consideration the lack of documentation, as well as the limited time for review, witness Schultz asserted that his recommendation for hurricane expense remained unchanged from his direct testimony.

Based on the testimony of OPC witness Schultz and KWRU witness Swain, we removed the duplicate charges from hurricane expense, as agreed to by both witnesses. We also made adjustments to hurricane expense due to additional charges that were determined to be duplicative or lacked proper documentation. We also reviewed the overtime included in hurricane expense and determined that it was not already captured in KWRU's MFRs.

We find that an extension of time for the tow-behind and back-up generators is needed to ensure that backup power is available for continued operation of the plant until the permanent generators are in-service. However, the rental periods shall only extend through August 2018 as rates go into effect in September 2018. We recognize that the rental expenses are likely to continue beyond August; however, our approved rates include recovery of the pro forma additions related to the rentals.

Based on the adjustments discussed, the Utility's requested hurricane costs of \$273,168 shall be reduced by \$38,189. The resulting amount to be included as hurricane restoration expense is \$234,979.

As previously stated, the Utility requested that its hurricane expense be amortized over a period of four years. In response to discovery, KWRU cited Order No. PSC-06-0170A-PAA-WS as support for selecting an amortization period of four years.<sup>23</sup> Furthermore, witness Johnson testified that four years was appropriate for hurricane expense as four years represents the anticipated time until another similar event.

For the amortization period, witness Schultz testified that pursuant to Rule 25-30.433(8), F.A.C., which states that non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified. Based on the rule, witness Schultz recommended the hurricane expense should be amortized over a period of five years. As discussed, KWRU cited Order No. PSC-06-0170A-PAA-WS, as the basis for its requested four-year amortization period. That Order states:

Given the growth of this utility and the above-mentioned water and wastewater plant improvements, we believe that the utility will file another rate case in approximately 2010, which is four years from our approved 2006 projected test year. Therefore, we find it appropriate to amortize the 2004 hurricane costs over four years.

No KWRU witness provided testimony that the Utility would file for another rate increase in four years. Furthermore, witness Johnson acknowledged that his assertion that four years represents the anticipated time until another similar event was unsupported by a study. Witness Johnson explained that the basis for his recommendation was personal experience as well as discussions with weather experts. Witness Johnson ultimately concluded that future weather could not be guaranteed. We do not find that KWRU has sufficiently supported a deviation from the amortization period stated in Rule 25-30.433(8), F.A.C. Therefore, hurricane expense shall be amortized over a five year period.

### Conclusion

Based on the discussion above, total hurricane costs shall be \$234,979, a decrease of \$38,189 to KWRU's original request of \$273,168. This expense shall be amortized over five

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<sup>23</sup> Order No. PSC-06-0170A-PAA-WS, issued March 9, 2006, in Docket No. 050281-WS, In re: Application for increase in water and wastewater rates in Volusia County by Plantation Bay Utility Company.

years for an annual expense of \$46,996. Based on the Utility's original MFR filing, the annual amortization of hurricane costs shall be decreased by \$7,022. There shall also be a corresponding adjustment to increase working capital allowance by \$187,983 to reflect the unamortized balance.

#### K. Miscellaneous Expense

##### Parties' Arguments

##### **KWRU**

In its brief, KWRU asserted the appropriate amount for miscellaneous expense is the test year balance plus requested adjustments. The Utility added that no testimony was presented disputing its test year balance, nor any adjustments except hurricane and pro forma telephone expenses, as addressed in the storm restoration due to Hurricane Irma and pro forma expense sections, Sections VI.J. and VI.L., respectively.

##### **OPC**

In its brief, OPC stated miscellaneous expenses should be reduced to recognize adjustments made by staff auditors, as well as its recommended adjustments for bad debt expense, hurricane expense, telecom services, dues, and non-utility expenses. OPC discussed adjustments for staff audit findings, bad debt expense, and hurricane expense in sections relating to net operating income audit findings, bad debt expense, and storm restoration expenses due to Hurricane Irma, respectively.

Concerning telecom expense, OPC noted the Utility requested the cost of a new phone system, in addition to the system already in place. OPC stated that a redundant phone system was not required by the Florida Department of Environmental Protection nor any other permit. OPC claimed KWRU did not provide sufficient evidence to support its request for redundancy; therefore, the test year balance should be removed.

OPC recommended removal of membership dues from miscellaneous expense noting membership to clubs tends to be an image-building expense and that customers do not benefit from such dues.

OPC also asserted that KWRU included non-utility expenses for a retirement party and a Christmas party. OPC concluded that, as these expenses did not benefit ratepayers, they should be removed from miscellaneous expense.

##### **Monroe County**

In its brief, the County agreed with OPC.

### Analysis

Audit adjustments to miscellaneous expense, hurricane expenses, and pro forma telephone expenses are discussed in Sections VI.A., VI.J. and VI.L., respectively.

In its original filing, the Utility included a test year balance of \$48,405 for miscellaneous expenses. Subsequently, KWRU decreased its test year balance by \$1,788 to \$46,617 to recognize an error in the originally filed MFRs. Using the general ledger, we verified KWRU's reduction of \$1,788 to correct this error is appropriate and should be made.

### **Membership Dues**

OPC witness Schultz recommended an adjustment to miscellaneous expense of \$2,163 to remove membership dues, as they were an image building expense that does not provide benefit to customers. KWRU witness Johnson testified that the membership dues were not for the purpose of image building, and they should be included as they are beneficial to the company and community. However, Audit Finding 4 included an adjustment to decrease miscellaneous expense by \$2,100 to remove social club dues. We have already accepted Audit Finding 4. Further, KWRU agreed with the adjustments included in Audit Finding 4. Therefore, the audit adjustment shall be recognized in lieu of OPC's adjustment.

### **Non-Utility Expenses**

In response to an interrogatory, KWRU witness Johnson identified approximately \$709 in costs for a retirement party for Mark Burkemper. Additionally, OPC witness Schultz identified a charge of \$1,050 for a Christmas party included in the test year. Witness Schultz recommended an adjustment to remove the charges from miscellaneous expense as these amounts do not benefit ratepayers.

The charges of \$296 and \$1,050 were booked under employee relations, included in Account 704, employee pensions and benefits; and, the charge of \$413 was booked in Account 741, rental of building/real property. An adjustment to remove these charges from miscellaneous expense would be inappropriate. If an adjustment is necessary, it should be made to employee pensions and benefits expense and rental of building/real property.

KWRU witness Johnson argued the event for Mark Burkemper was to demonstrate appreciation for his contributions and to showcase the new treatment plant. Witness Johnson continued this was not a lavish event, as total cost of food and rental of a tent and chairs was \$709. Witness Johnson also specified the \$1,050 associated with the Christmas party was mischaracterized, and the expense was related to Christmas bonuses given to employees. Witness Johnson asserted these costs were legitimate expenditures and should not be removed.

Upon review of the NARUC uniform system of accounts (USOA), as adopted in Rule 25-30.115, F.A.C., we agree that the expenses booked for the retirement and Christmas events were properly reflected and appropriate. The NARUC USOA details Account 704 – Employee Pensions and Benefits “[i]nclude also expenses for medical, educational or recreational activities

of employees.” We also find as a corresponding expense, the \$414 booked for rental of the tent and chairs is appropriate as well.

In accordance with the NARUC USOA, we find these are reasonable and appropriate expenses as reflected in pensions and benefits as well as rental of building/real property. Therefore, no adjustment shall be made to miscellaneous expense for the retirement or Christmas events/bonuses.

### **Other Miscellaneous Expenses**

In its filing, KWRU included additional adjustments to miscellaneous expense, as discussed hereafter. The first was to recognize \$99,395 for amortization of Last Stand litigation expenses, as approved in the last rate case.<sup>24</sup> The Utility also included a reclassification of \$405 from Account 354. We find these adjustments are appropriate and shall be included in miscellaneous expense.

Miscellaneous expense shall also be increased by \$46,996 to reflect our approved amortization of hurricane expenses. Additionally, miscellaneous expense shall be increased by \$7,665 to reflect our adjustments to test year and pro forma telephone expenses.

### Conclusion

Based on our adjustments discussed above, the appropriate amount of miscellaneous expense is \$198,978. Accordingly, miscellaneous expense shall be decreased by \$3,888 (- \$1,788 - \$2,100). Miscellaneous expense shall also be decreased for adjustments to pro forma expenses.

### L. Pro Forma Expenses

#### Parties’ Arguments

#### **KWRU**

For phone and internet, KWRU argued that no provider was completely reliable in the Florida Keys. For that reason, KWRU stated that redundancy was necessary to ensure the operation of the Utility’s SCADA system. KWRU asserted that SCADA allows it to operate with fewer staff, thus reducing the employment costs. The Utility argued that costs for the internet phone service was minimal considering the reduced staffing that SCADA allows, and for that reason, the costs of the phone system should be deemed reasonable and prudent.

#### **OPC**

OPC stated in its brief that all pro forma expenses were previously addressed in prior sections.

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<sup>24</sup> Order No. PSC-17-0091-FOF-SU, p. 62

## **Monroe County**

The County stated in its brief that all pro forma expenses were previously addressed in prior sections. The County argued that expenses introduced by KWRU in rebuttal should not be considered in this case as the expenses were not supported.

### Analysis

This section solely addresses pro forma telephone expense and insurance – general liability expense adjustments. All other pro forma expenses are in other sections.

### **Telephone Expense**

As discussed in Section III.C. regarding plant in service, KWRU witness Johnson testified that the Utility would be switching its primary service provider from Comcast to AT&T. While AT&T would be KWRU's primary provider, the Utility indicated through discovery that it would retain the service of Comcast for redundancy purposes. As previously stated, internet service is necessary for the operation of KWRU's SCADA system, which is needed for operation of the Utility's WWTP. Therefore, we believe that redundancy of services is reasonable in the present case.

The fiber telephone system expense, as recorded in KWRU's original filing, was \$12,647 and reflected in miscellaneous expense. In his direct testimony, witness Johnson testified that the monthly cost for the AT&T phone service was \$1,054 per month. OPC witness Schultz testified that while he did not believe redundancy was necessary, he agreed that the \$12,647 expense was supported by the annualized monthly cost of the new phone service.

In rebuttal, KWRU witness Johnson testified to an updated expense for the phone system totaling \$13,340. These expenses included \$11,040 for annual service, \$1,340 for annual technical support, and \$960 for a plain old telephone service (POTS) line. In witness Schultz's surrebuttal testimony, he expressed concern that non-recurring costs, such as equipment costs, were incorporated into the updated phone system amount. Witness Schultz testified that without further clarification or support of the updated expenses, the witness's original recommendation of \$12,647 should remain unchanged.

We reviewed the documentation included as an exhibit to witness Johnson's rebuttal testimony, and found that there was support for the annual technical support amount of \$1,340. Using the monthly rate of \$799 provided by AT&T, we calculated the annual cost for service to be \$9,590. Witness Johnson did not include any documentation or support for the POTS line; therefore, we excluded this amount from the phone system expense. Including the annual service and technical support costs, we hereby approve \$10,930 (\$9,590 + \$1,340) for the pro forma phone system expenses. As such, KWRU's pro forma request shall be decreased by \$1,717 (\$12,647 - \$10,930).

At the technical hearing, KWRU witness Johnson indicated that once the AT&T phone and internet systems are in place, the Utility would only require redundancy for internet



connectivity. Witness Johnson stated KWRU would disconnect phone service from Comcast, as it would no longer be needed. We reviewed the Comcast bills provided in discovery as well as the general ledger and calculated \$1,477 in costs associated with Comcast telephone expenses in the test year. As such, there shall be a reduction of \$1,477 to recognize the removal of the telephone service from Comcast on a going forward basis.

Additionally, KWRU witness Johnson explained that the Utility switched from AT&T to Comcast during the test year. Using the general ledger, we identified \$1,788 in costs associated with previous AT&T services. As these costs will no longer be incurred, there shall be a reduction of \$1,788 to recognize the removal of the previous AT&T system.

### **Insurance – General Liability**

In its filing, KWRU included a pro forma adjustment to increase insurance – general liability by \$17,633 for an adjusted test year balance of \$60,849. Neither OPC nor the County disputed this adjustment. We reviewed the work papers supporting the MFRs provided by KWRU and find the requested increase in insurance – general liability is reasonable. As such, pro forma shall be increased by \$17,633.

### Conclusion

Based on the above, the appropriate amount of pro forma telephone expense is \$7,665. Accordingly, telephone expense shall be decreased by \$4,982. (- \$1,717 - \$1,477 - \$1,788). Additionally, the appropriate amount of pro forma insurance – general liability is \$17,633.

### M. Rate Case Expense

### Parties' Arguments

#### **KWRU**

In its brief, the Utility stated that actual rate case expense is \$443,855 and should be amortized over four years. KWRU argued that even though Mr. Friedman and Mr. Smith are with different law firms, there is no evidence of overlap in their work and is no different from multiple attorneys representing other parties in this case. Further, KWRU noted that each party had multiple attorneys working on this case. KWRU argued that there is no evidence for any longer amortization period and that a four-year default period is applicable.

#### **OPC**

In its brief, OPC argued that KWRU's attorney Mr. Smith's hourly rate of \$420 is excessively high when compared to his outside counsel's hourly rate. OPC stated that limiting Mr. Smith's hourly rate to \$275 would result in an overall reduction of \$20,313 to actual and estimated legal fees. OPC further argued that \$10,685 of rate case expense should be removed due to duplication of legal expenses between the two law firms representing KWRU. OPC contended that the expense associated with KWRU's unsuccessful Motion to Strike OPC witness Shultz's testimony related to pensions and benefits should be disallowed resulting in a reduction

of \$2,750. OPC argued that KWRU failed to provide the required evidence to support \$141,963 of accounting fees and should therefore be removed.

Lastly, OPC argued that \$9,900 for estimated rate case expense for Mr. Seidman, the engineering consultant, should be removed because the estimate included time for the hearing which he did not attend. Further, Mr. Seidman’s testimony has been stipulated. In total, OPC asserted that KWRU’s revised request of \$443,855 for rate case expense should be reduced by \$185,611 for a total of \$258,244 and amortized over a five-year period. OPC stated that a five-year amortization period is appropriate considering the burden on the customers in this case due to the fact that the Utility is requesting amortization of rate case expense for two rate cases, as well as amortization of the Last Stand legal fees from the prior rate case.

**Monroe County**

In its brief, the County stated it is in agreement with OPC and that the appropriate amount of rate case expense is \$258,244. The County argued that this amount should be amortized over five years to minimize customer impacts.

Analysis

In its updated filing, the Utility requested \$320,035 for current rate case expense and estimated an additional \$123,820 to complete the case, for a total of \$443,855. However, KWRU provided support for additional rate case expense that was not embedded in this amount. In total, the Utility requested \$329,797 in actual fees and estimated an additional \$129,648 to complete the case, for a total of \$459,445. A breakdown of the Utility’s requested rate case expense is as follows.

**Table 9  
KWRU’s Revised Rate Case Expense Request**

| <b>Description</b>                       | <b>Actual Requested</b> | <b>Additional Estimated</b> | <b>Revised Total</b> |
|--|-------------------------|-----------------------------|----------------------|
| 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                           | 4,500                |
| Customer Notices, Printing, and Shipping | <u>5,000</u>            | <u>930</u>                  | <u>5,930</u>         |
| <b>Total</b>                             | <u>\$329,797</u>        | <u>\$129,648</u>            | <u>\$459,445</u>     |

Pursuant to Section 367.081(7), F.S., we shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. We examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case.

**Smith, Hawks, P.L.**

KWRU witness Johnson provided documentation detailing rate case expense for Smith, Hawks P.L. through April 25, 2018. The actual fees totaled \$153,190 with an estimated \$25,963 to complete the rate case, totaling \$179,153 (\$153,190 + \$25,963). Costs for supplies and shipping expenses were included in this total amount.

During review of Smith, Hawks' invoices, we discovered the invoices provided totaled \$152,751. As such, we reduced Smith, Hawks legal fees by \$439 (\$152,751 - \$153,190) to accurately reflect the supported amount of legal expense.

We reviewed the hourly rates of the attorneys representing KWRU and finds Mr. Smith's hourly rate of \$420 high when compared to the other attorneys. KWRU's second primary counsel Mr. Friedman, who is further discussed below, charges an hourly rate of \$370. OPC witness Shultz stated that Mr. Friedman's law firm, unlike Smith, Hawks, specializes in representing water and wastewater utilities in the State of Florida. Witness Shultz argued that Smith, Hawks law firm has much less experience before the Commission and it is not reasonable that its hourly charges should be higher. Given Mr. Friedman's years of experience as a utility regulatory attorney, we find that Mr. Friedman's hourly rate of \$370 serves as a reliable benchmark for a reasonable hourly rate. Therefore, we adjusted Mr. Smith's hourly rate of \$420 to \$370 an hour. This results in a reduction of \$6,983.

Smith, Hawks' last estimate to complete the rate case was dated as of April 25, 2018. The estimate included fees related to pre-hearing statements, attending the final hearing, and reviewing Commission staff's recommendation for 72 hours. We find that Smith, Hawks' estimate to complete is reasonable. Therefore, there shall be no adjustments.

In summary, rate case expense shall be reduced by \$7,422 (\$439 + \$6,983).

**Friedman & Friedman, P.A. (F&F)**

In addition to Smith, Hawks, KWRU retained the law firm Friedman & Friedman (F&F) to assist in legal services. KWRU witness Johnson provided documentation detailing rate case expense for F&F through April 17, 2018. The actual fees totaled \$17,282 with an estimated \$26,399 to complete the rate case, totaling \$43,681 (\$17,282 + \$26,399). Costs for supplies and shipping expenses were included in this total amount.

Given the voluminous nature of this rate case and that OPC, the County, and Commission staff each have more than one attorney representing them, we find it is reasonable to allow the Utility to retain two law firms in order to split the workload. OPC witness Shultz stated that any charges for duplicative tasks should be removed. We were careful to review itemized invoices from both law firms in an effort to remove any duplicative legal fees for work that would reasonably require only one law firm's service. As such, we made adjustments for specific work performed by F&F that appear duplicative to Smith, Hawks. Upon reviewing invoices between the two firms, we find that \$1,073 in fees related to reviewing documents are duplicative of Smith, Hawks and shall be removed.

F&F's last estimate to complete the rate case was submitted on and reflected costs incurred through April 17, 2018. The estimate included fees for 65 hours at \$370 an hour and additional costs for photocopies and attending the Agenda Conference, totaling \$2,349. There shall be no adjustments.

### **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.

The Utility identified 7.5 hours related to correcting deficiencies. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs. However, the Utility did not include these costs in their requested rate case expense. Therefore, no adjustments to remove deficiencies are necessary.

MSA's last estimate to complete the rate case was submitted on and reflected costs incurred through March 31, 2018. The estimate included fees related to preparation of testimony, rebuttal testimony, and the hearing, totaling \$64,850. The estimate also included travel costs totaling \$1,606. There shall be no adjustments.

### **M&R Consultants**

KWRU witness Johnson provided documentation detailing rate case expense for M&R Consultants through February 13, 2018. The actual fees totaled \$3,525 with an estimated \$9,900 to complete the rate case, totaling \$13,425 (\$3,525 + \$9,900). The invoices included consulting services for preparation of engineering-related schedules, responses to discovery, review of Commission staff recommendations, and assistance and preparation of testimony. The actual fees totaled \$3,525. We make no adjustments to actual fees.

M&R's last estimate to complete the rate case was submitted on and reflected costs incurred through February 13, 2018. The Utility initially estimated 46 hours to attend the hearing and \$1,595 in travel costs. The Utility subsequently updated M&R's estimate to complete to reflect fees related to reviewing testimony, prehearing statements, and post-hearing statements for 10 hours at \$150 an hour. Because Mr. Seidman's testimony and attached exhibits were stipulated by all parties and therefore he did not attend the hearing, M&R's estimate to complete shall be removed.

### **Filing Fee**

The Utility included \$4,500 in its MFR Schedule B-10 for the filing fee. No adjustment is necessary.

### **Printing and Shipping**

KWRU included \$5,000 in its MFR Schedule B-10 for printing and shipping costs and an additional \$930 in estimated noticing costs to complete the rate case. As mentioned above, we reviewed invoices from F&F and Smith, Hawks which contain costs for printing, shipping, and supplies. The Utility did not provide any additional invoices or receipts for printing and shipping expenses. Therefore, the duplicative and unsupported \$5,000 for printing and shipping shall be removed. KWRU witness Johnson stated that the Utility used previous mailing costs to estimate the additional \$930. We find the additional estimate of \$930 for noticing costs is reasonable.

### Conclusion

Based upon the adjustments discussed above, KWRU's revised rate case expense of \$459,445 shall be decreased by \$23,395 to reflect our adjustments, for a total of \$436,049. A breakdown of our approved rate case expense is as follows:

**Table 10**  
**Commission Approved Rate Case Expense**

| <b>Description</b>          | <b>Utility Revised Act. &amp; Est.</b> | <b>Commission Adjustment</b> | <b>Approved Total</b> |
|-----------------------------|--|------------------------------|-----------------------|
| Legal Fees                  | \$222,834                              | (\$8,495)                    | \$214,338             |
| Accounting Consultant Fees  | 212,756                                | 0                            | 212,756               |
| 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>                       | <u>(\$23,395)</u>            | <u>\$436,049</u>      |

In its briefs, OPC and the County stated that rate case expense should be amortized over a five-year period. However, the record does not support using a five-year amortization period. As such, the total rate case expense of \$436,049 shall be amortized over four years, pursuant to Section 367.081(8), F.S. This represents an annual expense of \$109,012. 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. Based on the Utility's original MFR filing, the annual amortization of rate case expense shall be increased by \$37,912.

### N. Adjustments to the Utility's O&M Expense

#### Parties' Arguments

#### **KWRU**

In its brief, KWRU stated all Utility adjustments to O&M are discussed in previous sections.

## **OPC**

In its brief, OPC asserted that KWRU's test year balance of advertising expense is a 400 percent increase over the test year utilized in the rate case. OPC claimed this inflated amount is not an accurate representation of advertising expense as the Utility is not planning for extreme turnover in future years. OPC contended as the Utility did not make an effort to provide a reasonable estimate for future advertising, its recommended adjustment to recognize a five-year average of advertising expense should be accepted.

## **Monroe County**

In its brief, the County agreed with OPC.

## Analysis

### **Advertising**

In its MFRs, KWRU presented a test year balance of \$5,803 for advertising expense. OPC witness Schultz testified this is an increase of 400 percent over the amount of \$1,075 included in the test year of the prior rate case.<sup>25</sup> As noted by witness Schulz, the Utility stated in its MFRs that the increase of advertising expense was due to extreme turnover which resulted in an increase to the number of help wanted ads being posted. Witness Schultz continued that since the Utility is not planning on extreme turnover in future years, the increased level of advertising expense is unnecessary. OPC Witness Schultz stated that since the amount rose and fell over the previous years, a five-year average is appropriate to normalize advertising expense and presented a calculation demonstrating that the five-year average balance of advertising expense is \$1,366. KWRU stated it believed employee retention would be improved as a result of requested salaries and wages and pensions and benefits, as such, it expected some decrease to advertising expense. We note KWRU filled 11 positions for employees who resigned, retired, or were terminated in 2017. Based on this information, we agree with OPC that the test year balance of \$5,803 is not representative of a typical year on a going forward basis.

KWRU witness Johnson asserted that employees may still leave or be terminated, and in situations such as these, the Utility would require advertising expense to quickly replace the employee. The Utility claimed that advertising expense would still be necessary to advertise for other things, such as noticing of permits or for signage. We reviewed the approved 2014 test year balance in the last rate case.<sup>26</sup> Additionally, we reviewed the general ledgers for the calendar years 2015 through 2017. We find that a three-year average based on 2014 to 2016 shall be used. In the past, this Commission has approved the use of a three-year average to reflect the appropriate expense level.<sup>27,28</sup>

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<sup>25</sup> Order No. PSC-17-0091-FOF-SU, p. 47.

<sup>26</sup> Id.

<sup>27</sup> Order No. PSC-11-0010-SC-WU, issued January 3, 2011, in Docket No. 100104-WU, In re: Application for increase in water rates in Franklin County by Water management Services, Inc.

Based on the above, we find that a three-year average shall be used to normalize these expenses. We approve a reduction of \$4,775 to advertising expense based on a three-year average, as detailed in Table 11 below.

**Table 11**  
**Advertising Expense – Three-Year Average**

| <b>Year</b> | <b>Amount</b>    |
|-------------|------------------|
| 2014        | \$1,076          |
| 2015        | \$631            |
| 2016        | \$1,376          |
|             |                  |
| Average     | \$1,028          |
| Test Year   | <u>\$5,803</u>   |
| Adjustment  | <u>(\$4,775)</u> |

### **Contractual Services - Testing**

In its original filing, the Utility included a test year balance of \$19,933 for contractual services – testing. Subsequently, KWRU decreased its test year balance by \$1,504 to \$18,429 to recognize an error in the originally filed MFRs. Using the general ledger, we verified KWRU’s reduction of \$1,504 to correct this error is appropriate and should be made.

#### Conclusion

Based on the above, adjustments shall be made to advertising expense and contractual services – testing. Advertising expense shall be reduced by \$4,775 to \$1,028, and contractual services – testing shall be reduced by \$1,504 to \$18,429.

### O. Appropriate Amount of O&M Expense

#### Parties’ Arguments

##### **KWRU**

In its brief, KWRU did not provide an argument for this issue.

##### **OPC**

The appropriate amount of O&M expense is \$2,092,581.

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<sup>28</sup> Order No. PSC-2017-0361-FOF-WS, issued September 25, 2017, in Docket No. 20160101-WS, In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.

## **Monroe County**

In its brief, the County stated this is a fall out issue from the foregoing issues.

### Analysis/Conclusion

This is fall out issue. Based upon our adjustments in previous sections, the appropriate amount of O&M expense is \$2,446,634. Schedule No. 3-A reflects our approved O&M expenses. Schedule No. 3-B reflects our adjustments to O&M expenses.

### P. Depreciation Expense

#### Parties' Arguments

#### **KWRU**

KWRU argued that adjustments should be made to depreciation expense as a fall out of pro forma plant adjustments. KWRU witness Swain testified that corrections are needed to annualize and reclassify adjustments totaling a reduction of \$12,247 in depreciation expense. Witness Swain also testified that depreciation expense should be removed for the retirement of the generator in the amount of \$6,413. These adjustments result in an appropriate depreciation expense of \$317,795.

#### **OPC**

OPC argued that depreciation expense should be reduced by \$84,666 related to adjustments discussed in the plant in service and accumulated depreciation sections. These adjustments include reductions of \$35,175 related to pro forma plant items, \$43,078 to correct the Utility's annualization adjustment, and \$6,413 to reflect the retired generator. These adjustments result in an adjusted depreciation expense of \$251,816.

## **Monroe County**

In its brief, the County agreed with OPC that the appropriate amount of depreciation expense is \$251,816.

### Analysis

In KWRU's filing, the Utility reflected test year depreciation expense of \$501,932 along with adjustments to increase depreciation expense by \$185,311 in the test year and by \$170,057 as corresponding adjustments to its pro forma plant request.

In its filing, KWRU reflected test year adjustments to annualize depreciation expense for plant added during the test year. Similar to the discussion in Section III.D. regarding accumulated depreciation, OPC argued that this adjustment was incorrectly calculated and



should be reduced by \$43,078. Consistent with our decision in Section III.D., adjustments shall only be made to depreciation expense that correspond to plant-in-service adjustments. As such, depreciation shall be decreased by \$47,772 to reflect correct annualization and reclassification of the AWT plant expansion project. We also find it appropriate to reduce depreciation expense by \$9,468 to remove annualization adjustments for routine plant additions.

Additionally, the appropriate corresponding adjustment to depreciation expense of pro forma plant discussed in Section III.C. is a decrease of \$8,565 to reflect the pro forma plant projects, along with associated retirements. KWRU witness Swain testified that no adjustments should be made to depreciation expense for the retirements of the lift station and the chlorine contact chamber because these assets are already fully depreciated and there is therefore no depreciation expense in the MFRs for these assets. Neither OPC nor the County disputed this testimony. We reviewed the depreciation expense accounts and agree with KWRU that there is no depreciation expense related to those assets included. Therefore, no adjustments to depreciation expense for the retirements of the lift station and the chlorine contact chamber are necessary.

Applying the Used & Useful percentages set forth in Section III.G., we calculated adjustments to increase net depreciation expense by \$32,457.

#### Conclusion

Based on our adjustments, the appropriate amount of net depreciation expense is \$303,134, which reflects a decrease of \$33,349 ( $-\$8,565 - \$9,468 - \$47,772 + \$32,457$ ).

#### Q. Taxes Other Than Income (TOTI)

#### Parties' Arguments

##### **KWRU**

KWRU stated that TOTI is a fall out calculation, and the appropriate amount is \$311,467.

##### **OPC**

OPC stated that TOTI is a fall out issue, and the appropriate amount is \$221,979.

##### **Monroe County**

The County agreed with OPC that the appropriate amount of TOTI is \$221,979.

#### Analysis

This is a fall out issue. Based on our adjustments to test year revenues, RAFs shall be reduced by \$59,517. To reflect our adjustments to pro forma plant, property taxes shall be reduced by \$458. To reflect our adjustment to pro forma salaries, payroll taxes shall be reduced

by \$2,488. To reflect our Non-used and Useful adjustment, property taxes shall be increased by \$22,954. Lastly, to reflect our revenue increase, RAFs shall be increased by \$52,060. In total, TOTI shall be increased by \$12,551 (-\$59,517 - \$458 - \$2,488 + \$22,954 + \$52,060) for an adjusted total of \$300,470.

### Conclusion

Based on our adjustments, TOTI shall be increased by \$12,551. The appropriate amount of TOTI is \$300,470.

## VII. REVENUE REQUIREMENT

### A. Revenue Requirement

#### Parties' Arguments

#### **KWRU**

In its brief, KWRU stated the actual revenues should be \$3,761,710; however, because the initially filed MFRs provided revenues of \$3,682,216, the Utility agreed its revenue requirement should be limited to this amount. KWRU argued if adjustments were necessary, they should be made using \$3,761,710 as the starting point.

#### **OPC**

In its brief, OPC asserted the Utility agreed the rate case should be based on KWRU's direct case, not including increases identified in rebuttal. OPC stated we can rely upon the Utility's direct case, OPC and the County testimony and exhibits, stipulated staff hearing exhibits, and evidence tested by parties through cross-examination of witnesses. However, OPC continued, we should not rely upon staff's non-stipulated exhibits that were not tested through cross examination by staff. OPC stated it would be improper for us to rely on evidence introduced by staff that was not properly tested through cross examination. OPC claimed Commission staff did not properly test the validity, credibility, or competence of evidence, and timely objected to "superfluous discovery responses" being moved into the record.

#### **Monroe County**

In its brief, the County recommended that we grant KWRU a total revenue requirement of \$3,054,310, based on OPC's positions on most issues, plus an additional allowance for sludge removal, chemicals, and purchased power expenses, as recommended by the County.

#### Analysis/Conclusion

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 our approved rate base, cost of capital, and operating income

issues, the appropriate revenue requirement is \$3,516,506. This revenue requirement is \$1,156,895 greater than the approved test year revenues of \$2,359,611 or an increase of 49.03 percent. The approved 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 our approved net operating income, and resulting revenue requirement. Our adjustments to net operating income are shown on Schedule No. 3-B.

### B. Adjustments to Test Year Billing Determinants

#### Parties' Arguments

##### **KWRU**

The Utility asserted that there are no further adjustments needed and argued these merits in Section V.A. regarding test year billing determinants.

##### **OPC**

OPC argued that test year billing determinants should be increased by 1,398 ERCs and 9.26 million gallons based on County witness Wilson's testimony that there will be additional customers connecting to KWRU's wastewater system by the time the rates generated from this proceeding are implemented. Additionally, OPC supported County witness Small's testimony exhibit which converted customers to ERCs and consumption.

##### **Monroe County**

The County argued that billing determinants should be increased by 864 bills, 9.26 million gallons, and at least 9.549 million reuse gallons. The County's argument in support of its recommended adjustments to billing determinants is discussed further in Section V.A.

#### Analysis

Based on the arguments provided in the test year billing determinants section (see Section V.A.), we do not make any adjustments to billing determinants for determining test year revenues or for setting final rates and charges. We agree with KWRU witnesses Johnson and Swain that KWRU's requested pro forma projects are not growth related nor is there extraordinary growth. We agree with the Utility that the additional billing determinants provided by the County and OPC were not accompanied by their matching expenses; therefore, imputing additional billing determinants consistent with the County and OPC's request would violate the matching principle. While we agree that including additional billing determinants may mitigate the overall rate impact to customers, the evidence in the record does not support making that adjustment in this case.

Conclusion

There shall be no adjustments to test year billing determinants for setting final rates and charges.

VIII. RATES AND CHARGES

A. Rate Structure And Rates For Wastewater Service

Parties' Arguments

**KWRU**

KWRU proposed final rates reflecting an across the board increase to its existing rates.

**OPC**

OPC argued that the Commission should utilize the matching principle when setting the Utility's rates and rate structure.

**Monroe County**

The County argued that an appropriate rate structure for KWRU should include a BFC and gallonage charges based on the amount of wastewater service provided. Additionally, the County stated that the rate structure approved in KWRU's last rate case which allocated 40 percent of revenues to the BFC and capped residential service at 10,000 gallons is appropriate.

The County asserted that miscellaneous and reuse revenues should be removed from the approved revenue requirement using the number of bills that will be rendered and gallons that will be treated and charged for during the first 12 months that the new rates will be in effect to set final rates. The County provided an attached Exhibit within its brief in support of its proposed rates

Analysis

We have jurisdiction to set rates that are just, reasonable, compensatory, and not unfairly discriminatory, considering the value, quality, and cost of the service pursuant to Section 367.081(2)(a)1, F.S. It is our practice to design wastewater rates which consist of a base facility charge (BFC) and gallonage charge for residential customers. For general service customers, the rate structure typically consists of a BFC based on meter size and a gallonage charge 1.2 times the corresponding residential gallonage charge.<sup>29</sup>

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<sup>29</sup>Order Nos. PSC-12-0102-FOF-WS, issued March 5, 2012, in Docket No. 100330-WS, In re: Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida,

KWRU currently has approved rates for residential service, general service, Harbor Shores, customers with private lift stations, and reuse service. KWRU proposed an across-the-board increase to its existing rates which is consistent with the County's position to allocate approximately 40 percent of revenues to the BFC and to maintain a 10,000 gallon residential cap.<sup>30</sup> While we agree with the County that miscellaneous revenues associated with miscellaneous service, late payment, and Monroe County Detention Center (MCDC) lift station cleaning charges should be removed from the overall revenue requirement to design rates, we did not remove reuse revenues, because it is appropriate that KWRU's existing reuse rate receive the same overall percent increase as the Utility's monthly service rates. Based upon our approved miscellaneous service charges, late payment charge, and the MCDC lift station cleaning charge, the appropriate amount of miscellaneous revenues to remove to determine the overall percent increase is \$81,314. Therefore, KWRU's existing monthly service rate shall be increased by 50.61 percent. Our calculation is shown in Table 12 below.

**Table 12**  
**Percentage Service Rate Increase**

|   |             |
|---|-------------|
| 1. Total Test Year Revenues                             | \$2,359,611 |
| 2. Less: Test Year Miscellaneous Revenues               | \$78,700    |
| 3. Test Year Revenues from Service Rates                | \$2,280,911 |
| 4. Revenue Increase                                     | \$1,156,895 |
| 5. Less: Incremental Increase in Miscellaneous Revenues | \$2,614     |
| 6. Adjusted Revenue Increase                            | \$1,154,281 |
| 7. Percentage Service Rate Increase (Line 6 / Line 3)   | 50.61%      |

Conclusion

The appropriate rate structure and rates for wastewater service are shown on Schedule No. 4. The Utility shall file revised tariff sheets and a proposed customer notice to reflect approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until Commission staff has approved the proposed customer notice and the notice has been received by customers. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice.

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Inc.; PSC-15-0233-PAA-WS, issued June 3, 2015 in Docket No. 140060-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

<sup>30</sup>Order No. PSC-17-0091-FOF-SU, issued March 13, 2017, in Docket No. 150071-SU, In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

## B. Reuse Rate

### Parties' Arguments

#### **KWRU**

KWRU's proposed reuse rate was calculated by applying the requested percent increase to its existing reuse rate. In its brief, KWRU pointed out that the County argued that the appropriate reuse rate should be greater than the Utility's requested reuse rate. KWRU argued that there is no evidence that FKAA's reuse rate is appropriate or results in additional use of reuse. KWRU further argued that an increase in the reuse rate may result in less reuse being utilized by customers. The Utility contends that if reuse usage declines significantly, additional disposal capacity may be needed.

#### **OPC**

OPC contended the appropriate reuse rate should be cost based. Additionally, when designing rates, reuse revenues should be removed from service revenues.

#### **Monroe County**

The County argued that reuse rates are determined by the cost of alternative supplies of water for irrigation and can be impacted by a utility's cost to dispose of treated wastewater. Additionally, the County contends that KWRU did not present a cost of service analysis for its reuse service. The County agreed with Witness Swain that higher reuse rates would mitigate the rate impact to the general body of rate payers. The County recommended that the Commission implement a reuse rate that is halfway between KWRU's proposed rate and the lowest FKAA rate for reuse service.

### Analysis

Our practice with respect to setting reuse rates does not include a cost based justification. Instead, the charge is typically set to reflect that sales of reuse as a lower cost alternative disposal method than percolation ponds or deep well injections.<sup>31</sup> Reuse rates typically reflect a comparison of reuse rates of surrounding utilities.<sup>32</sup> Revenues from sales of reuse are used to mitigate the impact of any rate increase to the general body of ratepayers.

Currently, the Utility provides reuse service to the Key West Golf Club, the Monroe County Detention Center, and Monroe County's Bernstein Park and has a reuse rate of \$1.34 per

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<sup>31</sup>Order No. PSC-15-0233-PAA-WS, issued June 3, 2015, in Docket No. 20140060-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

<sup>32</sup>Order Nos. PSC-15-0233-PAA-WS, issued June 3, 2015, in Docket No. 140060-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; PSC-09-0393-TRF-SU, issued June 2, 2009, In re: Application for approval of new class of service for reuse water service in Martin County by Indiantown Company, Inc.; PSC-09-0651-PAA-SU, issued September 28, 2009, in Docket No. 090121-SU, In re: Application for limited proceeding rate increase in Seminole County by Alafaya Utilities, Inc.

1,000 gallons. KWRU indicated that reuse-quality water not used by these three customers is diverted to Class V underground injection wells. There are seven wastewater treatment facilities in Monroe County permitted to provide reuse; only two of those systems have reuse rates and both facilities are owned and operated by FKAA. FKAA's reuse rates are based on 50 percent of its potable water rates (\$3.03 to \$6.07 per 1,000 gallons).

We agree with the Utility's methodology of applying a proportionate increase, consistent with the overall revenue increase, to the existing reuse rate; a cost justification analysis is not needed. Therefore, based on the overall revenue increase of approximately 50.61 percent, the appropriate reuse rate for KWRU is \$2.02 per 1,000 gallons. We find a reuse rate of \$2.02 will achieve an appropriate balance between the reuse supply of the Utility and demands of its customers while maintaining our practice with respect to setting reuse rates.

### Conclusion

The appropriate rate for KWRU's reuse service is \$2.02 per 1,000 gallons. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C. In addition, the approved rates shall not be implemented until Commission staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice.

### C. Miscellaneous Service Charges

#### Parties' Arguments

##### **KWRU**

KWRU witness Swain supported the Utility's proposed incremental increase to its current miscellaneous service charges based on a price index adjustment methodology. KWRU argued that no additional testimony was proffered contesting this methodology by the other intervenors.

##### **OPC**

OPC argued that the Utility's requested increase is not appropriate since it is not cost based. OPC does not believe KWRU has provided the necessary cost justification pursuant to Section 367.091(6), F.S.

##### **Monroe County**

The County contends that KWRU's current miscellaneous service charges should remain the same because KWRU failed to justify its proposed increases. Additionally, the County does not believe that KWRU's request to apply a percentage increase based on three years of inflation is appropriate because the Utility's current miscellaneous service charges were implemented less

than three years ago in April of 2017. Further, the County disputed the applicability of Rule 25-30.420(1)(a), F.A.C., to miscellaneous service charges.

### Analysis

We are authorized to establish, increase, or change a rate or charge other than monthly rates or service availability charges, such as miscellaneous service charges, pursuant to Section 367.091, F.S. Miscellaneous service charges are defined as initial connection, normal reconnection, violation reconnection, and premises visit charges according to Rule 25-30.460, F.A.C. It is our practice to evaluate miscellaneous service charges based on cost components associated with hourly salaries of field and administrative employees that facilitate miscellaneous services and other associated costs.<sup>33</sup>

The Utility's current miscellaneous service charges were approved during its last rate case and are shown on Table 13.<sup>34</sup> In this proceeding, the Utility requested that we evaluate its miscellaneous service charges based on the cost justification containing the components, such as, hourly salaries of field and administrative employees and other costs associated with miscellaneous service charges that were presented in KWRU's last rate case recognizing the cost increases since 2014 (the test year of the prior rate case). KWRU relied on the approved index percentages for 2015, 2016, and 2017 to adjust its existing miscellaneous service charges to reflect its current costs of administering miscellaneous services.<sup>35</sup>

Further, KWRU's miscellaneous service charge request is consistent with Order No. PSC-2007-0088-PAA-WS, in which we approved an increase to Utilities, Inc. of Pennbrooke's miscellaneous service charges using a price index methodology to account for a 16 year span where the charges were not updated to reflect current costs.<sup>36</sup> The order additionally points out the following:

Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities

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<sup>33</sup>Order Nos. PSC-2018-0334-PAA-WU, issued June 28, 2018, in Docket No. 20170155-WU, In re: Application for grandfather water certificate in Leon County and application for pass through increase of regulatory assessment fees, by Seminole Waterworks, Inc.; PSC-2017-0491-TRF-WS, issued December 28, 2017, in Docket No. 20170244-WS, In re: Request for approval of amendment to tariff for miscellaneous service charges in Lake County by Lakeside Waterworks, Inc.

<sup>34</sup>Order No. PSC-17-0091-FOF-SU, issued March 13, 2017, in Docket No. 150071-SU, In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

<sup>35</sup>Order Nos. PSC-15-0566-PAA-WS, issued December 15, 2015, in Docket No. 150005-WS, In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.; Order No. PSC-15-0072-PAA-WS, issued January 27, 2015, in Docket No. 150005-WS, In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.; Order No. PSC-16-0552-PAA-WS, issued December 12, 2016, in Docket No. 160005-WS, In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.

<sup>36</sup>Order No. PSC-2007-0088-PAA-WS, issued January 31, 2007, in Docket No. 20060261-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.



request that their miscellaneous service charges be indexed. We applied the approved price indices from 1990 through 2005 to Pennbrooke’s \$15 miscellaneous service charge and the result was a charge of \$21.00. Therefore, a \$21 charge is reasonable and is cost based.

We do not agree with OPC and the County that the Utility did not provide the necessary cost justification pursuant to Section 367.091(6), F.S. For miscellaneous service charges, KWRU’s cost justification is consistent with Section 367.091(6), F.S., because it reflects the cost components traditionally relied on to support miscellaneous service charges. The Utility’s current miscellaneous service charges were based on costs included in the 2014 test year for its last rate case. KWRU requested an increase of 4.4 percent for all of its miscellaneous service charges to reflect cost increases for 2015 through 2017. The record reflects that the Utility’s labor and administrative costs associated with miscellaneous services have increased in excess of 4.4 percent. Therefore, we find the Utility’s request reasonable. Based on KWRU’s cost justification, KWRU’s requested miscellaneous service charges are reasonable and are approved. These charges are shown in Table 13 below.

**Table 13**  
**Miscellaneous Service Charges**

| Description                   | Current      |             | Requested    |             |
|-------------------------------|--------------|-------------|--------------|-------------|
|                               | Normal Hours | After Hours | Normal Hours | After Hours |
| Initial Connection Charge     | \$59.50      | \$65.80     | \$62.14      | \$68.72     |
| Normal Reconnection Charge    | \$65.80      | \$76.10     | \$68.72      | \$79.47     |
| Violation Reconnection Charge | Actual Cost  |             | Actual Cost  |             |
| Premises Visit Charge         | \$45.70      | \$52.00     | \$47.73      | \$54.31     |

Conclusion

We hereby approve miscellaneous service charges shown in Table 13 for KWRU. The approved charges shall be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30,475, F.A.C. In addition, the approved charges shall not be implemented until Commission staff has approved the proposed customer notice and the notice has been received by the customers. KWRU shall provide proof of the date notice was given within 10 days of the date of the notice.

D. Late Payment Charges

Parties’ Arguments

**KWRU**

Witness Swain argued that KWRU’s request to apply a price index methodology to the Utility’s current late payment charge is appropriate. KWRU also argued that no testimony was proffered contesting this methodology.

## OPC

OPC does not believe the Utility's request to increase this charge is appropriate because cost justification, pursuant to Section 367.091(6), F.S., was not provided by KWRU.

## Monroe County

The County argued that KWRU's current late payment charge should remain unchanged because the Utility did not provide adequate support or cost justification pursuant to Section 367.091(6), F.S.

## Analysis

We are authorized to establish, increase, or change late payment charges pursuant to Section 367.091, F.S. KWRU's current late payment charge of \$7.15, which was established in the Utility's last rate case, is designed to allow the Utility to recover costs associated with processing delinquent bills.<sup>37</sup> KWRU is requesting to apply a price index methodology, consistent with its requested increase for its miscellaneous service charges and lift station cleaning charge, as justification for its requested late payment charge.

Consistent with our decision on miscellaneous service charges, we do not agree with OPC and the County that the Utility did not provide the necessary cost justification pursuant to Section 367.091(6), F.S.

We agree with KWRU's request to increase its late payment charge based on an increase consistent with the price index percentages approved by the us for 2015, 2016, and 2017.<sup>38</sup> The Utility's request to apply a price index methodology is consistent with the methodology used in Order No. PSC-2007-0088-PAA-WS.<sup>39</sup> Witness Swain testified that in the Utility's last rate case, KWRU's requested late payment charge, which was accompanied by its cost justification, was not approved by us. Witness Swain argued that it would not be appropriate for the Utility to provide an additional cost analysis requesting a late payment charge in the current proceeding because it would produce higher charges than what was approved by us in the last rate case. As a result, KWRU used its approved late payment charge of \$7.15 and applied the compounded approved index percentages for 2015, 2016, and 2017 in order to determine its requested late payment charge of \$7.47. We agree with the arguments set forth by the Utility that an

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<sup>37</sup>Order No. PSC-17-0091-FOF-SU, issued March 13, 2017, in Docket No. 150071-SU, In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities, Corp.

<sup>38</sup>Order Nos. PSC-15-0566-PAA-WS, issued December 15, 2015, in Docket No. 150005-WS, In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.; PSC-15-0072-PAA-WS, issued January 27, 2015, In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.; PSC-16-0552-PAA-WS, issued December 12, 2016, in Docket No. 160005-WS, In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.

<sup>39</sup>Order No. PSC-2007-0088-PAA-WS, issued January 31, 2007, in Docket No. 20060261-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

incremental increase to its late payment charge using a price index methodology is reasonable and shall be approved.

### Conclusion

The appropriate late payment charge for KWRU is \$7.47. The approved charge shall be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges shall not be implemented until Commission staff has approved the proposed customer notice and the notice has been received by the customers. KWRU shall provide proof of the date notice was given within 10 days of the date of the notice.

### E. Lift Station Cleaning Charge

### Parties' Arguments

#### **KWRU**

Witness Swain defended KWRU's request to apply a price index methodology to the Utility's current lift station cleaning charge is appropriate. KWRU also argued that no testimony was proffered contesting this methodology.

#### **OPC**

OPC does not believe the Utility's request to increase this charge is appropriate because cost justification, pursuant to Section 367.091(6), F.S., was not provided by KWRU.

#### **Monroe County**

The County argued that KWRU's current lift station cleaning charge should remain unchanged because the Utility did not provide adequate support or cost justification pursuant to Section 367.091(6), F.S.

### Analysis

KWRU's current lift station cleaning charge of \$1,461.52 was established in its last rate case and was designed to allow the Utility to recover the costs associated with cleaning the MCDC lift station in its last rate case.<sup>40</sup> KWRU proposed applying a price index methodology consistent with its request for its miscellaneous service charges and late payment charge to reflect the associated increase in costs since the last rate case.

Consistent with the miscellaneous service charges and late payment charge, we agree with KWRU that the Utility's current lift station cleaning charge shall be updated consistent with

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<sup>40</sup>Order No. PSC-17-0091-FOF-SU, issued March 13, 2017, in Docket No. 150071-SU, In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities, Corp.

the price index percentages approved by the us.<sup>41</sup> Additionally, consistent with previous decision, we do not agree with OPC and the County that the Utility did not provide the necessary cost justification pursuant to Section 367.091(6), F.S.

### Conclusion

The appropriate lift station cleaning charge for KWRU is \$1,526.82. The approved charge shall be effective on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, F.A.C. In addition, the approved charges shall not be implemented until Commission staff has approved the proposed customer notice and the notice has been received by the customers. KWRU shall provide proof of the date notice was given within 10 days of the date of the notice.

### F. Initial Customer Deposits

#### Parties' Arguments

##### **KWRU**

The Utility argued that initial customer deposits should be two times the average customer bill based upon the final rate determination consistent with our practice in the Utility's last rate case.

##### **OPC**

In its brief, OPC stated that it agrees with the County's argument for this issue.

##### **Monroe County**

The County argued that initial customer deposits should be based on one month's estimated bill for initial service connections. Since the customer base on Stock Island is predominantly low-income, the County believes that initial customer deposits based on two month's of estimated bills would impose additional burden on brand-new customers. However, if a customer is disconnected for non-payment, the County supported KWRU's collection of a customer deposit based on two month's bills.

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<sup>41</sup>Order Nos. PSC-15-0566-PAA-WS, issued December 15, 2015, in Docket No. 150005-WS, In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.; PSC-15-0072-PAA-WS, issued January 27, 2015, In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.; PSC-16-0552-PAA-WS, issued December 12, 2016, in Docket No. 160005-WS, In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.

Analysis

Rule 25-30.311, F.A.C., contains criteria for collecting, administering, and refunding customer deposits. Rule 25-30.311(1), F.A.C., requires that each company's tariff shall contain its specific criteria for determining the amount of initial deposits. It is our practice to establish customer deposits based on two times the average monthly bill consistent, with Rule 25-30.311(7), F.A.C., which allows a utility to require a new or additional deposit for existing customers based on two billing periods.<sup>42</sup> While it is our practice, KWRU's current tariff authorizes the Utility to collect initial customer deposits of two times the average estimated bill for all meter sizes, the tariff does not specify the amount.

We do not agree with the County's argument to set initial customer deposits based on one month's bill because setting customer deposits based on one month's bill would not effectively minimize the Utility's exposure of bad debt expense and would fail to account for the lag time between the customer's usage and the Utility's revenue collection associated with usage. Therefore, KWRU's customer deposits shall be set based on two billing periods.

Based on the Utility's MFRs, KWRU's average residential monthly demand is approximately 4,080 gallons (71,295 gallons/ 17,475 bills). Therefore, based on our approved rate structure and rates and KWRU's average residential monthly demand of approximately 4,080 gallons the appropriate customer deposit is \$161 for the residential 5/8" x 3/4" meter. The initial customer deposits for all other meter sizes and customer classes shall be two times the average estimated bill.

Conclusion

The appropriate initial customer deposit shall be \$161 for the residential 5/8" x 3/4" meter size. The initial customer deposit for all other meter sizes and customer classes shall be two times the average estimated bill. The approved customer deposits shall be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility shall be required to collect the approved initial customer deposits until authorized to change them by the Commission in a subsequent proceeding.

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<sup>42</sup>Order Nos. PSC-2018-0109-TRF-WS, issued February 27, 2018, in Docket No. 20170255-WS, In re: Request for approval of amendment to tariff charge miscellaneous service charges and to collect customer deposits in Polk County, by Deer Creek RV Golf & County Club, Inc.; PSC-17-0209-PAA-WU, issued May 30, 2017, in Docket No. 160065-WU, In re: Application for increase in water rates in Charlotte County by Bocilla Utilities, Inc.

G. Allowance for Funds Prudently Invested (AFPI)

Parties' Arguments

**KWRU**

In its brief, KWRU stated that all parties identified the appropriate AFPI is provided in Schedule E-10 of the Utility's MFRs. KWRU's calculation of its requested AFPI was based on the inclusion of all pro forma projects.

**OPC**

OPC argued the appropriate AFPI charges are those reflected in KWRU's E-2 Schedule of its MFRs.

**Monroe County**

The County took no position on this issue.

Analysis

KWRU proposed AFPI charges in Schedule E-10 of its MFRs. The Utility currently does not have Commission-approved AFPI charges in its tariff. Pursuant to Rule 25-30.434, F.A.C., an AFPI charge is a mechanism designed to allow a utility the opportunity to earn a fair rate of return on prudently constructed plant held for future use from the future customers that will be served by that plant. The rule also provides that the utility can continue to collect AFPI charges until all projected ERCs included in the calculation of the charge have been added. Additionally, the rule provides that it is prudent for the utility to have an investment in future plant for no longer than five years beyond the test year unless the utility can demonstrate that more than five years is appropriate.

Based on the approved U&U, the Utility's treatment plant is considered 71.5 percent used and useful. Additionally, the Utility's wastewater collection system is considered 100 percent used and useful. Therefore, because approximately 28.5 percent of the Utility's treatment plant is considered non-used and useful capacity, the Utility's request for AFPI charges is appropriate. However, our approved AFPI charges differ from those proposed in the Utility's application because we utilized the approved cost and capacity of qualifying assets, including annual depreciation expense, annual property tax, and rate of return, to calculate the approved AFPI charges.

The test year used in this case for establishing the amount of non-used and useful plant is the 13-month period ended June 30, 2017. Pursuant to Rule 25-30.434(4), F.A.C., the beginning date for accruing the AFPI charge should agree with the month following the end of the test year that was used to establish the amount of non-used and useful plant. Therefore, the beginning date for the AFPI accrual in this case is July 1, 2017. Furthermore, in accordance with Rule 25-30.434(4), F.A.C., no charge may be collected for any connections made between the beginning dates and the effective date of the AFPI charges. Our approved AFPI charges are based upon the

time of the initial connection or prepayment and are shown on Table 14 below. These charges represent one ERC, and if a future customer requires more than one ERC, the connection fee should be multiplied by the number of ERCs which are required to provide service to the customer.

**Table 14**  
**Allowance for Funds Prudently Invested**  
**Calculation of Carrying Cost per ERC per Month**

|           | 2017     | 2018     | 2019     | 2020       | 2021       | 2022       |
|-----------|----------|----------|----------|------------|------------|------------|
| January   |          | \$209.27 | \$577.74 | \$963.63   | \$1,368.29 | \$1,793.15 |
| February  |          | \$239.16 | \$609.03 | \$996.41   | \$1,402.69 | \$1,829.28 |
| March     |          | \$269.06 | \$640.31 | \$1,029.20 | \$1,437.08 | \$1,865.41 |
| April     |          | \$298.95 | \$671.60 | \$1,061.98 | \$1,471.47 | \$1,901.54 |
| May       |          | \$328.85 | \$702.88 | \$1,094.76 | \$1,505.87 | \$1,937.66 |
| June      |          | \$358.74 | \$734.17 | \$1,127.54 | \$1,540.26 | \$1,973.79 |
| July      | \$29.90  | \$390.03 | \$766.95 | \$1,161.93 | \$1,576.39 |            |
| August    | \$59.79  | \$421.31 | \$799.73 | \$1,196.33 | \$1,612.52 |            |
| September | \$89.69  | \$452.60 | \$832.51 | \$1,230.72 | \$1,648.64 |            |
| October   | \$119.58 | \$483.88 | \$865.29 | \$1,265.11 | \$1,684.77 |            |
| November  | \$149.48 | \$515.17 | \$898.07 | \$1,299.51 | \$1,720.90 |            |
| December  | \$179.37 | \$546.45 | \$930.85 | \$1,333.90 | \$1,757.03 |            |

Conclusion

The appropriate AFPI charges are shown on Table 14. The Utility shall file revised tariff sheets and a proposed notice reflecting the approved charges. KWRU should provide notice to property owners who have requested service within the 12 calendar months prior to the month the application was filed to the present. The approved charges shall be effective for connections made on or after the stamped approval date on the tariff sheet. The Utility shall provide proof of noticing within 10 days of rendering its approved notice.

IX. Removal of the Amortized Rate Case Expense

Parties' Arguments

**KWRU**

The Utility contends this is a fall-out issue dependent on rate case expense.

**OPC**

In its brief, OPC stated the amount should be dependent on the Commission-approved rate case expense.

## **Monroe County**

The County contends the appropriate reduction is a fall-out value of the Commission-approved rate case expense.

### 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 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, which is attached.

KWRU shall be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility shall 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 shall be reduced as shown on Schedule No. 4 to remove \$114,149 of wastewater rate case expense, grossed-up for RAFs, which is being amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period pursuant to Section 367.081(8), F.S. KWRU shall 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.

## X. Interim Refund

### Parties' Arguments

#### **KWRU**

KWRU argued that all parties' positions point to an increase in final rates over the interim rates, therefore, no refund should be required.



## **OPC**

OPC stated that this is a fall out issue based on the outcomes of other issues. OPC argued that, if an interim rate refund is necessary, it should be calculated according to our policy and rule.

## **Monroe County**

The County argued that this is a fall out issue and that, if any refund is necessary, it should be calculated according to standard Commission practice and rules.

### Analysis

We authorized KWRU to collect interim wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement of \$2,425,904 represented an increase of \$85,629 or 3.66 percent.<sup>43</sup>

According to Section 367.082(4), F.S., any refund should be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period that interim rates are in effect should be removed. Rate case expense is an example of an adjustment that is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended June 30, 2017. KWRU's approved interim rates did not include any provisions for pro forma operating expenses or plant. The interim increase was designed to allow recovery of actual interest expense, and the lower limit of the last authorized range of return on equity.

To establish the proper refund amount, we calculated an interim period revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. Using the principles discussed above, the interim test year revenue requirement of \$2,425,904, granted in Order PSC-2018-0102-PCO-SU, issued February 26, 2018, is less than our calculated interim period revenue requirement.

### Conclusion

No interim refund shall be required because the total interim collection period revenue requirement calculated is greater than the total interim revenue requirement that was granted. As a result, the corporate undertaking amount of \$78,925 shall be released.

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<sup>43</sup> Order No. PSC-2018-0102-PCO-SU, issued February 26, 2018, in Docket No. 20170141-SU, In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.

## XI. Asset Management and Preventive Maintenance Plan

### Parties' Arguments

#### **KWRU**

KWRU argued that more proactive maintenance could be completed by the Utility, contingent on a full operating staff. KWRU also argued that OPC witness Woodcock testified that additional employees may not be required, but a sufficient number is needed. Implementing an asset management and preventative maintenance plan could lengthen the life of assets, though there is no single standard asset management plan that fits all utilities.

#### **OPC**

OPC argued that KWRU should maintain an asset management and preventative maintenance plan to enhance its service, decrease costs, and prolong the life of the Utility's assets. OPC affirmed that based on OPC witness Woodcock's testimony, additional costs or extra employees would not be needed to implement asset management principles as they relate to KWRU's operations and planning activities. OPC argued that resources were provided by witness Woodcock, and the Utility should utilize these resources before its next rate case.

#### **Monroe County**

The County argued that KWRU should maintain an asset management and preventative maintenance plan.

### Analysis

In OPC witness Woodcock's direct testimony, he testified that based on his site visit and discovery responses, KWRU has been tracking maintenance on a short term basis, but does not have a long term plan in place. Witness Woodcock testified that the Utility provided documentation indicating that KWRU is performing regular maintenance and tracking the work performed. However, OPC witness Woodcock testified that the Utility does not have a systematic program for tracking and planning maintenance activities. Witness Woodcock affirmed that asset management principles should be implemented by KWRU to improve the operation and maintenance of its assets, and to allow the Utility to track, plan, and budget for equipment replacements. For implementation, witness Woodcock stated that the U.S. Environmental Protection Agency offers asset management resources, and application of an asset management plan does not require additional employees, but can be executed by skilled wastewater managers and operators.

In rebuttal testimony, KWRU witness Johnson testified that he agreed with witness Woodcock that the Utility could do more to implement proactive maintenance, but stated that asset management techniques require "adequate labor." Witness Johnson asserted that KWRU would be able to put into practice an asset maintenance program with 14 employees as there

would be adequate staffing to run day-to-day operations and the Utility would be able to undertake such a project.

Taking into account witness Woodcock's testimony, as well as witness Johnson's agreement with witness Woodcock, we find that more needs to be done by KWRU to implement asset management principles. However, neither witness Woodcock nor witness Johnson provided any clear recommendations for how an asset management and preventative maintenance plan should be implemented. Therefore, KWRU shall consider the resources offered by witness Woodcock, and provide a proposed asset management and preventative maintenance plan for the our consideration at the time of the Utility's next rate case.

### Conclusion

Based on the discussion above, KWRU shall provide a proposed asset management and preventative maintenance plan for our consideration at the time of the Utility's next rate case.

### XII. Notification of Commission Ordered Adjustments

The Utility shall notify this Commission, in writing, that it has adjusted its books in accordance with any Commission ordered adjustments. KWRU shall submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice shall be provided within seven days prior to deadline. Upon providing good cause, Commission staff shall have administrative authority to grant an extension of up to 60 days.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that K W Resort Utilities Corp.'s application for an increase in wastewater rates is hereby approved as set forth in the body of this Order. It is further

ORDERED that all matters contained in the attached schedules to this Order are incorporated herein by reference. It is further

ORDERED that K W Resort Utilities Corp. is hereby authorized to charge the new rates and charges as approved in the body of this Order. It is further

ORDERED that K W Resort Utilities Corp.'s overall quality of service is satisfactory. It is further

ORDERED that the rates and charges approved herein shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates and charges shall not be implemented until Commission staff has approved the proposed customer notice and the notice has been received by the customers. It is further

ORDERED that K W Resort Utilities Corp. shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that K W Resort Utilities Corp. shall notify this Commission, in writing, that it has adjusted its books in accordance with any Commission ordered adjustments. KWRU shall submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice shall be provided within seven days prior to deadline. Upon providing good cause, Commission staff shall have administrative authority to grant an extension of up to 60 days. It is further

ORDERED that following K W Resort Utilities Corp.'s wastewater treatment shall be 71.5 percent used and useful. It is further

ORDERED that K W Resort Utilities Corp.'s authorized return on equity is 10.39 percent with an allowed range of plus or minus 100 basis points. It is further

ORDERED that no interim refund is required and the corporate undertaking amount of \$78,925 shall be released. It is further

ORDERED that K W Resort Utilities Corp. shall provide a proposed asset management and preventative maintenance plan for our consideration at the time of the Utility's next rate case. It is further

ORDERED that in accordance with Section 367.081(8), F.S., K W Resort Utilities Corp.'s wastewater rates shall be reduced four years after the effective date of these new rates as shown in Schedule No. 4. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period. It is further

ORDERED that K W Resort Utilities Corp. shall 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 the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall 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. It is further

ORDERED that K W Resort Utilities Corp. shall submit documentation to this Commission, detailing the total amount and the percentage of contribution allocated to each employee and officer of the Utility for the profit sharing plan on a yearly basis as a supplemental schedule to be included with the Company's annual report. It is further

ORDERED that in the event K W Resort Utilities Corp. reduces its contribution or terminates the profit sharing plan, the Utility shall notify this Commission in writing within 30 days. If the plan is modified or terminated, we may take further action, if necessary. It is further

ORDERED that this docket shall remain open for Commission staff's verification that the revised tariff sheets and customer notices have been filed by the Utility and approved by staff, and the Utility has provided Commission staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 4th day of September, 2018.

  
CARLOTTA S. STAUFFER  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399  
(850) 413-6770  
[www.floridapsc.com](http://www.floridapsc.com)

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

KRM/JSC

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request:

- 1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or
- 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Office of Commission Clerk, and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

| <b>KWRU</b>                             |                                      |                                      |   | <b>Schedule No. 1-A</b>                 |  |
|---|--------------------------------------|--------------------------------------|---|---|--|
| <b>Schedule of Wastewater Rate Base</b> |                                      |                                      |   | <b>Docket No. 20170141-WS</b>           |  |
| <b>Test Year Ended 06/30/17</b>         |                                      |                                      |   |   |  |
| <b>Description</b>                      | <b>Test Year<br/>Per<br/>Utility</b> | <b>Utility<br/>Adjust-<br/>ments</b> | <b>Adjusted<br/>Test Year<br/>Per Utility</b> | <b>Commission<br/>Adjust-<br/>ments</b> | <b>Commission<br/>Adjusted<br/>Test Year</b> |
| 1 Plant in Service                      | \$13,541,772                         | \$6,346,023                          | \$19,887,795                                  | (\$1,036,689)                           | \$18,851,106                                 |
| 2 Land and Land Rights                  | 375,000                              | 0                                    | 375,000                                       | 0                                       | 375,000                                      |
| 3 Non-used and Useful Components        | 0                                    | (2,652,257)                          | (2,652,257)                                   | 155,998                                 | (2,496,259)                                  |
| 4 CWIP                                  | 1,311,463                            | (1,311,463)                          | 0   | 0                                       | 0  |
| 5 Accumulated Depreciation              | (6,490,653)                          | 212,962                              | (6,277,691)                                   | 1,041,034                               | (5,236,657)                                  |
| 6 CIAC                                  | (10,406,318)                         | 0                                    | (10,406,318)                                  | 0                                       | (10,406,318)                                 |
| 7 Amortization of CIAC                  | 3,898,064                            | 0                                    | 3,898,064                                     | 0                                       | 3,898,064                                    |
| 8 Working Capital Allowance             | <u>0</u>                             | <u>2,219,132</u>                     | <u>2,219,132</u>                              | <u>(1,123,186)</u>                      | <u>1,095,946</u>                             |
| 9 <b>Rate Base</b>                      | <u>\$2,229,328</u>                   | <u>\$4,814,397</u>                   | <u>\$7,043,725</u>                            | <u>(\$962,842)</u>                      | <u>\$6,080,883</u>                           |

| <b>KWRU</b>                     |  | <b>Schedule No. 1-B</b>       |
|---------------------------------|--|-------------------------------|
| <b>Adjustments to Rate Base</b> |  | <b>Docket No. 20170141-WS</b> |
| <b>Test Year Ended 06/30/17</b> |  |                               |
| <b>Explanation</b>              |  | <b>Wastewater</b>             |
| <b>Plant In Service</b>         |  |                               |
| 1                               | To reflect lift station retirement.                              | (\$109,795)                   |
| 2                               | To reflect pro forma WWTP rehabilitation.                        | 84,360                        |
| 3                               | To reflect pro forma chlorine contact chamber.                   | 30,266                        |
| 4                               | To reflect chlorine contact chamber retirement.                  | (826,560)                     |
| 5                               | To reflect pro forma generator.                                  | 65,139                        |
| 6                               | To reflect generator retirement.                                 | (128,257)                     |
| 7                               | To reflect pro forma tow behind generator.                       | (25,554)                      |
| 8                               | To reflect pro forma telephone system.                           | (3,991)                       |
| 9                               | To reflect pro forma service truck with crane.                   | (9,069)                       |
| 10                              | To reflect pro forma office structures & improvements.           | (43,063)                      |
| 11                              | To reflect office retirement.                                    | (68,975)                      |
| 12                              | To reflect pro forma sand sifter.                                | <u>(1,190)</u>                |
|                                 | <b>Total</b>   | <u>(\$1,036,689)</u>          |
| <b>Non-used and Useful</b>      |  |                               |
|                                 | To reflect net non-used and useful adjustment to rate base.      | <u>\$155,998</u>              |
| <b>Accumulated Depreciation</b> |  |                               |
| 1                               | To reflect pro forma accumulated depreciation.                   | \$1,044,031                   |
| 2                               | To remove annualization associated with routine plant additions. | 7,845                         |
| 3                               | To reflect appropriate annualization associated with AWT.        | <u>(10,842)</u>               |
|                                 | <b>Total</b>   | <u>\$1,041,034</u>            |
| <b>Working Capital</b>          |  |                               |
| 1                               | To reflect appropriate cash.                                     | (\$593,848)                   |
| 2                               | To remove FPSC escrow account.                                   | (281,123)                     |
| 3                               | To remove unamortized debt discount expense.                     | (43,206)                      |
| 4                               | To reflect appropriate deferred rate case expense.               | (169,673)                     |
| 5                               | To reflect other miscellaneous deferred debits.                  | <u>(35,336)</u>               |
|                                 | <b>Total</b>   | <u>(\$1,123,186)</u>          |



| <b>KWRU</b>                               |                      |                             |                                  |                             |  | <b>Schedule No. 2</b>         |                  |                      |
|---|----------------------|-----------------------------|----------------------------------|-----------------------------|--|-------------------------------|------------------|----------------------|
| <b>Capital Structure-13-Month Average</b> |                      |                             |                                  |                             |  | <b>Docket No. 20170141-WS</b> |                  |                      |
| <b>Test Year Ended 06/30/17</b>           |                      |                             |                                  |                             |  |                               |                  |                      |
| <b>Description</b>                        | <b>Total Capital</b> | <b>Specific Adjustments</b> | <b>Subtotal Adjusted Capital</b> | <b>Pro Rata Adjustments</b> | <b>Capital Reconciled to Rate Base</b> | <b>Ratio</b>                  | <b>Cost Rate</b> | <b>Weighted Cost</b> |
| <b>Per Utility</b>                        |                      |                             |                                  |                             |  |                               |                  |                      |
| 1 Long-term Debt                          | \$2,209,292          | \$0                         | \$2,209,292                      | \$1,250,988                 | \$3,460,280                            | 49.13%                        | 4.88%            | 2.40%                |
| 2 Short-term Debt                         | 0                    | 0                           | 0                                | 0                           | 0                                      | 0.00%                         | 0.00%            | 0.00%                |
| 3 Preferred Stock                         | 0                    | 0                           | 0                                | 0                           | 0                                      | 0.00%                         | 0.00%            | 0.00%                |
| 4 Common Equity                           | 2,159,569            | 0                           | 2,159,569                        | 1,222,834                   | 3,382,403                              | 48.02%                        | 10.39%           | 4.99%                |
| 5 Customer Deposits                       | 201,041              | 0                           | 201,041                          | 0                           | 201,041                                | 2.85%                         | 2.00%            | 0.06%                |
| 6 Tax Credits-Zero Cost                   | 0                    | 0                           | 0                                | 0                           | 0                                      | 0.00%                         | 0.00%            | 0.00%                |
| 7 Deferred Income Taxes                   | 0                    | 0                           | 0                                | 0                           | 0                                      | 0.00%                         | 0.00%            | 0.00%                |
| 8 <b>Total Capital</b>                    | <u>\$4,569,902</u>   | <u>\$0</u>                  | <u>\$4,569,902</u>               | <u>\$2,473,822</u>          | <u>\$7,043,724</u>                     | <u>100.00%</u>                |                  | <u>7.45%</u>         |
| <b>Per Commission</b>                     |                      |                             |                                  |                             |  |                               |                  |                      |
| 9 Long-term Debt                          | \$2,209,292          | \$0                         | \$2,209,292                      | \$764,089                   | \$2,973,381                            | 48.90%                        | 5.39%            | 2.64%                |
| 10 Short-term Debt                        | 0                    | 0                           | 0                                | 0                           | 0                                      | 0.00%                         | 0.00%            | 0.00%                |
| 11 Preferred Stock                        | 0                    | 0                           | 0                                | 0                           | 0                                      | 0.00%                         | 0.00%            | 0.00%                |
| 12 Common Equity                          | 2,159,569            | 0                           | 2,159,569                        | 746,892                     | 2,906,461                              | 47.80%                        | 10.39%           | 4.97%                |
| 13 Customer Deposits                      | 201,041              | 0                           | 201,041                          | 0                           | 201,041                                | 3.31%                         | 2.00%            | 0.07%                |
| 14 Tax Credits-Zero Cost                  | 0                    | 0                           | 0                                | 0                           | 0                                      | 0.00%                         | 0.00%            | 0.00%                |
| 15 Deferred Income Taxes                  | 0                    | 0                           | 0                                | 0                           | 0                                      | 0.00%                         | 0.00%            | 0.00%                |
| 16 <b>Total Capital</b>                   | <u>\$4,569,902</u>   | <u>\$0</u>                  | <u>\$4,569,902</u>               | <u>\$1,510,981</u>          | <u>\$6,080,883</u>                     | <u>100.00%</u>                |                  | <u>7.67%</u>         |
|   |                      |                             |                                  |                             |  | <b>LOW</b>                    | <b>HIGH</b>      |                      |
|   |                      |                             |                                  |                             |  | RETURN ON EQUITY              | 9.39%            | 11.39%               |
|   |                      |                             |                                  |                             |  | OVERALL RATE OF RETURN        | 7.19%            | 8.15%                |

| <b>KWRU</b>                               |                              |                            |                                       |                               |                                      | <b>Schedule No. 3-A</b>       |                            |
|---|------------------------------|----------------------------|---------------------------------------|-------------------------------|--------------------------------------|-------------------------------|----------------------------|
| <b>Statement of Wastewater Operations</b> |                              |                            |                                       |                               |                                      | <b>Docket No. 20170141-WS</b> |                            |
| <b>Test Year Ended 06/30/17</b>           |                              |                            |                                       |                               |                                      |                               |                            |
| <b>Description</b>                        | <b>Test Year Per Utility</b> | <b>Utility Adjustments</b> | <b>Adjusted Test Year Per Utility</b> | <b>Commission Adjustments</b> | <b>Commission Adjusted Test Year</b> | <b>Revenue Increase</b>       | <b>Revenue Requirement</b> |
| 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>49.03%  | <u>\$3,516,506</u>         |
| <b>Operating Expenses</b>                 |                              |                            |                                       |                               |                                      |                               |                            |
| 2 Operation & Maintenance                 | \$1,720,331                  | \$812,727                  | \$2,533,058                           | (\$86,424)                    | \$2,446,634                          |                               | \$2,446,634                |
| 3 Depreciation                            | 144,159                      | 192,324                    | 336,483                               | (33,349)                      | 303,134                              |                               | 303,134                    |
| 4 Amortization                            | 0                            | 0                          | 0                                     | 0                             | 0                                    |                               | 0                          |
| 5 Taxes Other Than Income                 | 175,513                      | 112,405                    | 287,918                               | (39,508)                      | 248,410                              | 52,060                        | 300,470                    |
| 6 Income Taxes                            | <u>0</u>                     | <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>              | <u>2,998,178</u>                     | <u>52,060</u>                 | <u>3,050,238</u>           |
| 8 <b>Operating Income</b>                 | <u>\$90,304</u>              | <u>\$434,454</u>           | <u>\$524,758</u>                      | <u>(\$1,163,325)</u>          | <u>(\$638,567)</u>                   | <u>\$1,104,835</u>            | <u>\$466,267</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>                       |                               | <u>7.67%</u>               |

| <b>KWRU</b>                              |  | <b>Schedule No. 3-B</b>       |
|--|--|-------------------------------|
| <b>Adjustments to Operating Income</b>   |  | <b>Docket No. 20170141-WS</b> |
| <b>Test Year Ended 06/30/17</b>          |  |                               |
| <b>Explanation</b>                       |  | <b>Wastewater</b>             |
| <b>Operating Revenues</b>                |  |                               |
| 1  | Remove requested final revenue increase.                           | (\$1,349,690)                 |
| 2  | To reflect test year revenues.                                     | 27,084                        |
|  | <b>Total</b>   | <u>(\$1,322,606)</u>          |
| <b>Operation and Maintenance Expense</b> |  |                               |
| 1  | To reflect appropriate salaries & wage expense.                    | (\$83,645)                    |
| 2  | To reflect appropriate pensions & benefits expense.                | (3,487)                       |
| 3  | To reflect pro forma purchased power expense.                      | 13,237                        |
| 4  | To reflect appropriate test year materials & supplies expense.     | (55,070)                      |
| 5  | To reflect appropriate test year cont. services - other expense.   | 43,290                        |
| 6  | To reflect appropriate test year cont. services - eng. expense.    | (11,370)                      |
| 7  | To reflect appropriate test year rental of equipment expense.      | (1,258)                       |
| 8  | To reflect pro forma worker's comp expense.                        | (3,861)                       |
| 9  | To reflect pro forma amortization of hurricane expenses.           | (7,022)                       |
| 10                                       | To reflect appropriate test year miscellaneous expense.            | (3,888)                       |
| 11                                       | To reflect pro forma telephone expense.                            | (4,982)                       |
| 12                                       | To reflect appropriate rate case expense.                          | 37,912                        |
| 13                                       | To reflect appropriate test year Advertising Expense.              | (4,775)                       |
| 14                                       | To reflect appropriate test year cont. services - testing expense. | (1,504)                       |
|  | <b>Total</b>   | <u>(\$86,424)</u>             |
| <b>Depreciation Expense - Net</b>        |  |                               |
| 1  | To reflect pro forma depreciation expense.                         | (\$8,565)                     |
| 2  | To remove annualization associated with routine plant additions.   | (9,468)                       |
| 3  | To reflect appropriate annualization associated with AWT.          | (47,772)                      |
| 4  | To reflect net non-used and useful adjustment.                     | 32,457                        |
|  | <b>Total</b>   | <u>(\$33,349)</u>             |
| <b>Taxes Other Than Income</b>           |  |                               |
| 1  | To remove RAFs on revenue increase.                                | (\$59,517)                    |
| 2  | To remove property tax on non U&U adjustment.                      | 22,954                        |
| 3  | To reflect pro forma plant.  | (458)                         |
| 4  | To reflect pro forma salaries.                                     | (2,488)                       |
|  | <b>Total</b>   | <u>(\$39,508)</u>             |

| <b>K W Resort Utilities Corp.</b>                                   |                                      |  |  |  |   |
|---|--------------------------------------|--|--|--|---|
| <b>Test Year Ended June 30, 2017</b>                                |                                      |  |  |  | <b>Schedule No. 4</b>                   |
| <b>Monthly Wastewater Rates</b>                                     |                                      |  |  |  | <b>Docket No. 20170141-SU</b>           |
|   | <b>Rates<br/>Prior to<br/>Filing</b> | <b>Commission<br/>Approved<br/>Interim</b> | <b>Utility<br/>Requested<br/>Final</b> | <b>Commission<br/>Approved<br/>Rates</b> | <b>Four Year<br/>Rate<br/>Reduction</b> |
| <b><u>Residential Service</u></b>                                   |                                      |  |  |  |   |
| Base Facility Charge All Meter Sizes                                | \$31.86                              | \$33.07                                    | \$50.74                                | \$47.98                                  | \$1.59                                  |
| Charge per 1,000 gallons<br>10,000 gallon cap                       | \$5.28                               | \$5.48                                     | \$8.41                                 | \$7.95                                   | \$0.26                                  |
| <b><u>General Service</u></b>                                       |                                      |  |  |  |   |
| Base Facility Charge by Meter Size                                  |                                      |  |  |  |   |
| 5/8" x 3/4"   | \$31.86                              | \$33.07                                    | \$50.74                                | \$47.98                                  | \$1.59                                  |
| 1"  | \$79.65                              | \$82.66                                    | \$126.84                               | \$119.95                                 | \$3.98                                  |
| 1-1/2"  | \$159.30                             | \$165.33                                   | \$253.69                               | \$239.90                                 | \$7.95                                  |
| 2"  | \$254.88                             | \$264.53                                   | \$405.90                               | \$383.84                                 | \$12.72                                 |
| 3"  | \$509.76                             | \$529.05                                   | \$811.79                               | \$767.68                                 | \$25.44                                 |
| 4"  | \$796.50                             | \$826.64                                   | \$1,268.43                             | \$1,199.50                               | \$39.75                                 |
| 6"  | \$1,593.00                           | \$1,653.28                                 | \$2,536.85                             | \$2,399.00                               | \$79.50                                 |
| 8"  | \$2,548.80                           | \$2,645.25                                 | \$4,058.96                             | \$3,838.40                               | \$127.20                                |
| 8" Turbo  | \$2,867.40                           | \$2,975.91                                 | \$4,566.33                             | \$4,318.20                               | \$143.10                                |
| Charge per 1,000 gallons  | \$6.33                               | \$6.57                                     | \$10.08                                | \$9.53                                   | \$0.32                                  |
| <b><u>Harbor Shores</u></b>   |                                      |  |  |  |   |
| Base Facility Charge (69 ERCs)                                      | \$2,198.34                           | \$2,281.53                                 | \$3,500.86                             | \$3,310.62                               | \$109.91                                |
| Charge per 1,000 gallons<br>690,000 gallon cap                      | \$5.28                               | \$5.48                                     | \$8.41                                 | \$7.95                                   | \$0.26                                  |
| <b><u>Private Lift Station Owners</u></b>                           |                                      |  |  |  |   |
| 5/8" x 3/4"   | \$25.49                              | \$26.45                                    | \$40.59                                | \$38.38                                  | \$1.27                                  |
| 1"  | \$63.72                              | \$66.14                                    | \$101.47                               | \$95.96                                  | \$3.18                                  |
| 1-1/2"  | \$127.44                             | \$132.27                                   | \$202.95                               | \$191.92                                 | \$6.35                                  |
| 2"  | \$203.90                             | \$211.64                                   | \$324.71                               | \$307.07                                 | \$10.16                                 |
| 3"  | \$407.81                             | \$423.27                                   | \$649.44                               | \$614.14                                 | \$20.32                                 |
| 4"  | \$637.20                             | \$661.37                                   | \$1,014.74                             | \$959.60                                 | \$31.75                                 |
| 6"  | \$1,274.40                           | \$1,322.73                                 | \$2,029.48                             | \$1,919.20                               | \$63.50                                 |
| 8"  | \$2,039.04                           | \$2,116.37                                 | \$3,247.17                             | \$3,070.72                               | \$101.60                                |
| Charge per 1,000 gallons  | \$6.33                               | \$6.57                                     | \$10.08                                | \$9.53                                   | \$0.32                                  |
| <b><u>Reuse Service</u></b>   |                                      |  |  |  |   |
| Charge per 1,000 gallons  | \$1.34                               | \$1.39                                     | \$2.13                                 | \$2.02                                   | \$0.07                                  |
| <b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b> |                                      |  |  |  |   |
| 4,000 Gallons   | \$52.98                              | \$54.99                                    | \$84.38                                | \$79.78                                  |   |
| 6,000 Gallons   | \$63.54                              | \$65.95                                    | \$101.20                               | \$95.68                                  |   |
| 8,000 Gallons   | \$74.10                              | \$76.91                                    | \$118.02                               | \$111.58                                 |   |
| 10,000 Gallons  | \$84.66                              | \$87.87                                    | \$134.84                               | \$127.48                                 |   |