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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 160101-WS

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.

VOLUME V
PAGES 700 THROUGH 999

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: CHAIRMAN JULIE I. BROWN
COMMISSIONER ART GRAHAM
COMMISSIONER RONALD A. BRISÉ
COMMISSIONER JIMMY PATRONIS
COMMISSIONER DONALD J. POLMANN

DATE: Tuesday, May 9, 2017

TIME: Commenced at 5:07 p.m.
Concluded at 9:35 p.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JANYCE BOOTH
Court Reporter

APPEARANCES: (As heretofore noted.)

PREMIER REPORTING
114 W. 5TH AVENUE
TALLAHASSEE, FLORIDA
(850) 894-0828

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E X H I B I T S

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287	Ms. Ramas' errata	711	864
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1 P R O C E E D I N G S

2 (Transcript follows in sequence from Volume.4.)

3 CONTINUED EXAMINATION OF MR. WOODCOCK

4 BY MR. SAYLER

5 Q And I believe that counsel for Utility asked
6 do you give any "credence" to the last Sandalhaven
7 order. Do you recall that?

8 A Yes.

9 Q What do you remember by credence?

10 A Well, I assume that I -- do I believe that it
11 was correct would be my interpretation of that.

12 Q Okay. And do you believe that Commission made
13 the right determination in that last case?

14 A No. And I discuss that in my testimony.

15 Q Okay. And did you -- what credence did you
16 give to the Commission's methodology in the last
17 Sandalhaven order?

18 A I can go through the detail in my testimony.

19 Q But is that summarized in your testimony?

20 A It is. It's summarized in my testimony. Yes.

21 Q You were asked a question by counsel about how
22 many times you provided testimony before the Public
23 Service Commission. Do you recall that?

24 A Yes.

25 Q And have you provided testimony before any

1 other Commissions in this State besides the PSC?

2 A Yes. In some nonjurisdictional counties.

3 Q All right. And Charlotte County is one of
4 those?

5 A That's correct.

6 Q And did you -- what used and useful amount did
7 you come up with for Sandalhaven --

8 MR. FRIEDMAN: I object to the relevance of
9 that. Plus it's in his testimony. I think this is
10 way beyond the scope of cross-examination.

11 CHAIRMAN BROWN: So thank you for that
12 objection, counsel. It is absolutely in his
13 testimony. I don't know how this is appropriate
14 redirect. If you can move along with your
15 questions.

16 MR. SAYLER: I'll move to the next question.

17 BY MR. SAYLER

18 Q Do you remember being asked a lot of questions
19 by counsel for the Utilities, Inc. about the difference
20 or questions regarding designing a lift station or
21 interconnect for even capacity about the sizing of that?
22 Do you recall those questions?

23 A Yes.

24 Q And I believe your testimony was there's a
25 difference between engineering, designing -- what is

1 **prudent for engineering and what is prudence for PSC**
2 **regulatory rate making?**

3 A I believe that what I said is that there are
4 engineering principles and there are rate making
5 principles, and they don't have to match.

6 Q Okay. Now, if the Utility designed something
7 for growth, who bears the risk of that growth?

8 A Well, I think that part of the used and useful
9 calculation takes that into account with the -- the five
10 years as part of that procedure. Anything above that
11 is -- I would guess the Utility would be at risk.

12 Q Do you remember being asked a question whether
13 there's a Commission rule applicable to the Sandalhaven
14 system?

15 A Yes.

16 Q And when there isn't a rule on point, what do
17 you rely upon?

18 A I rely upon my judgment. If there is some PSC
19 precedent, I would rely on it. Those would be the two
20 main ones in this venue.

21 Q And my -- I think my last question is here.
22 It's regarding some questions you had about asset
23 management systems.

24 A Yes.

25 Q I believe you testified that you weren't aware

1 if there's any other private and water -- wastewater
2 systems that use that. Do you recall that?

3 A Yes.

4 Q And was that limited just to Florida, or was
5 that nationwide?

6 A I'm not aware nationwide although my
7 experience is mostly Florida. So --

8 Q All right. Thank you.

9 Madam Chair.

10 CHAIRMAN BROWN: Thank you.

11 MR. SAYLER: Thank you.

12 CHAIRMAN BROWN: Let's move the exhibits.

13 We've got Exhibit 95 through Exhibit 112 associated
14 with this witness.

15 MR. SAYLER: We would like to move those into
16 the record, ma'am.

17 CHAIRMAN BROWN: Any -- no objections? All
18 right. We will go ahead and move Exhibits 95
19 through 112.

20 (WHEREUPON Exhibits 95 - 112 were
21 admitted into the record.)

22 CHAIRMAN BROWN: I would suggest not moving in
23 285.

24 MR. SAYLER: Yes, ma'am. We will file a
25 revision to the revision. Do you want us to keep

1 it marked as 285 and provide a supplement or just
2 provide a new one?

3 CHAIRMAN BROWN: Well, just a new one, please.

4 MR. SAYLER: Yes, ma'am.

5 CHAIRMAN BROWN: Thank you.

6 And then, Staff, you had 286.

7 MR. TRIERWEILER: We would like to move 286.

8 CHAIRMAN BROWN: Seeing no objection, we'll go
9 ahead and move 286 into the record.

10 (WHEREUPON Exhibit 286 was admitted into
11 the record)

12 CHAIRMAN BROWN: Would you like your witness
13 excused?

14 MR. SAYLER: Yes, ma'am. We would.

15 CHAIRMAN BROWN: All right. Thank you,
16 Mr. Woodstock, for your time.

17 THE WITNESS: Thank you.

18 CHAIRMAN BROWN: Safe travels.

19 All right. Public Counsel, your next and last
20 witness on direct is Ms. Donna Ramas.

21 MR. SAYLER: Madam Chair, Public Counsel would
22 like to call Ms. Donna Ramas to the stand, and I
23 believe she has already been sworn.

24 CHAIRMAN BROWN: Good.

25 MR. SAYLER: We do have an exhibit related to

1 her testimony earlier. She found a few errors in
2 her schedules, and we prefiled that with the
3 Commission on April 18th, but we also have copies
4 to provide to everyone. I think all the Staff have
5 it and the parties have it, but I don't believe the
6 commissioners or the court reporter has it.

7 CHAIRMAN BROWN: No, we do not have them.
8 Thank you.

9 Staff, if you could help distribute them while
10 Ms. Ramas is getting settled in.

11 Is it the errata sheet that's in -- is it
12 the -- Mr. Sayler, it's a little confusing. Now,
13 this is the errata for the testimony and exhibits
14 for the witness, Donna Ramas?

15 MR. SAYLER: Yes.

16 CHAIRMAN BROWN: We've it.

17 MR. SAYLER: Oh, you have it already.

18 Is it identified on the exhibit --

19 CHAIRMAN BROWN: Staff, is it identified on
20 your exhibit list?

21 MS. MAPP: I do not believe so.

22 CHAIRMAN BROWN: Do you want to have it
23 identified as an exhibit --

24 MR. SAYLER: Yes, ma'am. We would.

25 CHAIRMAN BROWN: Okay. We are going to go

1 ahead and label as 287 Ms. Donna Ramas's errata.

2 MR. SAYLER: Thank you, ma'am.

3 CHAIRMAN BROWN: That will be the title.

4 (WHEREUPON Exhibit 287 was marked for
5 identification.)

6 MR. SAYLER: Ms. Ramas, let me know whenever
7 you're ready.

8 THE WITNESS: One moment.

9 CHAIRMAN BROWN: And, Ms. Ramas, I just wanted
10 to double check with you. You have been sworn in?

11 THE WITNESS: Yes, I have.

12 CHAIRMAN BROWN: Thank you.

13 THE WITNESS: I'm ready.

14 MR. SAYLER: Does Staff counsel have copy of
15 the exhibit.

16 CHAIRMAN BROWN: Does Staff counsel have a
17 copy of the exhibit?

18 MS. MAPP: No, we do not.

19 MR. SAYLER: There's some extras being passed
20 around.

21 CHAIRMAN BROWN: Okay. You may proceed though
22 with the intro.

23 MR. SAYLER: Certainly.

24 CHAIRMAN BROWN: Please.

25

1 DONNA RAMAS

2 was called as a witness on behalf of the Office of
3 Public Counsel, and having been first duly sworn,
4 testified as follows:

5 EXAMINATION

6 BY MR. SAYLER

7 Q Ms. Ramas, would you please state your name
8 and business address for the record?

9 A My name is Donna Ramas. My business address
10 is 4654 Driftwood Drive, Commerce Township, Michigan.

11 Q All right. And in this proceeding, did Public
12 Counsel retain you to prefile direct testimony and
13 exhibits on March 6th of this year?

14 A Yes, it did.

15 Q And in this exhibit that is being passed
16 around, the Donna Ramas errata, with those changes to
17 your testimony, do you have any other changes to your
18 testimony?

19 A Beyond those being handed out in the errata, I
20 have two small typographical errors.

21 Q All right. Would you please identify those
22 for the record?

23 A If you turn to Page 57, Line 24, the word
24 "Sandhaven" should be "Sandalhaven."

25 Q All right. And you said you had another?

1 A Yes. Page 73, Line 28. Between the word
2 "PSC" and "dash 0107" should be a 16. So it should be
3 PSC-16-0107.

4 Q And do you have any other changes to your
5 testimony?

6 A No, I do not.

7 Q All right. Madam Chair, we would ask that her
8 testimony be entered into the record as though read.

9 CHAIRMAN BROWN: We'll go ahead and insert
10 Ms. Donna Ramas's prefiled direct testimony into
11 the record as though read.

12 (Prefiled direct testimony inserted into
13 the record as though read.)

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ERRATA SHEET

WITNESS: DONNA RAMAS – DIRECT TESTIMONY AND EXHIBITS

Testimony Errata

<u>PAGE #</u>	<u>LINE #</u>	<u>SYSTEM</u>	<u>ORIGINAL</u>	<u>REVISION</u>
5	1	Eagle Ridge – Wastewater	(23,061)	(37,889)
		Lake Placid – Wastewater	(5,670)	(4,842)
		Lake Utility Services – Water	(147,253)	(148,906)
		Sandalhaven – Wastewater	(524,509)	(525,555)
		Pasco County – Water	159,806	157,642
		Marion County – Water	61,906	61,122
		Marion County – Wastewater	37,057	23,628
		Total	2,520,759	2,487,577
100	1		2,520,759	2,487,577
	2		4,394,695	4,427,877

DIRECT TESTIMONY**OF****DONNA RAMAS**

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No. 160101-WS

INTRODUCTION**Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

A. My name is Donna Ramas. I am a Certified Public Accountant licensed in the State of Michigan and Principal at Ramas Regulatory Consulting, LLC, with offices at 4654 Driftwood Drive, Commerce Township, Michigan 48382.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION?

A. Yes, I have testified before the Florida Public Service Commission (“PSC” or “Commission”) on several prior occasions. I have also testified before many other state regulatory commissions.

Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Exhibit DMR-1, which is a summary of my regulatory experience and qualifications.

1 **Q. ON WHOSE BEHALF ARE YOU APPEARING?**

2 A. I am appearing on behalf of the Citizens of the State of Florida (“Citizens”) for the Office
3 of Public Counsel (“OPC”).

4
5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

6 A. I am presenting OPC’s recommended revenue requirement for Utilities, Inc. of Florida
7 (“UIF” or “Company”) in this case on a system by system basis. I also sponsor adjustments
8 to the Company’s proposed rate base and operating income for the systems.

9
10 **Q. ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF THE
11 FLORIDA OFFICE OF PUBLIC COUNSEL IN THIS CASE?**

12 A. Yes. Mr. Andrew Woodcock presents Citizens’ recommendations regarding UIF’s
13 proposed post-test year capital additions, the used and usefulness of assets of several of the
14 wastewater systems, excessive unaccounted for water and excessive Inflow & Infiltration
15 (I&I). Ms. Denise Vandiver presents testimony related to the Company’s quality of
16 service.

17
18 **Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?**

19 A. I first present the overall financial summary for the rate changes, showing the revenue
20 requirement recommended by Citizens for each system based on the adjustments sponsored
21 in this testimony and the adjustments sponsored by Mr. Woodcock. I next discuss an
22 overarching concern regarding the Company’s method of reflecting plant retirements
23 associated with the proposed pro forma plant additions and the problems and distortion of
24 the Company’s adjusted rate base caused by the method used. I then discuss the
25 quantification of the impacts of the recommendations contained in the testimony of Mr.

1 Woodcock in the areas of used and useful, excessive unaccounted for water and excessive
2 inflow and infiltration expense.

3

4 I then present the adjustments I recommend be made to the Company's filing which impact
5 multiple systems, followed by adjustments that are specific to individual UIF systems.

6

7 OVERALL FINANCIAL SUMMARY

8 **Q. PLEASE DISCUSS THE EXHIBITS YOU PREPARED IN SUPPORT OF YOUR**
9 **TESTIMONY.**

10 A. Exhibit DMR-2 presents the revenue requirement per Company and per OPC for each of
11 the UIF systems at issue in this proceeding. The calculations supporting OPC's
12 recommended revenue requirements for each of the systems identified on Exhibit DMR-2
13 are found on Exhibits DMR-3 to DMR-18. Exhibits DMR-3 to DMR-18 consist of the
14 revenue requirement calculations giving effect to the adjustments sponsored in this
15 testimony and the testimony of OPC witness Woodcock, with each exhibit representing a
16 separate system. For example, Exhibit DMR-3 presents the revenue requirement
17 calculations for Cypress Lakes water and wastewater systems; Exhibit DMR-4 presents the
18 revenue requirement calculations for the Eagle Ridge wastewater system; and Exhibit
19 DMR-5 presents the water and wastewater revenue requirements for the Labrador system.
20 Exhibits DMR-19 through DMR - 21 present the calculation of various adjustments that
21 are allocated to all UIF systems in Florida, the impacts of which flow through to Exhibits
22 DMR-3 to DMR-18.

1 **Q. WHAT IS THE RESULTING CHANGE IN REVENUE REQUIREMENT FOR**
2 **EACH OF THE UIF WATER AND WASTEWATER SYSTEMS AT ISSUE IN THIS**
3 **PROCEEDING?**

4 A. The Company's consolidated Minimum Filing Requirements ("MFRs") Schedules B-1
5 and B-2, before the revenue change, shows total water revenues of \$13.65 million and
6 wastewater revenues of \$15.63 million or a combined water and wastewater revenues of
7 \$29.28 million. The table below presents the per Company and the per OPC change in
8 revenue requirements (increases or decreases) for each of the water and wastewater
9 systems. The per OPC amounts are based on the adjustments sponsored in this testimony
10 and the testimony of Mr. Woodcock that have been quantified at this time. Additional
11 adjustments beyond those addressed in this testimony may be appropriate, such as
12 adjustments and recommendations contained in the November 29, 2016 audit report issued
13 by the Commission Staff in this docket.¹ As the Company has not yet submitted a formal
14 response to the Commission Staff's audit, I have not reflected the adjustments at this time,
15 with a few exceptions discussed later in this testimony.

¹ The Auditor's Report, Audit Control No. 16-259-1-1, dated November 29, 2016, was submitted in this docket on January 5, 2017.

Revised April 18, 2017

System	per UIF	per OPC
Cypress Lakes - Water	(5,879)	(34,604)
Cypress Lakes - Wastewater	90,089	61,962
Eagle Ridge - Wastewater	64,787	(37,889)
Labrador - Water	67,286	33,045
Labrador - Wastewater	(21,075)	(218,380)
Lake Placid - Water	13,745	9,160
Lake Placid - Wastewater	18,926	(4,842)
Longwood - Wastewater	34,554	35,316
Lake Utility Services - Water	41,730	(148,906)
Lake Utility Services - Wastewater	542,544	197,925
Mid-County - Wastewater	472,792	117,278
Pennbrooke - Water	162,961	62,523
Pennbrooke - Wastewater	(33,600)	(53,193)
Sandalhaven - Wastewater	362,377	(525,555)
Sanlando - Water	(18,462)	(305,067)
Sanlando - Wastewater	2,391,091	1,385,149
Tierra Verde - Wastewater	107,812	94,440
Seminole County - Water	1,631,780	1,269,086
Seminole County - Wastewater	(26,532)	(85,052)
Orange County - Water	258,990	238,195
Pasco County - Water	329,885	157,642
Pasco County - Wastewater	152,640	23,245
Pinellas County - Water	170,080	131,348
Marion County - Water	68,885	61,122
Marion County - Wastewater	38,048	23,628
Total	6,915,454	2,487,577

1

2 PLANT RETIREMENT AND ACCUMULATED DEPRECIATION CONCERNS

3 **Q. BEFORE DISCUSSING SPECIFIC RECOMMENDED ADJUSTMENTS, ARE**
4 **THERE ANY SIGNIFICANT CONCERNS WITH UIF'S ADJUSTED TEST YEAR**
5 **RATE BASE YOU WOULD LIKE TO DISCUSS?**

6 A. Yes. This is the first case in which all of the Company's water and wastewater systems
7 that are regulated by the Florida Public Service Commission are being presented in one
8 large consolidated filing. Based on a review of the MFRs for each of UIF's systems, the

1 Company's accumulated depreciation balance, as adjusted, is a negative amount² resulting
2 in accumulated depreciation actually increasing rate base for several of the systems rather
3 than the normal impact of accumulated depreciation which is a reduction to overall rate
4 base.

5

6 **Q. CAN YOU EXPLAIN WHY A NEGATIVE ACCUMULATED DEPRECIATION**
7 **BALANCE IS A CONCERN?**

8 A. Commission Rule 25-30.140(1)(j), Florida Administrative Code ("F.A.C."), defines
9 depreciation accounting as "[t]he process of charging the book cost of depreciable property,
10 adjusted for net salvage, to operations over the associated useful life." As an asset is
11 depreciated over its useful life, the accumulated depreciation balance on the Company's
12 books increases. When depreciation expense is recognized, depreciation expense is debited
13 on the books and the other side of the entry is to increase the accumulated depreciation
14 balance by reflecting the credit to accumulated depreciation. In general, once an asset or
15 group of assets is fully recovered, the accumulated depreciation balance should cover the
16 full plant cost, and at this point depreciation on the asset should discontinue to prevent
17 over-recovery of the costs. One way to assure that depreciation does not continue on the
18 fully recovered assets for UIF would be to remove the plant in service and associated
19 accumulated depreciation amount from the books.³ At that point, depreciation expense
20 associated with the now fully recovered asset ceases. The amount included in rate base for
21 an asset is the portion of the original cost of the asset that has not yet been recovered

² Accumulated depreciation is reflected as a credit balance on the books. When depreciation expense is booked by a Company, depreciation expense is debited while accumulated depreciation is credited. Hereinafter, the term "negative accumulated depreciation" would be indicative of a debit balance existing on the books for the account instead of a credit balance.

³ Later in this testimony, I have recommended that the plant in service and accumulated depreciation balances be removed from the books for several plant accounts in which the cost of the assets in those accounts have been fully recovered by the Company as a means of ensuring that UIF does not continue to record depreciation expense on assets that have already been fully depreciated.

1 through depreciation expense, or the plant in service balance less the accumulated
2 depreciation balance. While some factors can cause a temporary negative accumulated
3 depreciation balance, such as retiring a plant before the end of its depreciation life without
4 special early retirement loss recovery provisions, regular on-going negative accumulated
5 depreciation balances are not the norm and result in an increase in rate base.

6

7 Of even greater concern are situations in which a specific plant account has a zero balance,
8 meaning that all assets in that account have been retired and removed from the Company's
9 books, yet a negative accumulated depreciation balance remains on the Company's books.

10 There will be no going-forward depreciation expense recorded associated with the plant in
11 service account since there is a \$0 balance in the account. However, under this situation,
12 the negative accumulated depreciation balance associated with that account, which
13 increases rate base, would never go away. In other words, the Company would earn a
14 return on the negative accumulated depreciation balance in perpetuity absent removal of
15 the negative accumulated depreciation balance from the Company's books.

16

17 An example of this is for the Company's Sandalhaven system. For the Sandalhaven
18 system, as a result of the recent retirement of the wastewater treatment plant (WWTP), the
19 balance in Account 354.4 – Treatment & Disposal - Structures & Improvements is \$0 in
20 the Company's filing, yet the associated accumulated depreciation account balance is
21 (\$253,409). If this negative accumulated depreciation balance is not corrected, the
22 Company will earn a return on the \$253,409 in perpetuity. This amount is discussed further
23 in the Sandalhaven section of this testimony.

24

1 **Q. YOU INDICATED EARLIER THAT THE COMPANY'S ADJUSTED**
 2 **ACCUMULATED DEPRECIATION BALANCES FOR SEVERAL SYSTEMS IS A**
 3 **NEGATIVE AMOUNT, RESULTING IN ACCUMULATED DEPRECIATION**
 4 **INCREASING RATE BASE FOR THE SYSTEMS. IN WHICH SYSTEMS DOES**
 5 **THIS OCCUR?**

6 A. The table below presents the average test year per-books accumulated depreciation balance
 7 for each of these systems and the accumulated depreciation balance after the Company's
 8 proposed adjustments are included:

	Per Books	UIF Adjusted
Pinellas County	175,392	(571,788)
Orange County	192,322	(1,166,779)
Pasco County - Water	1,598,286	(1,337,576)
Pasco County - Wastewater	(423,771)	(449,337)
Seminole County	1,006,120	(5,475,112)

9

10 Clearly, a negative accumulated depreciation balance, which results in an increase in rate
 11 base for accumulated depreciation, is not a just or reasonable result. This is especially true
 12 when there is no procedure in place to remove or correct these negative balances, meaning
 13 customers will continue to pay a return on these balances in perpetuity.

14

15 **Q. WHAT CAUSES THESE NEGATIVE ACCUMULATED DEPRECIATION**
 16 **BALANCES IN THE COMPANY'S FILING?**

17 A. With the exception of the negative accumulated depreciation balance for the Pasco County
 18 wastewater system, which will be discussed in the Pasco County adjustment section later
 19 in this testimony, the negative balances are the result of the methodology used by the
 20 Company in determining the pro forma plant retirements associated with its proposed pro

1 forma replacement plant additions. In its filing, the Company applied a 75% factor to the
2 pro forma replacement plant addition amount to determine the associated plant retirements.

3

4 In response to Citizens' Interrogatory 69, the Company indicated that the 75% factor was
5 used because UIF has been unable to determine the original cost of the specific plant being
6 replaced and that the 75% factor was "...established by the Commission in those instances
7 where the original cost of the retired asset cannot be determined." The response also states
8 that the 75% factor "...has been established by the Commission as reasonable and has been
9 followed by UIF in numerous prior rate cases." In its filing, the Company is using this
10 75% retirement factor methodology in many instances that results in the pro forma
11 retirement adjustment exceeding the test year end book value of the assets in the respective
12 accounts. In response to Citizens Interrogatory 68 (b), the Company acknowledges that
13 the "...retirement of asset using 75% of new plant may be greater than the value of the
14 asset on the company's books."

15

16 Here is an example to illustrate the above description of what transpires: under the
17 Company's methodology, if a pro forma replacement plant addition costing \$100,000 is
18 added to a plant account, the Company also reduces the plant in service and accumulated
19 depreciation expense associated with that same plant account by \$75,000, regardless of
20 what the actual balance is in the account prior to the pro forma plant addition. If the test
21 year-end balance in the respective account was only \$10,000, the Company would still
22 reduce the plant account and the associated accumulated depreciation account in its filing
23 by the full \$75,000, leading to a negative accumulated depreciation balance of (\$65,000)
24 for this account (and an increase to rate base of \$65,000). In other words, an amount would
25 be removed from the Company's filing for the assets being replaced that exceeds the

1 original plant cost on the books. While the resulting balance in the plant in service account
2 is still positive as a result of the plant addition exceeding the retirement amount, the
3 resulting accumulated depreciation balance would be negative for the account.

4

5 **Q. DOES THE COMPANY RECOGNIZE THAT REMOVAL OF AMOUNTS FOR**
6 **RETIREMENTS THAT EXCEED THE ACTUAL PER BOOK BALANCES FOR**
7 **THE ASSOCIATED PLANT ACCOUNT IS A PROBLEM?**

8 A. Apparently, it does recognize this concern. In response to Citizens' Interrogatory 67(d),
9 the Company indicates that it "...will, however, endeavor to determine the original cost
10 more closely due to the result of retiring more than the value on the books."

11

12 **Q. HOW DO YOU RECOMMEND THIS PROBLEM BE ADDRESSED GOING**
13 **FORWARD?**

14 A. For each of the pro forma plant additions associated with the replacement of existing plant
15 that the Commission ultimately allows for inclusion in rate base in this case, I recommend
16 that the corresponding adjustment to reduce plant in service and accumulated depreciation
17 associated with the retirement of the plant being replaced be capped at the test year-end
18 balance of the impacted plant account or at a lower amount for some projects as addressed
19 in this testimony. In other words, the amount of retirement to plant in service and
20 accumulated depreciation reflected in the adjusted test year would be calculated based on
21 either the 75% methodology used by the Company or on the actual balance in the impacted
22 plant in service account as of December 31, 2015 if that balance would be negative as a
23 result of the 75% methodology.

1 **Q. HAVE YOU REFLECTED THE IMPACTS OF THIS RECOMMENDATION IN**
2 **DETERMINING THE RECOMMENDED REVENUE REQUIREMENTS FOR**
3 **EACH OF THE WATER AND WASTEWATER SYSTEMS?**

4 A. Yes. The adjustments to the Company's filing that are needed to implement the cap to the
5 retirement amounts at the test year end actual plant balances are shown in Exhibits DMR-
6 3 through DMR-18. The adjustments impact the plant in service, accumulated
7 depreciation, and depreciation expense amounts in the Company's filing. I have also
8 included the impact of Citizens' witness Woodcock's recommended revisions to the pro
9 forma plant additions in determining the needed modifications to the Company's proposed
10 pro forma plant retirement adjustments. If the Commission allows all or a portion of the
11 costs associated with the pro forma replacement projects that Mr. Woodcock recommends
12 be disallowed, I recommend that the associated retirement not be based on the application
13 of the 75% factor to the approved plant retirements if the result of applying the 75% factor
14 is that more dollars are removed from the plant in service and accumulated depreciation
15 account than existed in the plant in service account at the end of the test year. The amount
16 of retirement to be included for each of the pro forma replacement projects should be
17 reviewed on a project by project basis for each of the pro forma plant additions.

18

19 **Q. HOW DO YOU RECOMMEND DEALING WITH INSTANCES WHERE A**
20 **NEGATIVE ACCUMULATED DEPRECIATION BALANCE ALREADY EXISTS**
21 **ON THE COMPANY'S BOOKS?**

22 A. As indicated previously, the only system in which a system-wide negative accumulated
23 depreciation balance exists on the Company's books during the test year ended December
24 31, 2015 is the Pasco County wastewater system. This problem is discussed later in this
25 testimony under the Pasco County Wastewater System section.

1 For any of the specific plant accounts in which there is no longer a plant balance on the
2 Company's books, yet either a positive or a negative accumulated depreciation balance
3 exists, I recommend that the accumulated depreciation balance be removed from rate base.

4

5 IMPACT OF RECOMMENDATIONS OF OPC WITNESS WOODCOCK

6 Pro Forma Plant Additions and Retirements

7 **Q. DO YOUR REVENUE REQUIREMENT EXHIBITS INCLUDE THE IMPACT OF**
8 **MR. WOODCOCK'S RECOMMENDED ADJUSTMENTS TO THE COMPANY'S**
9 **PROPOSED PRO FORMA PLANT ADDITIONS?**

10 A. Yes. Exhibits DMR-3 through DMR-18 included the impacts of Mr. Woodcock's
11 recommended modifications to the Company's proposed pro forma plant additions on the
12 Company's adjusted test year plant in service, accumulated depreciation, depreciation
13 expense, and property tax expense. The impacts of Mr. Woodcock's recommended
14 modifications to the proposed pro forma plant additions on the accumulated deferred
15 income tax incorporated in the Company's capital structure for each system is addressed
16 later in this testimony.

17

18 **Q. ARE YOU RECOMMENDING ANY ADDITIONAL ADJUSTMENTS**
19 **ASSOCIATED WITH THE COMPANY'S PROPOSED PRO FORMA PLANT**
20 **ADDITIONS BEYOND THOSE ADDRESSED BY MR. WOODCOCK?**

21 A. Yes. As previously addressed in this testimony, I recommend that the amount to retire
22 from plant in service and accumulated depreciation associated with the pro forma
23 replacement plant additions be capped at the test year-end balance contained on the
24 Company's books for the impacted plant account. Thus, the amount of retirements
25 associated with the adjusted plant additions recommended by Mr. Woodcock that is

1 incorporated on Exhibits DMR-3 through DMR-18 is based on either the 75% of post-test
2 year plant addition methodology used by the Company in its filing or the test year-end
3 plant balance for the account, with the test year-end balance serving as the cap on the
4 amount to be retired on the books.

5

6 **Q. FOR THE COMPANY'S PRO FORMA PLANT ADDITIONS THAT WERE NOT**
7 **ADJUSTED OR CONTESTED BY MR. WOODCOCK, ARE YOU**
8 **RECOMMENDING ANY ADJUSTMENTS ASSOCIATED WITH THESE POST-**
9 **TEST YEAR PLANT ADDITIONS?**

10 A. Yes. For the remaining pro forma replacement plant additions that OPC witness Woodcock
11 has not adjusted or contested, I compared the amount of associated plant retirement
12 reflected in the Company's filing to the test year-end balance for the plant account
13 impacted. For any of the plant retirements in which the amount of retirement exceeded the
14 test year-end balance in the respective plant account, I reduced the retirement amount to
15 the test-year end plant balance.

16

17 Non-Used & Useful Percentages

18 **Q. IS THE OPC RECOMMENDING ADJUSTMENTS IN THIS CASE ASSOCIATED**
19 **WITH THE USED AND USEFULNESS OF UTILITY ASSETS?**

20 A. Yes. In his direct testimony, OPC witness Woodcock addresses the used and usefulness
21 of the wastewater treatment facilities for several of the wastewater systems at issue in this
22 case, as well as the used and usefulness of the Mid-County and Sandalhaven wastewater
23 collection systems. Using the used and useful percentages recommended by Mr.
24 Woodcock, I have calculated the necessary reductions to plant in service, accumulated
25 depreciation and depreciation expense. I have coordinated with Mr. Woodcock in

1 determining which plant accounts the used and useful percentages should be applied to in
2 determining the appropriate reductions to plant in service, accumulated depreciation and
3 depreciation expense.

4

5 **Q. WHAT SCHEDULES HAVE YOU PREPARED TO CALCULATE THE**
6 **ADJUSTMENTS NEEDED TO REFLECT THE IMPACTS OF CITIZENS'**
7 **RECOMMENDED USE AND USEFUL PERCENTAGES?**

8 A. The necessary adjustments are presented in Exhibit DMR-4 for the Eagle Ridge system,
9 Exhibit DMR-5 for the Labrador system, Exhibit DMR-6 for the Lake Placid system,
10 Exhibit DMR-8 for the Lake Utility Services system, Exhibit DMR-9 for the Mid-County
11 System, Exhibit DMR-11 for the Sandalhaven system and Exhibit DMR-18 for the Golden
12 Hills/Crownwood system in Marion County.

13

14 **Q. DO ANY OF THE OTHER OPC RECOMMENDED ADJUSTMENTS IMPACT**
15 **THE PLANT IN SERVICE, ACCUMULATED DEPRECIATION, AND**
16 **DEPRECIATION EXPENSE BALANCES TO WHICH THE USED AND USEFUL**
17 **PERCENTAGES HAVE BEEN APPLIED?**

18 A. Yes. To the degree that other adjustments recommended in this testimony and Mr.
19 Woodcock's testimony change the balances to which the used and useful percentages are
20 applied, the impacts have been flowed through to the used and useful adjustment
21 calculations.

1 Excessive Unaccounted For Water

2 **Q. HAVE YOU CALCULATED THE ADJUSTMENTS NEEDED TO REFLECT THE**
3 **IMPACT OF CITIZENS' RECOMMENDED EXCESSIVE UNACCOUNTED FOR**
4 **WATER?**

5 A. Yes. Citizens' witness Woodcock recommends that adjustments be made for excessive
6 unaccounted for water and has calculated the percentages of excessive unaccounted for
7 water for the various systems. I have applied Mr. Woodcock's recommended percentages
8 of excessive unaccounted for water to the adjusted test year chemical, purchased power
9 and purchased water expense for each of the impacted systems on Exhibits DMR-3 through
10 DMR-18. The Company's MFRs and/or the 2015 general ledgers provided by the
11 Company in response to Citizens' Request for Production ("POD") No. 5 were used to
12 determine the amount of chemical, purchased power and purchased water expense
13 contained in the adjusted test year for each of the impacted systems. In each of my
14 schedules calculating the necessary adjustments, I factor in the impacts of adjustments to
15 the test year per-book expense amounts reflected in the Company's filing and elsewhere in
16 this testimony. I believe that even if the causes of the excessive unaccounted for water are
17 resolved, these adjustments should be made. The expenses were higher in the test year
18 because the higher amounts of water were treated.

19

20 **Q. WHAT REDUCTIONS SHOULD BE MADE TO THE COMPANY'S PROPOSED**
21 **ADJUSTED TEST YEAR EXPENSES TO ADDRESS THE EXCESSIVE**
22 **UNACCOUNTED FOR WATER?**

23 A. Test year expenses should be reduced by \$460 for Labrador (Exhibit DMR-5), \$108 for
24 Lake Placid (Exhibit DMR-6), \$790 for Seminole County (Exhibit DMR-14), \$1,234 for

1 Pasco County (Exhibit DMR-16), \$415 for Pinellas County (Exhibit DMR-17), and \$203
2 for Marion County (Exhibit DMR-18).

3

4 Excessive Inflow & Infiltration

5 **Q. HAVE YOU CALCULATED THE ADJUSTMENTS NEEDED TO REFLECT THE**
6 **IMPACT OF CITIZENS' RECOMMENDED EXCESSIVE INFLOW &**
7 **INFILTRATION ("I&I")?**

8 A. Yes. Citizens' witness Woodcock recommends that adjustments be made for excessive
9 I&I in the Sandalhaven wastewater system, the Lincoln Heights wastewater systems in
10 Seminole County and the Wisbar wastewater system in Pasco County. I have applied Mr.
11 Woodcock's recommended percentages of excessive I&I for wastewater to the adjusted
12 test year purchased power, and purchased sewage treatment expense for each of the
13 impacted systems. The MFRs and/or the 2015 general ledgers provided by the Company
14 in response to Citizens' POD No. 5 were used to determine the amount of chemical,
15 purchased power, and purchased sewage treatment expense contained in the adjusted test
16 year for each of the impacted systems. In each of my schedules calculating the necessary
17 adjustments, I factor in the impacts of adjustments to the test year per-book expense
18 amounts reflected in the Company's filing and elsewhere in this testimony. I believe that
19 even if the causes of the excessive inflow and infiltration are resolved, these adjustments
20 should be made. The expenses were higher in the test year because the higher amounts of
21 wastewater were treated.

22

23 **Q. WHAT REDUCTIONS SHOULD BE MADE TO THE COMPANY'S PROPOSED**
24 **ADJUSTED TEST YEAR EXPENSES TO ADDRESS THE EXCESSIVE I&I?**

1 A. Test year expenses should be reduced by \$28,486 for Sandalhaven (Exhibit DMR-11),
2 \$69,439 for Seminole County (Exhibit DMR-14) and \$33,025 for Pasco County (Exhibit
3 DMR-16).

4

5 ADJUSTMENTS IMPACTING MULTIPLE SYSTEMS

6 Rate Case Expense

7 **Q. ARE THERE ANY SIGNIFICANT PROBLEMS WITH THE METHOD USED BY**
8 **THE COMPANY TO DETERMINE THE ADJUSTED RATE CASE EXPENSE IN**
9 **ITS FILING?**

10 A. Yes. In determining its rate case expense adjustments for each of the systems, the
11 Company combined the balance of the unamortized rate case expense associated with prior
12 proceedings as of the end of the test year, or the December 31, 2015 unamortized balance,
13 and the projected expense for the current rate case. The Company then took the resulting
14 combined total amount and divided the amount by 4 to determine the annual amortization
15 expense using a four-year amortization period. The Company then added the resulting
16 amortization expense, which included the costs of both prior rate case proceedings and the
17 current rate case proceeding, and added the resulting amount to the test year without
18 subtracting the rate case amortization expense already incorporated in the test year for
19 many of the systems. There are many problems with this method.

20

21 The first problem is that the Company included the unamortized balances of the prior rate
22 case proceedings as of the December 31, 2015 test year end. Assuming rates from this case
23 take effect on August 1, 2017, the Company would have collected an additional 19 months
24 of amortization expense associated with the prior rate case proceedings. In fact, for some
25 of the prior rate case proceedings the Company would have already collected 100% of the

1 authorized rate case expense before rates from this case take effect. It clearly is not
2 reasonable to ignore the amortization that would have occurred between the end of the test
3 year and the date rates from this case become effective as it would result in the Company
4 double-recovering some of the rate case expenses associated with prior proceedings.

5

6 The second problem is that the Company's proposed methodology of including the
7 unamortized balance of prior rate case costs and amortizing these over four years with the
8 projected current rate case costs is inconsistent with Section 367.081(8), Florida Statutes,
9 as explained below.

10

11 The third problem is that the Company did not remove the amortization expense that was
12 recorded during the test year when it added the new amortization expense. It has included
13 the past unamortized rate case balances in determining the new amortization expense
14 amount going forward and left the amortization expense associated with those same prior
15 cases in the test year expense for most of the systems, resulting in inclusion of the
16 amortization expense for the prior cases being included twice in the adjusted test year.
17 Customers should not be required to pay twice for rate case expense.

18

19 **Q. FOR WHICH OF THE SYSTEMS HAS THE COMPANY INCLUDED AN**
20 **UNAMORTIZED BALANCE IN DETERMINING THE PRO FORMA RATE**
21 **CASE AMORTIZATION EXPENSE FOR WHICH THE PRIOR RATE CASE**
22 **EXPENSE WILL BE FULLY RECOVERED BEFORE RATES FROM THIS CASE**
23 **TAKE EFFECT?**

24 A. The Company has included amortization expense in its adjusted test year for each of the
25 following prior cases that will be fully amortized by the effective date for approved rates

1 in this case: Sanlando Docket 110257-WS (fully recovered February 2017); Sandalhaven
2 Docket 2011-001-S (fully recovered November 2016); Labrador Docket 110264-WS (fully
3 recovered April 2017); and Pennbrooke Docket 120037-WS (fully recovered January
4 2017).

5

6 **Q. YOU INDICATED EARLIER THAT THE COMPANY'S INCLUSION OF**
7 **UNAMORTIZED PRIOR RATE CASE COSTS IN DETERMINING THE NEW**
8 **AMORTIZATION EXPENSE IS INCONSISTENT WITH 367.081(8), FLORIDA**
9 **STATUTES. CAN YOU PLEASE ELABORATE?**

10 A. Yes. Section 367.081(8), Florida Statutes, provides:

11 The amount of rate case expense that the commission determines a public
12 utility may recover through its rates pursuant to this chapter shall be
13 apportioned for recovery over 4 years unless a longer period can be justified
14 and is in the public interest. At the conclusion of the recovery period, the
15 public utility shall immediately reduce its rates by the amount of the rate
16 case expense previously included in rates.

17

18 Thus, the Company's method of adding the unamortized rate case expense balances from
19 prior cases to the current rate case expense and then amortizing the resulting amount over
20 four years is inconsistent with the Florida Statutes because it would extend the recovery
21 beyond the recovery period already determined through prior Commission orders.

22

23 Prior to the implementation of Section 367.081(8), Florida Statutes, Section 367.0816
24 (superseded by 2016 Florida Statutes) also required a public utility to immediately reduce
25 its rates at the conclusion of the rate case expense recovery period by the amount of rate
26 case expense included in rates.

27

28 Prior Commission decisions involving Utilities Inc. of Florida systems, including decisions
29 for which the Company is including the unamortized rate case costs in its adjustment,

1 acknowledge the treatment required by the Statutes to reduce rates upon expiration of the
2 amortization period. For example, Order No. PSC-16-0013-PAA-SU issued January 6,
3 2016, in the most recent Utilities, Inc. of Sandalhaven rate case states on page 32 that,
4 pursuant to Section 367.0816, F.S., rates should be reduced on December 20, 2016 to
5 remove the amortization of rate case expense for Sandalhaven's 2012 rate case before the
6 Board of County Commissioners of Charlotte County. The same order, at page 28,
7 approved a total rate case expense associated with the docket of \$123,015⁴ to be amortized
8 over four years pursuant to Section 367.0816, F.S., the amortization of which would
9 discontinue in February 2020. At page 38 of the order, the Commission ordered that
10 "... pursuant to Section 367.0816, F.S., the wastewater rates shall be reduced to remove
11 rate case expense, grossed-up for regulatory assessment fees and amortized over a four-
12 year period effective immediately following the expiration of the four year rate case
13 expense recovery period."

14
15 **Q. IF THE COMMISSION'S ORDER IN THIS DOCKET RESULTS IN**
16 **CONSOLIDATED RATES, CAN YOU EXPLAIN HOW THE RESULTING RATES**
17 **FOR THE SYSTEMS CAN BE REDUCED WITH THE EXPIRATION OF THE**
18 **AMORTIZATION OF THE PRIOR RATE CASE COSTS?**

19 A. Yes. If the Commission approves some form of consolidated rates in this case, the expense
20 associated with the amortization of prior rate cases could be separated out for each of the
21 systems with surcharges specific to each system. This would allow the separate surcharge
22 on the bill to drop off the month following the full four-year amortization of the prior case
23 costs and would meet the requirements of Section 367.081(8), Florida Statutes. For

⁴ The \$123,015 included \$120,531 associated with the rate case and \$2,484 for Sandalhaven's allocated portion of costs for generic Docket No. 120161-WS.

1 example, the Commission's order in the last Sandalhaven rate case discussed above
2 allowed for recovery of \$123,015 of rate case expense to be recovered over four years,
3 resulting in a monthly amortization expense of \$2,563 ($\$123,015 / 48$ months). This
4 monthly amount, plus the regulatory assessment fee gross-up, could be applied as a
5 surcharge on the bills sent to customers in the Sandalhaven service area with the surcharge
6 removed after the final amount is recovered in January 2020. This method would also
7 prevent costs from prior rate cases from being unfairly passed on to customers in other
8 systems that were not part of the prior rate cases if consolidated rates are approved in this
9 case.

10

11 **Q. WHAT IS THE CURRENT MONTHLY EXPENSE BEING RECOVERED FOR**
12 **PRIOR RATE CASE COSTS FOR EACH OF THE SYSTEMS FOR WHICH THE**
13 **COSTS WILL NOT BE FULLY RECOVERED BY THE COMPANY BEFORE**
14 **JULY 1, 2017, AND AT WHAT MONTH WILL THE PRIOR RATE CASE COSTS**
15 **BE FULLY RECOVERED BY THE COMPANY?**

16 A. The table below provides the monthly amounts being recovered by the Company for the
17 amortization of prior rate case costs and the month in which the four-year amortization of
18 the prior rate case costs will be complete. This table was prepared using information
19 provided by the Company in its rate case expense workpapers provided in response to
20 Citizens' POD No. 2 and Commission Order No. PSC-14-0025-PAA-WS.

	Monthly Amortization Expense	Final Amortization Month
	\$ 1,850	Oct-18
	1,807	Jun-19
	287	Jul-18
	2,563	Feb-20
	3,769	Jun-19
	4,098	Feb-18
	304	Feb-18
	439	Feb-18
	4,045	Feb-18
1	521	Aug-20

2

3 **Q. HAVE YOU INCLUDED ADJUSTMENTS TO CORRECT THE PROBLEMS**
4 **WITH THE RATE CASE AMORTIZATION EXPENSE IN THE COMPANY'S**
5 **FILING?**

6 A. Yes. As consolidated rates are being considered in this case, and several of the prior rate
7 case costs for some of the systems will be fully amortized before rates from this case take
8 effect, I have removed all of the rate case amortization expense that was recorded during
9 the test year and included in the Company's MFRs for each of the systems. For the prior
10 rate case costs that will not be fully recovered by the Company prior to rates from this case
11 becoming effective, the costs could instead be recovered from each system as a separate
12 surcharge until fully recovered. I then reduce the Company's rate case amortization
13 expense adjustments for each of the systems to include only the Company's projected costs
14 for the current rate case and certain generic proceeding costs the Company has not yet
15 begun to recover in rates, as contained in the Company's filing at this time. The amounts
16 added to the projected cost of the current rate case in the Company's MFRs, at MFR
17 Schedules B-10, for the unamortized balances of prior rate case costs as of December 31,
18 2015 have been removed in determining the adjusted rate case amortization expense to

1 include in the adjusted test year expenses. The necessary adjustments are included in
2 Exhibits DMR-3 through DMR-6, Exhibit DMR-8, and Exhibits DMR-10 through DMR-
3 18.

4

5 **Q. IF THE COMMISSION DETERMINES THAT THE UNAMORTIZED RATE**
6 **CASE COSTS ASSOCIATED WITH PRIOR PROCEEDINGS SHOULD BE**
7 **INCLUDED WITH THE CURRENT RATE CASE EXPENSE AND AMORTIZED**
8 **OVER A FOUR-YEAR PERIOD, DESPITE PRIOR ORDERS ALREADY**
9 **DETERMINING THE RECOVERY PERIOD FOR THE PRIOR COSTS, WHAT**
10 **MODIFICATIONS WOULD NEED TO BE MADE TO THE COMPANY'S**
11 **FILING?**

12 A. The determination of the unamortized balance associated with prior rate case proceedings
13 should be extended through July 31, 2017 instead of being based on the December 31, 2015
14 balance as the Company has continued to collect the associated amortization expense in
15 rates since that time and continues to collect those expenses in rates today. Additionally,
16 the rate case amortization expenses recorded during the test year ended December 31, 2015
17 that remain in the Company's adjusted test year expenses still need to be removed to
18 prevent double-collection of these costs.

19

20 **Q. ARE THERE ANY ADDITIONAL ADJUSTMENTS TO RATE CASE EXPENSE**
21 **THAT SHOULD BE MADE THAT ARE NOT INCLUDED IN YOUR EXHIBITS?**

22 A. Yes. It is my understanding that the Commission Staff reviews the actual costs incurred
23 by the Company for processing the rate case applications and that adjustments are made to
24 remove imprudently incurred costs and to reflect actual costs incurred instead of the
25 projected costs contained in the Company's original application. There were many

1 deficiencies in the Company's original filing in this case that took several rounds of
2 revisions to be corrected. I recommend that any costs incurred by the Company to correct
3 the numerous deficiencies be excluded from the rate case costs that the Company is
4 permitted to pass on to its customers.

5

6 At the time the Company's case was originally filed, many of the amounts contained in the
7 Company's MFRs did not reconcile with the Company's annual reports. In addition, since
8 that time, the Company has needed to refile many past annual reports that did not reconcile
9 to the original filing. If any costs are included in the actual rate case expenses submitted
10 by the Company for revisions and corrections to its past annual reports, such costs should
11 also be disallowed.

12

13 Additionally, the Company's responses to interrogatories and PODs in this case were
14 extremely late. Many of the Company responses to interrogatories and PODs, when finally
15 submitted, were deficient or incomplete, resulting in revised and supplemental responses
16 being filed. Moreover, responses to several sets of interrogatories were provided through
17 multiple rounds of responses as they were not completed by the response filing date. As
18 an example of the deficiencies with responses, Citizens' POD No. 2 requested a complete
19 set of workpapers associated with the compilation of the Company's MFRs and Citizens'
20 POD No. 4 requested supporting documentation for all adjustments to rate base and net
21 operating income in MFR Schedules A-3, B-3, C-3 and D-2 for each of the systems. Many
22 of the supporting workpapers for these adjustments in the Company's filing were not
23 provided with the original responses, resulting in the Company needing to supplement its
24 responses. Due to the unusual and excessive levels of revisions or supplementation
25 necessary before the responses were complete, I recommend that any costs incurred by the

1 Company associated with needing to revise, complete, or supplement its responses also be
2 disallowed.

3

4 Accumulated Deferred Income Taxes – Pro Forma Plant Additions

5 **Q. DID THE COMPANY INCLUDE THE IMPACT OF ITS PROPOSED PRO**
6 **FORMA PLANT ADDITIONS ON THE ACCUMULATED DEFERRED INCOME**
7 **TAX COMPONENT OF THE CAPITAL STRUCTURE?**

8 A. Yes. As a result of the differences in the depreciation rates allowed for financial reporting
9 purposes and for income tax purposes, each of the pro forma plant additions will impact
10 the accumulated deferred income tax (“ADIT”) balance that is included in the capital
11 structure at zero cost. While the Company included adjustments in its filing in an attempt
12 to reflect the impacts of the pro forma plant additions on the ADIT balances in the capital
13 structure, there is a flaw in the Company’s calculations that must be corrected.

14

15 **Q. WHAT IS THE FLAW THAT NEEDS TO BE CORRECTED?**

16 A. The Protecting Americans from Tax Hikes (PATH) Act, signed into law on December 18,
17 2015, provided for the extension of bonus depreciation with the 50 percent bonus
18 depreciation provisions being effective from 2015 through 2017, the 40% bonus
19 depreciation for 2018 and the 30% bonus depreciation for 2019. In its filing, the Company
20 did not include the impacts of the 50% bonus depreciation on its proposed pro forma plant
21 additions.

22

23 **Q. DID THE COMPANY EXPLAIN WHY IT DID NOT INCLUDE THE IMPACTS**
24 **OF THE 50% BONUS DEPRECIATION ALLOWANCE ON THE POST TEST**
25 **YEAR PLANT ADDITIONS IN ITS FILING?**

1 A. In response to Citizens' Interrogatory No. 162, the Company explained the exclusion as
2 follows:

3 Due to the uncertainty of the year-to-year handling of bonus depreciation
4 by Congress, the Company did not include bonus depreciation on pro forma
5 plant additions. However, since the 5-year phase out of bonus depreciation
6 was enacted in December of 2015, *the Company will claim bonus*
7 *depreciation for pro forma projects* that qualify as "new MACRS property
8 with a recovery period of 20 years or less, computer software, water utility
9 property, and qualified improvement property".
10 (Emphasis added)
11

12 Since the Company's filing was submitted in August 2016, it is not clear why the impacts
13 of the PATH Act that was signed into law in December 2015 were not reflected in the
14 filing. Clearly, the Company plans on claiming the bonus depreciation for the impacted
15 years for the projects that qualify.
16

17 **Q. SHOULD THE IMPACTS OF THE 50% BONUS DEPRECIATION ALLOWANCE**
18 **ON THE ADIT BALANCE IN THE CAPITAL STRUCTURE BE REFLECTED?**

19 A. Yes. Current tax law provides for the allowance of 50% bonus depreciation on qualifying
20 plant additions placed into service during 2015, 2016 and 2017. Thus, the impacts of the
21 50% bonus depreciation should be included in determining the amount of ADIT to include
22 in the capital structure at zero cost.
23

24 **Q. HAVE YOU INCLUDED THE ADJUSTMENTS TO THE ADIT BALANCE THAT**
25 **ARE NEEDED TO INCORPORATE THE IMPACTS OF THE BONUS**
26 **DEPRECIATION ALLOWANCE ON THE PRO FORMA PLANT ADDITIONS?**

27 A. Yes. Since the Company has not provided the impact of bonus depreciation associated
28 with its proposed pro forma plant additions on the ADIT incorporated in the capital
29 structure, I have estimated the impacts. The capital structures and rate of return

1 calculations contained in Exhibits DMR-3 to DMR-18 include the adjustments to the ADIT
2 balances associated with the pro forma plant additions. These are based on either the
3 adjusted pro forma plant additions recommended by Citizens' witness Woodcock or the
4 Company's pro forma year plant additions for the additions in which Mr. Woodcock has
5 not recommended modification. The ADIT workpapers provided by the Company in its
6 supplemental response to Citizens' POD No. 4 was used in calculating the needed ADIT
7 adjustment to the capital structure. In revising the ADIT workpapers provided by the
8 Company, the per-Company pro forma plant addition amounts were either left unchanged
9 if no adjustment is recommended or replaced by the amounts recommended by Citizens,
10 and the tax depreciation calculations were modified to incorporate the 50% bonus
11 depreciation allowances permitted by the PATH Act.

12

13 Since bonus depreciation is allowed for tax purposes on water utility property, I applied
14 the 50% bonus depreciation allowance to the water utility property plant additions, but not
15 to the wastewater utility property plant additions. Based on a review of the Company's
16 ADIT adjustment workpapers, it does not appear that the pro forma wastewater plant
17 additions would qualify for the bonus depreciation provisions; however, the Company
18 should be required to clarify whether or not any of the pro forma wastewater plant additions
19 do, in fact, qualify for the 50% bonus depreciation allowances and, if so, provide the
20 impacts on the ADIT incorporated in the capital structure. Additionally, if any of the pro
21 forma water plant additions do not qualify for the bonus depreciation provisions, the
22 Company should indicate as such and explain why the additions do not qualify for the
23 bonus depreciation under the tax rules.

1 OPC Recommended Rate of Return

2 **Q. DO ANY OF CITIZENS' RECOMMENDED ADJUSTMENTS IMPACT THE**
3 **CAPITAL STRUCTURE AND THE RESULTING OVERALL RATE OF RETURN**
4 **FOR EACH OF THE SYSTEMS?**

5 A. Yes. As indicated above, the ADIT balances contained in the Company's proposed capital
6 structures were adjusted for the impacts of Citizens' recommended revisions to the
7 proposed pro forma plant additions and the bonus depreciation provisions. Additionally, I
8 have adjusted the capital structure for each system in order to synchronize Citizens'
9 recommended adjusted rate base balances with the capital structure. I have not revised the
10 cost rates incorporated by the Company in its filing, except for the two modifications
11 described below. The calculation of the adjusted rate of return for each of the systems is
12 provided in Exhibits DMR-3 through DMR-18, and the resulting adjusted rate of return for
13 each system is carried forward to the calculation of the revenue requirements.

14
15 **Q. WHAT TWO MODIFICATIONS DID YOU MAKE TO THE COMPANY'S**
16 **PROPOSED COST RATES?**

17 A. In response to Staff Interrogatory No. 111, the Company agreed that that the customer
18 deposit cost rate contained in the capital structure for the Lake Placid system should be
19 reduced to 2.0%. In response to Staff Interrogatory No. 110, the Company agreed that that
20 the cost of equity contained in the capital structure for the Longwood system should be
21 reduced to 10.40%. I included these corrections in the overall rate of return calculations
22 for the Lake Placid and Longwood systems in Exhibits DMR-6 and DMR-7, respectively.

1 Health Insurance Reserve Adjustment

2 **Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO THE TEST YEAR**
3 **EMPLOYEE BENEFITS EXPENSE?**

4 A. Yes. As part of the minimum filing requirements, the Company is required to file a
5 schedule comparing the test year O&M expenses by account to the O&M expenses for the
6 test year in the Company's previous rate case. For each difference in expenses that are not
7 attributable to customer growth and changes in the consumer price index, the Company is
8 required to provide an explanation of the cause of the differences. The prior test year O&M
9 expenses, adjusted for customer growth and inflation, are considered a benchmark. This
10 variance information and the associated explanations provided by the Company aids
11 Commission Staff and intervenors in evaluating the reasonableness of the Company's test
12 year expenses. Each of the systems in this case show increases in the employee pension
13 and benefit expense account which, in most cases, significantly exceed the benchmark from
14 the previous rate case. The description for the large increases in this account on MFR
15 Schedules B-7 and B-8 indicate that the costs reflect a large increase in health care costs
16 since the last test year. When questioned on the large increase in the employee benefit
17 expense shown for January, June and December 2015 in Pasco County, the Company
18 indicated in response to Staff Interrogatory No. 51 that the costs are all allocated expenses
19 and that "(t)he number of Insurance Claims were higher those months when compared to
20 others." However, the Company's response to Citizens Interrogatory No. 91 shows that on
21 December 31, 2015, Water Services Corporation (an affiliate of UIF) booked an \$110,000
22 adjustment to the health insurance reserve expense subaccount described as "Health
23 Insurance Reserves Adjustment." Thus, the large increase in the December 2015 employee
24 benefits expense allocations to the various systems was caused by the health insurance

1 reserve adjustment booked by Water Services Corporation on the last day of the test year.
2 Therefore, I recommend that this reserve adjustment be removed from test year expenses.

3

4 **Q. WHY DO YOU RECOMMEND THAT THE RESERVE ADJUSTMENT BE**
5 **REMOVED FROM TEST YEAR EXPENSES?**

6 A. This reserve adjustment, which has not been supported by the Company, had a large impact
7 on test year expenses causing them to be inconsistent with the surrounding years' expense
8 levels. The response to Citizens' Interrogatory No. 172 shows that the amount of the
9 Health Insurance Reimbursements expense charged to the Florida systems from Water
10 Services Corporation went from \$926,599 in 2014 to \$1,153,840 in 2015 and \$1,034,444
11 in 2016. Thus, the expense increased by \$227,241 between 2014 and 2015, and then
12 declined by \$119,396 between 2015 and 2016. Thus, the 2015 expense, which includes
13 allocation of the \$110,000 reserve adjustment to the Florida systems, is not reflective of a
14 normal annual expense level.

15

16 **Q. WHAT ADJUSTMENT NEEDS TO BE MADE TO REMOVE THE DECEMBER**
17 **31, 2015 RESERVE ADJUSTMENT FROM THE TEST YEAR EXPENSES?**

18 A. In its filing, UIF increased the test year employee benefits expense by 3.75%; thus, the
19 portion of the \$110,000 reserve adjustment that was allocated to the UIF systems was
20 increased by 3.75%. On Exhibit DMR-19, I provide the amount of expense, by system,
21 included in the adjusted test year for the reserve adjustment. As shown on the exhibit,
22 adjusted test year expenses for all systems combined should be reduced by \$26,410 to
23 remove the impacts of the reserve adjustment. The system amounts shown on Exhibit
24 DMR-19 are applied to each of the respective systems on Exhibits DMR-3 through DMR-
25 18. For systems that have both water and wastewater operations, the adjustment was

1 allocated between the water and wastewater systems based on the ERC allocations
2 provided in the Company's salary and benefits workpaper provided in the Supplemental
3 Response to Citizens' POD No. 4.

4 Allocated Depreciation Expense Adjustment

5 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE EXPENSES THAT**
6 **ARE ALLOCATED FROM THE FLORIDA SERVICE CORPORATION LEVEL**
7 **TO THE SYSTEMS?**

8 A. Yes. Company MFR Schedule B-12 for each of the systems shows that the "Water Service
9 Corp. Allocated State Expenses" in Account 403 – Depreciation Expense was significantly
10 higher in March 2015 than in the remaining months of the test year. When asked for the
11 cause of the significantly higher level of March 2015 depreciation expense level in
12 Citizens' ROG No. 88, the Company responded as follows:

13 The increase in March was due to a Fixed Asset Clean up adjustment. Some
14 time ago, Fixed Assets had depreciation but it was never recorded in the
15 GL. So UIF had to do an adjusting entry to tie GL and Fixed Assets. It
16 could be from the conversion or even before. As of 3/31/15, UIF had
17 variance between GL and FA and correction was made in 3/15/15. See
18 attached Document.

19
20 The document provided with the response showed that a fixed asset clean up entry of
21 \$87,296 was booked to the Florida depreciation expenses that are allocated to the systems.

22 I recommend that this non-recurring entry, which is based on costs that should have been
23 booked prior to the 2015 test year, be removed.

24

25 **Q. WHAT ADJUSTMENT IS NEEDED TO REMOVE THE FIXED ASSET CLEAN**
26 **UP ENTRY FROM THE TEST YEAR COSTS ALLOCATED TO THE FLORIDA**
27 **SYSTEMS?**

1 A. The calculation of the reduction to test year expense, by system, is provided on Exhibit
2 DMR-20. As shown on the exhibit, adjusted test year expenses for all systems combined
3 should be reduced by \$86,222 to remove the impacts of the fixed asset clean up adjustment
4 booked in March 2015. The system amounts shown on Exhibit DMR-20 are applied to
5 each of the respective system on Exhibits DMR-3 through DMR-18. For systems that have
6 both water and wastewater operations, the adjustment was allocated between the water and
7 wastewater systems based on the ERC allocations provided in the Company's salary and
8 benefits workpaper provided in the Supplemental Response to Citizens POD No. 4.

9 Transportation Expense Allocation Correction

10 **Q. DO ANY CORRECTIONS NEED TO BE MADE TO THE TEST YEAR EXPENSE**
11 **ALLOCATIONS?**

12 A. Yes. Company MFR Schedule B-8 for the Tierra Verde system indicates that a 177.21%
13 variance from the prior test year benchmark in Account 950 – Transportation Expenses
14 was due to incorrect posting of fuel and fleet repairs that should have been allocated across
15 all Florida systems. When asked in Interrogatory 104 (a) why the transportation expense
16 posting error was not corrected in the MFRs, the Company responded that “(o)n a
17 prospective basis reallocating the transportation expenses is unnecessary as UIF is now one
18 consolidated system and is moving to consolidated financials and rates.” In its revised
19 response to Citizens' Interrogatory No. 104, the Company provided the corrected allocation
20 of transportation expense, which decreases the Tierra Verde system expenses by \$5,723
21 and increases the expense for other systems. Since the Commission has not yet approved
22 consolidated rates, which is an issue in this case, I have included the adjustments needed

1 to correct the error to the vehicle expense allocations on Exhibits DMR-3 to DMR-13 based
2 on the information provided in the revised response to Citizens' Interrogatory No. 104.⁵

3

4 Reduction to GIS Pro Forma Plant Addition

5 **Q. ARE ANY ADJUSTMENTS BEING MADE TO THE PRO FORMA PLANT**
6 **ADDITIONS THAT ARE ALLOCATED TO ALL OF THE SYSTEMS IN THIS**
7 **CASE?**

8 A. Yes. In the MFRs, the Company has reflected a pro forma adjustment for the GIS system.
9 While Company witness Flynn's testimony, at page 13, indicates that a \$350,000 pro forma
10 adjustment is being made associated with a GIS mapping system, the amount that is
11 allocated to the systems in this case through the pro forma adjustments in the MFRs for the
12 GIS project is \$688,559. Citizens' witness Woodcock recommends that the GIS project be
13 reduced to \$244,321, which is \$444,238 less than the amount included in the Company's
14 MFRs.

15

16 **Q. HAVE YOU CALCULATED THE ADJUSTMENT NEEDED ON A SYSTEM BY**
17 **SYSTEM BASIS TO REDUCE THE GIS PRO FORMA PROJECT BY \$444,238 TO**
18 **\$244,321?**

19 A. Yes. Exhibit DMR-21 shows the adjustments to plant in service and depreciation expense
20 that is needed on a system by system basis. These adjustments are flowed through to
21 Exhibit DMR-3 through Exhibit DMR-18. The associated impacts on accumulated

⁵ The revised response to Citizens' Interrogatory No. 104 also identifies \$812 to be spread to the UIF Seminole County, Orange County, Pasco County, Pinellas County and Marion County systems. As the response did not provide the allocation to each of these systems, the \$812 increase in vehicle cost has not been spread to these systems in Exhibits DMR-14 to DMR-18.

1 depreciation from the reduction in depreciation expense are also included in each of the
2 exhibits.

3

4 **Q. IN PREPARING THE ADJUSTMENT, DID YOU NOTICE ANY PROBLEMS**
5 **WITH THE ADJUSTMENTS MADE IN THE COMPANY'S MFRS FOR THE GIS**
6 **PROJECT?**

7 A. Previously I discussed the discrepancy between the amount discussed in Mr. Flynn's
8 testimony for the GIS project and the amount that is actually included in the Company's
9 MFRs for the project. As noted on Exhibit DMR-21, the allocation in the Labrador MFR
10 schedules was calculated based on a project cost of \$350,000; whereas, the remaining
11 systems were allocated a portion of the project costs based on \$688,559 for the project. As
12 also noted on Exhibit DMR-21, it appears that there were errors in the amount included in
13 the Pennbrooke MFRs, with the combined water and wastewater amount being applied to
14 the Pennbrooke water system and the water system amount being applied to the wastewater
15 system. As noted on the exhibit, I have accounted for these issues in determining the
16 necessary adjustment for each of the systems.

17

18 Of additional concern is that the Company used two different depreciation lives in the filing
19 for the same GIS project costs. For some of the systems, the Company used a 6-year
20 depreciation life and for other systems, the Company used a 15-year depreciation life. To
21 date, I have seen no explanation or justification for assuming two separate depreciation
22 lives instead of a uniform life for all of the systems. I have not revised the depreciation
23 lives used by the Company in its MFRs at this time, but additional adjustments may be
24 warranted to reflect a consistent depreciation life.

1 Potential New Tax Legislation and Changes in Tax Rates

2 **Q. WHAT FEDERAL INCOME TAX RATE IS FACTORED INTO THE**
3 **COMPANY'S REVENUE REQUIREMENT CALCULATIONS?**

4 A. The Company has used a federal income tax rate of 34% and a Florida state income tax
5 rate of 5.5%.

6

7 **Q. COULD THESE INCOME TAX RATES CHANGE IN THE FUTURE?**

8 A. Yes. The current administration in Washington, D.C. has indicated that it will seek to
9 lower the corporate income tax rate in 2017. With the same party controlling the Congress
10 and the White House, there is a distinct possibility that the federal income tax rate will
11 change and that other provisions in tax law could also change. It is my understanding that
12 current considerations include a fairly substantial reduction in the corporate income tax
13 rates as well as provisions for expensing capital costs in the year incurred instead of
14 depreciating such costs for tax purposes. Each of these potential outcomes would have a
15 substantial impact on the revenue requirements of the Company, as well as other regulated
16 utilities.

17

18 **Q. GIVEN THE POTENTIAL FOR TAX RATE CHANGES AND OTHER TAX**
19 **CHANGES OCCURING IN THE CURRENT YEAR OR NEXT YEAR, ARE YOU**
20 **OFFERING ANY RECOMMENDATIONS IN THIS CASE FOR ADDRESSING**
21 **THE POTENTIAL CHANGES?**

22 A. Yes. I recommend that the Commission include safeguards in its order in this case
23 establishing a reasonable period after the order becomes final over which it retains the
24 ability to adjust customer rates based on any material changes in the tax laws.

1 ADJUSTMENTS SPECIFIC TO EAGLE RIDGE WASTEWATER SYSTEM

2 Materials & Supplies Expense

3 **Q. COMPANY MFR SCHEDULE B-8 FOR THE EAGLE RIDGE SYSTEM SHOWS**
4 **A 145.80% VARIANCE ABOVE THE PRIOR TEST YEAR BENCHMARK,**
5 **INCREASING FROM THE PRIOR TEST YEAR DECEMBER 31, 2010 AMOUNT**
6 **OF \$30,510 TO \$74,992 IN THE TEST YEAR ENDED DECEMBER 31, 2015.**
7 **WHAT EXPLANATION WAS PROVIDED BY THE COMPANY FOR THIS**
8 **SIGNIFICANT VARIANCE?**

9 A. MFR Schedule B-8 explains the variance as “[n]ominal variance from year to year in repair
10 activities, materials used and their unit costs.” In response to OPC Interrogatory No. 100(c)
11 and (d), the Company indicated the increase is not considered “nominal,” that the
12 explanation on MFR Schedule B-8 was stated in error, and further that “(t)he increases
13 reflect the variance from year to year in repair activities and costs associated with them.”

14

15 **Q. HOW DOES THE TEST YEAR MATERIALS & SUPPLIES EXPENSE FOR**
16 **EAGLE RIDGE COMPARE TO PRIOR YEARS?**

17 A. The response to Citizens Interrogatory No. 100(e) shows that the expense was \$47,876 in
18 2011, \$42,784 in 2012, \$48,774 in 2013, \$51,659 in 2014, and \$74,992 in the test year.
19 Clearly, the test year expense for this account is significantly higher than in the prior years.

20

21 **Q. SHOULD THE TEST YEAR MATERIALS & SUPPLIES EXPENSE BE**
22 **ADJUSTED?**

23 A. Yes. Given the large variance between the test year expense and the expenses incurred in
24 prior years, coupled with the Company’s failure to demonstrate that the significant increase
25 realized in the test year is reflective of on-going cost expectations, the test year materials

1 and supplies expense should be adjusted to reflect the most recent three-year average
2 expense level. Using the years 2013 through 2015, the average expense was \$58,475,
3 which is \$16,517 less than the test year expense. As shown on Exhibit DMR-4, page 3,
4 test year expenses should be reduced by \$16,517 to reflect the historic average cost.

5

6 Chemical Expense

7 **Q. THE COMPANY'S FILING INCLUDES A \$2,945 INCREASE IN CHEMICAL**
8 **EXPENSE DESCRIBED AS "ADJ. CHEMICAL EXP. BASED ON TY USAGE."**
9 **DID YOU REVIEW THE SUPPORT PROVIDED BY THE COMPANY FOR THIS**
10 **ADJUSTMENT?**

11 A. Yes. Company MFR Schedule B-5 shows that the Company increased its per-books
12 chemical expense of \$41,562 by \$2,945 to \$44,507. The electronic version of the
13 Company's MFR filing provided in response to Citizens' POD No. 1 and the chemical
14 expense workpapers provided by the Company in its supplemental response to Citizens'
15 POD No. 4 show a calculation of chemical expense for Eagle Ridge based on test year
16 chemical units and unit prices, as well as miscellaneous parts and supplies expense, freight
17 and associated taxes. The workpapers show a resulting total cost for the test year based on
18 the amounts provided for and calculated in the workpapers of \$37,241. The same amount,
19 \$37,241, was also provided in the Schedule of Chemicals provided with the Company's
20 November 22, 2016 deficiency response in Attachment 4a.(2)i. It is not clear from the
21 workpapers provided by the Company in support of its chemical expense adjustment why
22 the Company increased the test year chemical expenses by \$2,945, particularly when the
23 expense calculated in its workpapers was lower than the test year costs recorded in Account
24 718 – Chemical Expense. I was unable to locate any information in the Company's

1 chemical expense adjustment workpapers supporting the increase in the per book chemical
2 costs by \$2,945 to \$44,507.

3

4 **Q. ARE YOU RECOMMENDING A REVISION TO THE COMPANY'S ADJUSTED**
5 **TEST YEAR CHEMICAL EXPENSE?**

6 A. Yes. I recommend that the adjusted expense contained in the Company's MFRs of \$44,507
7 be reduced to the amount supported in its chemical expense workpapers and the November
8 22, 2016 deficiency response filing of \$37,241. This results in a \$7,266 reduction to the
9 Company's adjusted test year expense, which is included on Exhibit DMR-4 at page 3.

10

11 Working Capital

12 **Q. THE COMPANY'S WORKING CAPITAL ALLOWANCE IS BASED ON THE**
13 **BALANCE SHEET METHOD. ARE YOU RECOMMENDING ANY**
14 **ADJUSTMENTS TO THE WORKING CAPITAL ALLOWANCE CALCULATED**
15 **BY THE COMPANY?**

16 A. Yes. The liability components of the balance sheet calculation typically offset or reduce
17 the working capital requirements. In this case, the liability section of the working capital
18 calculation for Eagle Ridge includes negative, or prepaid, accrued taxes which result in an
19 *increase* in the working capital request. When asked for a detailed explanation as to why
20 the accrued taxes were in a prepaid position causing an increase in working capital in
21 Citizens' Interrogatory No. 98, the Company responded that the accrued taxes "Reflects
22 income tax overpayments for which refunds have been requested." No further explanation
23 was provided in the response. The response also shows that the accrued tax balance in
24 Account 236 includes \$82,809 for "Accrued Federal Income Tax." The general ledger
25 details provided in the Eagle Ridge MFRs in the Company's response to Citizens' POD

1 No. 1 show that this balance remain unchanged in each month of the test year. The
2 Company's response to Citizens' POD No. 5 shows that the \$82,809 Accrued Federal
3 Income Tax amount was originally recorded by the Company in December 2012.

4

5 Since the Company asserts that it has requested refunds for the income tax overpayments,
6 the negative accrued tax balance, or prepaid tax, should not be anticipated to continue on a
7 going forward basis. Additionally, the Company has not met its burden to support the
8 inclusion of this prepaid income tax amount as appropriate for inclusion in the working
9 capital allowance calculation in this case. Thus, as shown on Exhibit DMR-4, at page 5,
10 working capital is reduced by the \$82,809.

11

12 ADJUSTMENTS SPECIFIC TO LABRADOR SYSTEMS

13 Defer and Amortize Non-Recurring Water System Analysis Costs

14 **Q. ARE YOU AWARE OF ANY LARGE NON-RECURRING COSTS THAT WERE**
15 **RECORDED IN TEST YEAR EXPENSES FOR THE LABRADOR SYSTEM?**

16 A. Yes. In Order No. PSC-15-0208-PAA-WS issued by the Commission on May 26, 2015 in
17 the most recent Labrador Utilities, Inc. rate case, the Commission found at page 5 of its
18 order that the Company had "...not made sufficient efforts to engage its customers to
19 discuss and resolve their continuing dissatisfaction with the quality of the water since the
20 last rate case." As a result, the Commission implemented a 25 basis point return on equity
21 reduction for Labrador's water treatment plant and facilities. During 2015, the Company
22 engaged Gaydos Hydro Services, LLC to perform a water system alternatives analysis. In
23 October 2015, the Company recorded \$10,000 for charges from Gaydos Hydro Services,

1 LLC for this analysis.⁶ In the Labrador System MFRs, \$5,020 was charged to the water
2 operations and \$4,980 was charged to the wastewater operations.

3

4 **Q. DO YOU AGREE THAT THE COST OF THE WATER SYSTEM**
5 **ALTERNATIVES ANALYSIS SHOULD BE INCLUDED FULLY IN THE**
6 **ANNUAL EXPENSES AND BE SPREAD TO BOTH THE WATER AND**
7 **WASTEWATER OPERATIONS?**

8 A. No, for two reasons. First, this analysis is not an annual recurring event and should not be
9 expensed as such. Additionally, the analysis was specific to the water system as it analyzed
10 water system alternatives for addressing the water quality issues; thus, the costs should not
11 be charged to the wastewater operations.

12

13 **Q. WHAT ADJUSTMENTS DO YOU RECOMMEND BE MADE TO THE**
14 **COMPANY'S FILING FOR THESE COSTS?**

15 A. First, as shown on Exhibit DMR-5 at page 4, I removed the \$5,020 and \$4,980 from the
16 test year water and wastewater expenses, respectively. Additionally, I recommend that the
17 \$10,000 cost of the analysis be amortized over a five-year period. Consistent with this
18 recommendation, I increased the water system working capital allowance on page 7 of
19 Exhibit DMR-5 by \$9,000 and included the resulting annual amortization expense of
20 \$2,000 in the water system expenses on page 4.

⁶ Response to Citizens' Interrogatory 61 and Staff Interrogatories Nos. 61 and 63.

1 Legal Expense for 2013 Rate Case

2 **Q. ARE THERE ADDITIONAL TEST YEAR EXPENSES FOR LABRADOR**
3 **UTILITIES, INC. THAT YOU RECOMMEND BE REMOVED FROM THE TEST**
4 **YEAR?**

5 A. Yes. The response to Citizens' Interrogatory No. 35 shows that test year legal expenses
6 include \$1,006 for charges from Friedman & Friedman, P.A. described as Miscellaneous
7 items related to Labrador 2013 rate case. Labrador Utilities, Inc. MFR B-5 and B-6 shows
8 that \$505 of the cost was allocated to the water system and \$501 was allocated to the
9 wastewater system in May 2015. As shown on Exhibit DMR-5, page 4, I recommend these
10 costs be excluded from test year expenses. The amortization of the prior rate case expenses
11 were addressed in the prior rate case and are being amortized to expense, and the costs
12 associated with the current rate case are being addressed in this case as well. The additional
13 legal expenses associated with the prior rate case should not be included in the adjusted
14 test year in this case.

15

16 ADJUSTMENTS SPECIFIC TO LAKE PLACID SYSTEMS

17 Depreciation on Fully Recovered Assets

18 **Q. ON EXHIBIT DMR-6, AT PAGE 4, YOU INCLUDED ADJUSTMENTS TO THE**
19 **LAKE PLACID WATER AND WASTEWATER SYSTEM DEPRECIATION**
20 **EXPENSE. CAN YOU PLEASE EXPLAIN WHAT THESE ADJUSTMENTS ARE**
21 **FOR?**

22 A. Yes. For one of the Lake Placid water system plant accounts and three of the wastewater
23 system plant accounts, the assets were fully depreciated before the start of the test year.
24 For water Account 304.3 – Water Treatment Plant Structures & Improvements, and
25 wastewater Accounts 352.2 – Franchises, 382.4 – Outfall Sewer Lines and 398.7 – Other

1 Tangible Plant, MFR Schedule A-5, A-9, and B-13 show the accumulated depreciation
2 account balance exceeded the plant in service account balance at the start of the test year.
3 Thus, the assets in these plant accounts were already fully depreciated before the start of
4 the test year. As the assets are fully depreciated, the Company should discontinue
5 recording depreciation expense on these assets. As shown on Exhibit DMR-6, page 4, I
6 removed the \$525 of depreciation expense for the water system and \$956 of depreciation
7 for the wastewater system. Additionally, on Exhibit DMR-6, page 7, I removed the plant
8 in service and accumulated depreciation balances for these accounts. As the assets are fully
9 depreciated, I recommend that the associated plant in service and accumulated depreciation
10 balances be removed from the Company's books to ensure that depreciation expense does
11 not continue to be applied to these fully depreciated assets.

12

13 ADJUSTMENTS SPECIFIC TO LONGWOOD WASTEWATER SYSTEM

14 Retirement of WWTP and Interconnection with Sanlando System

15 **Q. LONGWOOD MFR SCHEDULE A-3 INCLUDES ADJUSTMENTS TO RETIRE**
16 **THE SHADOW HILLS WWTP. WOULD YOU PLEASE DISCUSS THE**
17 **COMPANY'S ADJUSTMENT?**

18 A. The Company has proposed a pro forma plant addition in the Sanlando MFRs to divert the
19 flow from the Shadow Hills WWTP to the Wekiva WWTP. This project is addressed
20 further by Citizens' witness Woodcock in his direct testimony. Included in the project are
21 costs associated with the demolition of the Shadow Hills WWTP. In the Longwood MFRs,
22 the Company has included an adjustment to reflect the retirement of the Shadow Hills
23 WWTP and the transfer of an electrical generator from the Shadow Hills WWTP to
24 Sanlando. On Longwood MFR Schedule A-3, the Company included adjustments that
25 reduced the Treatment and Disposal Plant accounts, specifically Accounts 354.4, 380.4,

1 381.4, 382.4 and 389.4, by \$1,784,406 and reduced the associated accumulated
2 depreciation accounts by \$1,784,406 as well. Additionally, the adjustment to transfer the
3 generator to Sanlando reduced the Treatment and Disposal plant on Longwood's books by
4 \$89,900 and reduced the accumulated depreciation balance by \$39,539.

5

6 The average test year balance in the Treatment and Disposal Plant in Service accounts for
7 Longwood was \$1,874,306. The Company adjustments to retire the Shadow Hills WWTP
8 and transfer the electrical generator to Sanlando removed 100% of the Treatment and
9 Disposal Plant in Service, resulting in a \$0 balance for the associated accounts. However,
10 the test year average accumulated depreciation associated with the Treatment and Disposal
11 accounts was only \$184,808. Two of the Treatment and Disposal Plant accumulated
12 depreciation accounts, specifically Account 354.4 – Structures & Improvements, and
13 Account 381.4 – Plant Sewers, had negative balances during the test year.

14

15 By reducing plant in service by the full average test year balance in the Treatment and
16 Disposal Accounts and reducing the associated accumulated depreciation accounts by
17 \$1,823,945 (\$1,784,406 for retirements and \$39,539 for transfer of generator), the net
18 result is negative accumulated depreciation of (\$1,639,137) in the adjusted test year. This
19 negative accumulated depreciation of (\$1,639,137) increases rate base. Since the resulting
20 plant in service balance for the accounts becomes zero, there would be no future
21 depreciation expense that would reduce the negative accumulated depreciation balance.
22 The result is that the \$1,639,137 would be included in rate base in perpetuity unless it is
23 somehow addressed, which means customers will pay a return on this amount to UIF in
24 perpetuity.

25

1 **Q. HAS THE COMPANY INDICATED HOW THE NEGATIVE ACCUMULATED**
2 **DEPRECIATION BALANCE WOULD BE REMOVED FROM ITS BOOKS OR**
3 **RECOVERED?**

4 A. Citizens Interrogatory No. 156(g) asked the Company specifically how the resulting
5 negative accumulated depreciation balance in Account 354.4 – Structures and
6 Improvements of (\$1,537,433) would be recovered or removed from the Company’s books
7 over time. In response, the Company merely stated: “This is a normal retirement and no
8 special recovery mechanism is required.” Based on this response, it is apparently the
9 Company’s position that the \$1,639,137 included in its adjusted rate base for the negative
10 accumulated depreciation would remain in rate base permanently and customers would
11 forever pay a return to UIF on this amount. Clearly, this is not fair, just or reasonable as it
12 results in the Company permanently receiving a return on assets that would no longer exist.

13

14 **Q. DO CITIZENS AGREE THAT THE PRO FORMA ADJUSTMENTS TO DIVERT**
15 **THE FLOW FROM THE SHADOW HILLS WWTP TO THE WEKIVA WWTP**
16 **AND THE ASSOCIATED RETIREMENT OF THE SHADOW HILLS WWTP**
17 **SHOULD BE REFLECTED IN THIS CASE?**

18 A. No. Citizens witness Woodcock has found that the project has not been sufficiently
19 supported by the Company in its MFRs, direct testimony, and exhibits, and therefore
20 recommends that the diversion project be disallowed. As such, on Exhibit DMR-7, at pages
21 3 and 5, I reversed the adjustments made by the Company in the Longwood MFRs to retire
22 the wastewater treatment plant and transfer the generator.

23

24 If the Commission disagrees with Citizens’ recommendation and allows the Company’s
25 adjustments for the diversion project and associated plant retirements and generator

1 relocation, the reduction to accumulated depreciation associated with the wastewater
2 treatment plant retirement should be limited to the balance in the accumulated depreciation
3 accounts. It would not be fair or reasonable to allow the full adjustment to accumulated
4 depreciation included by the Company in its filing as it would result in negative
5 accumulated depreciation being included as an addition to rate base in perpetuity. If the
6 Company does go forward with the diversion project in the future, it can request recovery
7 of the net loss on retirement of the Shadow Hills WWTP through amortization from the
8 Commission, consistent with Commission practice.

9

10 Pro Forma Church Avenue Relocation Project

11 **Q. THE COMPANY HAS INCLUDED A PRO FORMA PLANT ADDITION TO**
12 **RELOCATE SEWER MAINS WITHIN THE CHURCH AVENUE RIGHT OF**
13 **WAY. ARE YOU RECOMMENDING ANY ADJUSTMENTS ASSOCIATED**
14 **WITH THIS COMPANY PROPOSED PRO FORMA PLANT ADDITION?**

15 A. Yes. In its filing, the Company included a pro forma plant addition to plant Account 360.2
16 – Collection Sewers - Force of \$170,000 for this project and reflected an offsetting plant
17 retirement of \$127,500 or 75% of the project costs, reducing both plant in service and
18 accumulated depreciation associated with Account 360.2 by the \$127,500 retirement
19 amount. While the Company's adjustment removes \$127,500 from the plant account for
20 the associated retirement of the existing assets, the balance on the Company's books in
21 plant in service Account 360.2 at the end of the test year was only \$23,870. Thus, the
22 Company's proposed retirement adjustment is removing considerably more from both the
23 plant in service account and the associated accumulated depreciation account than is
24 recorded on the books for Longwood in Account 360.2. The Company's proposed
25 retirement adjustment would result in a negative accumulated depreciation balance for

1 Account 360.2 in the adjusted test year. As shown on Exhibit DMR-7, at page 5, I
2 recommend that the pro forma retirement associated with the pro forma Church Avenue
3 sewer main relocation project be capped at the \$23,870 balance in Account 360.2 –
4 Collection Sewers – Force at the end of the test year.

5

6 **Q. WHAT IS THE OVERALL IMPACT OF YOUR RECOMMENDED CAP ON THE**
7 **RETIREMENT AMOUNT?**

8 A. As shown on Exhibit DMR-7, at page 5, plant in service is increased by \$103,630 while
9 accumulated depreciation is increased by \$101,903, resulting in a net increase in rate base
10 of \$1,727. Additionally, as shown on page 3 of the exhibit, depreciation expense
11 incorporated in the Company's filing is increased by \$3,454.

12

13 Remove Pro Forma Purchased Power Adjustment

14 **Q. LONGWOOD MFR SCHEDULE B-3 INCLUDES A PRO FORMA ADJUSTMENT**
15 **FOR PURCHASED POWER THAT INCREASES PURCHASED POWER**
16 **EXPENSE BY \$7,147. WHAT SUPPORT HAS THE COMPANY PROVIDED FOR**
17 **THIS ADJUSTMENT?**

18 A. The workpapers provided by the Company in its supplemental response to Citizens' POD
19 No. 4 identifies the amount of adjustment as \$7,147 and describes the adjustment as
20 "Termination of interruptible power tariff by Duke Energy." The workpapers provided by
21 the Company did not include any information supporting the amount or showing how the
22 \$7,147 adjustment was determined. As the Company has not met its burden to support this
23 pro forma adjustment in its filing or in response to discovery, I have removed the pro forma
24 adjustment on Exhibit DMR-7 at page 3, reducing the Company's adjusted purchased
25 power expenses by \$7,147.

1 ADJUSTMENTS SPECIFIC TO MID-COUNTY WASTEWATER SYSTEM

2 Remove Pro Forma Employee Addition

3 **Q. WHAT ADJUSTMENTS DID THE COMPANY MAKE TO THE ACTUAL TEST**
4 **YEAR SALARY AND WAGES EXPENSE FOR THE MID-COUNTY**
5 **WASTEWATER SYSTEM?**

6 A. Mid-County MFR Schedule B-3 shows several adjustments to salaries and wages expense.
7 The first category of adjustments, titled “Adjustment to annualize salaries,” increases the
8 test year per books salaries and wages expense and employee benefits expenses by 3.75%,
9 resulting in increases of \$9,052 and \$2,848, respectively. This adjustment, which the
10 Company has applied to all of the systems in this case, effectively annualizes the 2015
11 salary and wage increase and reflects an increase in salaries and wages for 2016. Benefits
12 expense is assumed in the adjustment to increase by a similar percentage as salaries and
13 wages. I am not challenging the Company’s application of the 3.75% increase in salaries
14 and wages and employee benefits to each of the systems.

15

16 The second category of adjustments increases salaries and wages expense by \$38,036 and
17 benefits expense by \$11,794. This includes two separate adjustments, one for \$11,036 to
18 reflect additional salaries and wages that are being allocated to all systems in this case and
19 one for \$27,000 to add a new position specific to the Mid-County system.

20

21 **Q. PLEASE DISCUSS FIRST THE ADJUSTMENT FOR \$11,036.**

22 A. In its filing, the Company has include labor costs associated with the following changes
23 that it has allocated to all of the systems in this case based on ERCs: 1) the addition of one
24 GIS Technician; 2) the addition of a senior financial analyst; 3) the conversion of a field
25 tech to an area manager; and 4) the conversion of a part time field tech to a full time

1 position. These costs, totaling \$137,814 in salaries and wages expense and \$46,132 in
2 employee benefits expense, are reflected in the workpapers provided with the Company's
3 supplemental response to POD No. 4, which show the allocation to each of the systems
4 associated with these positions. An attachment provided with the Company's response to
5 OPC Interrogatory No. 78 shows that the actual employee complement for the Florida
6 operations has increased by two positions between the end of the test year and December
7 31, 2016. In consideration of the actual 2 full-time equivalent ("FTE") growth in the
8 employee complement, I am not challenging this adjustment.

9

10 **Q. PLEASE DISCUSS THE SECOND ADJUSTMENT.**

11 A. In its filing, the Company increased the Mid-County salary and wages expense by \$27,000
12 and the employee benefits expense by \$8,100 for the addition of a maintenance technician
13 with 100% of the costs assigned to Mid-County in the MFRs. In response to Citizens'
14 Interrogatory No. 152, the Company indicates that "(t)he increase in annual salary and
15 wage expense at Mid-County the TY reflects the absence of one operator for about 11
16 months of the test year, which we were actively recruiting to replace. . . ." The Company
17 has not demonstrated that the employee complement specific to Mid-County has increased
18 since the test year, nor has it demonstrated that it needs to increase the employee
19 complement directly assigned to Mid-County above the level of active employees
20 supporting the system during the test year. Additionally, as previously mentioned, the
21 overall Florida employee complement has only increased by two positions since the test
22 year, the cost of which is being allocated to all of the systems in the Company's filing.
23 Thus, because the Company has failed to meet its burden to show these expenses are
24 reasonable and prudent, as shown on Exhibit DMR-9 at page 3, I am removing the \$27,000

1 of salaries and wages expense and \$8,100 of benefits expense that the Company added to
2 Mid-County as part of its pro forma adjustment.

3

4 Cancelled Pro Forma Project

5 **Q. OPC WITNESS WOODCOCK IS RECOMMENDING SEVERAL ADJUSTMENTS**
6 **TO THE COMPANY'S PROPOSED PRO FORMA PLANT ADDITIONS FOR**
7 **MID-COUNTY. ARE YOU REFLECTING ANY ADDITIONAL ADJUSTMENTS**
8 **BEYOND THOSE ADDRESSED BY MR. WOODCOCK?**

9 A. Yes. The Company's pro forma plant additions adjustment included \$400,000, or
10 \$300,000 net of retirements, for a south plant blower replacement project. In response to
11 Staff Interrogatory No. 166(b), the Company indicated that the project has been postponed.
12 Since the project has been postponed, the impacts on the filing should be removed.

13

14 **Q. WHAT ADJUSTMENTS ARE NEEDED TO REMOVE THIS PROPOSED PRO**
15 **FORMA PROJECT FROM THE COMPANY'S FILING?**

16 A. As shown on Exhibit DMR-9, at pages 3 and 5, plant in service should be reduced by
17 \$100,000, accumulated depreciation should be increased by \$286,667 and depreciation
18 expense should be reduced by \$6,667. These amounts remove the plant addition
19 adjustment and the associated retirement adjustments incorporated in the Company's
20 filing.

21

22 Pro Forma Cost Savings

23 **Q. DOES THE COMPANY ANTICIPATE ANY COST SAVINGS RESULTING**
24 **FROM THE PRO FORMA PLANT ADDITIONS IN MID-COUNTY?**

1 A. Yes. The Company has included a pro forma project to replace methanol pumps and add
2 in-line nutrient analyzers. In Citizens' witness Woodcock's testimony, he allows the
3 inclusion of this pro forma plant addition at a revised cost. In the attachment "Proforma
4 Plant Additions O&M differences" provided in response to Citizens' Interrogatory No. 8,
5 the Company states as follows regarding projected cost savings associated with the pro
6 forma plant addition: "[t]he purchase of methanol is expected to decrease by as much as
7 10% through optimization of chemical feed rates, which amount to \$4,220/yr (10% of
8 \$42,222 in methanol expense in TY)." Since the project is being included in the pro forma
9 plant additions, the resulting projected cost savings should also be included in the adjusted
10 test year. Thus, the projected cost savings of \$4,220 are included on Exhibit DMR-9 at
11 page 3.

12

13 Remove Duplicate EPA Permit Costs

14 **Q. EXHIBIT DMR-9 AT PAGE 3 INCLUDES AN ADJUSTMENT TO REDUCE TEST**
15 **YEAR EXPENSES BY \$5,000. WHAT IS THE PURPOSE OF THIS**
16 **ADJUSTMENT?**

17 A. The support provided by the Company in response to Staff Interrogatory No. 29 shows that
18 test year expenses in Account 775 – Miscellaneous Expenses includes \$5,625 booked on
19 December 11, 2015 for charges from the Florida Department of Environmental Protection
20 associated with "Sewer – Permits" and a \$5,000 accrual booked on December 31, 2015
21 associated with "Sewer – Permits." The Company provided additional information for
22 these charges in response to Citizens' POD No. 56. Based on a review of the invoice and
23 general ledger detail provided, the \$5,000 accrual booked on the last day of the test year
24 was reversed the next day (January 1, 2016) and a \$5,000 expense was subsequently
25 booked on January 6, 2016. The alleged support provided for the \$5,000 expense was a

1 check requisition form citing the Mid-County WWTP permit renewal as the purpose for
2 the requisition, with the designation "Date Needed" identified on the requisition request of
3 January 15, 2016. The alleged support for the \$5,625 also booked in December 2015 is an
4 invoice from the Florida Department of Environmental Protection associated with the Mid-
5 County WWTP.

6

7 Based on the information provided by the Company, the \$5,000 expense booked in
8 December 2015 in Account 775 – Miscellaneous expenses for "Sewer-Permits" results in
9 duplicate permit fees for the WWTP being included in the test year. Thus, I have removed
10 the \$5,000 on Exhibit DMR-9 at page 3.

11

12 Remove 2016 Sludge Removal Expense

13 **Q. WERE ANY ADDITIONAL ACCRUALS BOOKED ON DECEMBER 31, 2015 FOR**
14 **THE MID-COUNTY SYSTEM THAT SHOULD BE REMOVED FROM TEST**
15 **YEAR EXPENSES?**

16 A. Yes. On December 31, 2015, the Company booked three accruals to sludge removal
17 expenses, two of which increased expense by \$2,400 each and one of which increased
18 expense by \$3,600. Based on the actual invoices provided by the Company in response to
19 Citizens' POD No. 85, the \$3,600 expense was for services that occurred on January 4,
20 2016 through January 8, 2016. It is not clear why these expenses, incurred during 2016,
21 were accrued on the Company's books on December 31, 2015. As shown on Exhibit DMR-
22 9, at page 3, I have removed the \$3,600 of 2016 sludge hauling expenses from the test year.

1 ADJUSTMENTS SPECIFIC TO LAKE UTILITY SERVICES SYSTEMS

2 Remove Pro Forma Employee Addition

3 **Q. WHAT ADJUSTMENTS DID THE COMPANY MAKE TO THE ACTUAL TEST**
4 **YEAR SALARY AND WAGES EXPENSE FOR THE LAKE UTILITY SERVICES**
5 **(“LUSI”) WATER AND WASTEWATER SYSTEMS?**

6 A. The adjustments made to LUSI salary and wages expense, and employee benefits expense,
7 are similar to those made by the Company to the Mid-County system, previously discussed.
8 These include adjustments to: 1) increase salaries, wages, and employee benefits expenses
9 by 3.75% for the annualization of 2015 salary and wage increases and a 3.0% 2016 salary
10 and wage increase; 2) an adjustment to increase salaries, wages and benefits to reflect two
11 additional employees, the promotion of an employee, and conversion of a part time
12 employee to a full time employee, the costs of which are allocated to all systems; and 3)
13 an adjustment to include \$27,000 of salaries and wages and \$8,100 of benefits for the
14 addition of a new position specific to the LUSI system. As previously discussed in the
15 Mid-County system section of my testimony, I am not challenging the 3.75% increase in
16 test year labor costs or the labor cost adjustments being allocated to all of the systems for
17 the reasons previously discussed.

18

19 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS ASSOCIATED WITH THE**
20 **COMPANY’S PRO FORMA ADJUSTMENT TO ADD LABOR COSTS FOR A**
21 **NEW EMPLOYEE SPECIFIC TO THE LUSI SYSTEMS?**

22 A. Yes. The Company has not demonstrated that the employee complement specific to LUSI
23 has increased since the test year, nor has it demonstrated that it needs to increase the
24 employee complement directly assigned to LUSI above the level of active employees
25 supporting the system during the test year. Additionally, as previously mentioned, the

1 overall Florida employee complement has only increased by two positions since the test
2 year, the cost of which is being allocated to all of the systems in the Company's filing.
3 Thus, since UIF has failed to meet its burden to show these expenses are prudent and
4 reasonable, as shown on Exhibit DMR-8 at page 4, I am removing the \$27,000 of salaries
5 and wages expense (\$20,623 for water system and \$6,377 for wastewater system) and
6 \$8,100 of benefits expense (\$6,187 for water system and \$1,913 for wastewater system)
7 that the Company added to LUSI O&M expenses as part of its pro forma adjustments.

8

9 Remove Pro Forma Purchased Power Adjustment

10 **Q. LUSI MFR SCHEDULE B-3 INCLUDES A PRO FORMA ADJUSTMENT FOR**
11 **PURCHASED POWER THAT INCREASES PURCHASED POWER EXPENSE BY**
12 **\$14,209 FOR THE WATER SYSTEM AND \$7,657 FOR THE WASTEWATER**
13 **SYSTEM. WHAT SUPPORT HAS THE COMPANY PROVIDED FOR THIS**
14 **ADJUSTMENT?**

15 A. The workpapers provided by the Company in its supplemental response to Citizens' POD
16 No. 4 merely identify the amount of the adjustment as \$21,866 (combined water and
17 wastewater amount) and describe the adjustment as "Termination of interruptible power
18 tariff by Seco." The workpapers provided by the Company did not include any information
19 supporting the amount or showing how the \$21,866 adjustment was determined. As the
20 Company has failed to meet its burden to support this pro forma adjustment in its filing or
21 in response to discovery, I have removed the pro forma adjustment on Exhibit DMR-8 at
22 page 4, reducing the Company's adjusted purchased power expenses by \$14,209 for the
23 water system and \$7,657 for the wastewater system.

1 Remove Company Application of Non-Used & Useful Percentage on CIAC

2 **Q. DOES THE COMPANY'S FILING INCLUDE A NON-USED AND USEFUL**
3 **PLANT IN SERVICE ADJUSTMENT FOR THE LUSI SYSTEM?**

4 A. Yes. In its filing, the Company applied a 41% non-used and useful factor to its wastewater
5 Treatment and Disposal Plant accounts and the associated accumulated depreciation and
6 depreciation expense accounts. Citizens' witness Woodcock recommends a 46.45% non-
7 used and useful factor in his testimony. On Exhibit DMR-8, at page 12, I reflected the
8 impacts of increasing the non-used and useful factor to the 46.45% rate recommended by
9 Mr. Woodcock and the impacts of Mr. Woodcock's recommended reduction to the Lake
10 Grove splitter box replacement pro forma project on the Company's non-used and useful
11 adjustment. As shown on page 12 of the exhibit, the revised non-used and useful
12 adjustment reduces rate base by an additional \$304,578 and depreciation expense by
13 \$19,037.

14
15 **Q. ARE THERE ANY PROBLEMS WITH THE COMPANY'S NON-USED AND**
16 **USEFUL ADJUSTMENTS FOR THE LUSI WASTEWATER SYSTEM BEYOND**
17 **THOSE ADDRESSED ABOVE?**

18 A. Yes. In addition to applying the 41% non-used and useful adjustments to the Treatment
19 and Disposal plant, accumulated depreciation and depreciation expense accounts in its
20 filing, the Company also applied the 41% non-used and useful factor to several of the
21 Contributions in Aid of Construction ("CIAC") accounts, accumulated amortization of
22 CIAC accounts, and the "Amortization of CIAC – WWTP" expense.

1 **Q. WHY IS THIS A PROBLEM?**

2 A. The Commission addressed this very issue in LUSI's last rate case, Docket No. 100426-
3 WS, in Order No. PSC-11-0514-PAA-WS. In that order, at page 16, the Commission
4 indicated that LUSI made certain non-used and useful adjustments to CIAC, removing
5 \$980,217 from CIAC Reuse Service and Management Fees and adding it to CIAC
6 Structures/Improvement Treatment Plant. The order also indicated that the CIAC
7 Structures/Improvement Treatment Plant account did not have historic annual balances,
8 but was created by the utility through adjustments with an adjusted balance in the account
9 of \$2,221,923. In that case, the Company applied its proposed non-used and useful factor
10 to the \$2,221,923 balance and to an account labeled as "CIAC Sewer Residential Capacity
11 Fee and CIAC Sewer Plant Modification Fee." In addressing the Company's application
12 of the non-used and useful adjustments to CIAC at pages 16 and 17 of the Order, the
13 Commission stated as follows:

14 We find that the Utility's non-U&U adjustments to the CIAC accounts are
15 not appropriate or justified. Pursuant to Section 367.0817(3), F.S., the
16 applicable adjustments under Rule 25-30.432, F.A.C., do not apply to reuse
17 projects. Further, U&U adjustments apply only to prepaid CIAC and it is
18 the utility's burden to prove that those adjustments relate to prepaid CIAC.
19 We find that LUSI did not provide documentation supporting any prepaid
20 CIAC. Prepaid CIAC for treatment plant is typically associated with
21 Refundable Advance Agreements which the utility admitted that it does not
22 have. Consistent with our practice, all CIAC associated with existing
23 customers is considered 100 percent U&U, and as such, no U&U
24 adjustments shall be made to CIAC. Additionally, no approved adjustments
25 were made to the Utility's CIAC U&U calculations in its prior rate case.
26 LUSI's U&U adjustments made to CIAC in the prior case were related to
27 the anticipated new developments in the service territory which never
28 materialized. Based on the aforementioned, we find that non-U&U
29 adjustments shall not be applied to CIAC in this case. As such, we find that
30 rate base and depreciation expense shall be further reduced by \$699,697 and
31 \$15,715, respectively, and property taxes shall be increased by \$28.
32

33 Additionally concerning is the fact that LUSI MFR Schedule A-12, at page 1, shows that
34 the Company moved \$980,000 from CIAC "Reuse System Fees" to CIAC "Contributed

1 Property – WWTP” and moved \$1,242,062 from “Other Contributed Property” to
2 “Contributed Property – WWTP” resulting in a \$2,221,845 increase in Contributed
3 Property – WWTP to which the Company applies the non-used and useful percentage.
4 Each of these adjustments made by the Company appears in the column on the schedule
5 for Commission Ordered Adjustments. The Commission clearly addressed the Company’s
6 moving of CIAC balances from the CIAC Reuse Services in the prior case and specifically
7 disallowed the application of a non-used and useful percentage to the CIAC balance; thus,
8 it is not clear why the Company is attempting to make a \$2.2 million purported
9 Commission Ordered Adjustment to Contributed Property – WWTP and applying the non-
10 Used and Useful Adjustment to the balance.

11
12 **Q. WHAT ADJUSTMENTS NEED TO BE MADE TO REMOVE THE COMPANY’S**
13 **ATTEMPT TO APPLY THE NON-USED AND USEFUL ADJUSTMENT TO**
14 **CIAC?**

15 A. As shown on Exhibit DMR-8, at page 7, CIAC should be increased by \$1,656,177 and
16 accumulated amortization of CIAC should be increased by \$573,138 resulting in a net
17 reduction in rate base of \$1,083,039. Additionally, as shown on page 4 of the exhibit,
18 depreciation expense, net of CIAC amortization, should be reduced by \$48,890.

19
20 Sludge Dewatering Equipment Cost Savings

21 **Q. ARE ANY OF THE PRO FORMA PLANT ADDITIONS FOR THE LUSI SYSTEM**
22 **ANTICIPATED TO RESULT IN COST SAVINGS TO THE COMPANY?**

23 A. Yes. In the attachment “Proforma Plant Additions O&M differences” provided in response
24 to Citizens’ Interrogatory No. 8, the Company indicated that the Lake Groves Sludge
25 Dewatering Equipment is anticipated to result in a “[r]eduction in sludge hauling expense

1 of \$3,500/month assuming the pilot test shows the efficacy of the equipment as designed.”
2 While the project cost was included as a pro forma plant addition in the Company’s filing,
3 the associated cost savings were not reflected. Clearly, this would not be a just or
4 reasonable result. As shown on Exhibit DMR-8, at page 4, I reduced the test year sludge
5 removal expense by \$42,000 to reflect the annual cost savings associated with the pro
6 forma project.

7

8 ADJUSTMENTS SPECIFIC TO PENNBROOKE WATER & WASTEWATER SYSTEMS

9 Out of Period Property Tax Expense

10 **Q. IN ITS AUDIT REPORT, STAFF FINDING 7 RECOMMENDED REMOVAL OF**
11 **\$1,695 OF PROPERTY TAX EXPENSE ASSOCIATED WITH A 2006**
12 **DELINQUENT TAX BILL. DO YOU AGREE THAT THIS ADJUSTMENT**
13 **SHOULD BE MADE?**

14 **A.** Yes. A review of the general ledger for the Pennbrooke systems confirms that the \$1,695
15 is included in the test year property tax expense. A review of Staff’s audit workpapers also
16 confirmed that the tax bill was associated with a delinquent tax bill from 2006. As shown
17 on Exhibit DMR-10, page 4, I have reduced property taxes expense by \$925 for the
18 Pennbrooke water system and \$770 for the Pennbrooke wastewater system, for a combined
19 reduction of \$1,695.

20

21 ADJUSTMENTS SPECIFIC TO SANDALHAVEN WASTEWATER SYSTEM

22 Discontinued Expenses – WWTP Plant Retirement

23 **Q. DID ANY SIGNIFICANT CHANGES IN OPERATIONS OCCUR FOR THE**
24 **SANDHAVEN SYSTEM EITHER DURING OR SUBSEQUENT TO THE TEST**
25 **YEAR?**

1 A. Yes. The Sandalhaven onsite WWTP was retired and taken offline in November 2015.
2 The wastewater that had previously been treated at the Sandalhaven WWTP has now been
3 diverted to Englewood Water District's treatment and disposal facilities. The adjustments
4 needed to reflect the retirement of the WWTP plant were recently addressed in Order No.
5 PSC-16-0013-PAA-SU, issued January 6, 2016.

6

7 **Q. SINCE THE SANDALHAVEN WWTP WAS USED DURING TEN MONTHS OF**
8 **THE TEST YEAR, WERE COSTS INCURRED ASSOCIATED WITH THE**
9 **OPERATION OF THAT PLANT?**

10 A. Yes. Test year expenses include costs incurred for the operation and maintenance of the
11 Sandalhaven WWTP. The Company has removed some, but not all, of the expenses
12 incurred during the test year associated with the now decommissioned plant.

13

14 **Q. WHAT ADJUSTMENTS DID THE COMPANY MAKE TO THE TEST YEAR**
15 **EXPENSES ASSOCIATED WITH THE DECOMMISSIONING OF THE PLANT?**

16 A. The Company increased purchased sewage treatment expense by \$150,165 for the costs
17 associated with the additional wastewater that will now be treated by the Englewood Water
18 District. The Company also increased salary and wages expense by \$3,000 to reflect that
19 certain costs will now be expensed instead of capitalized on a going-forward basis as less
20 employee time will focus on capital projects. The Company further reduced purchased
21 power expense by \$6,000, Materials & Supplies Expense by \$69,473 and Miscellaneous
22 expenses by \$4,439.

1 **Q. IN THE RECENT COMMISSION ORDER FOR UTILITIES, INC. OF**
2 **SANDALHAVEN, DID THE COMMISSION REQUIRE ANY ADDITIONAL**
3 **ADJUSTMENTS ASSOCIATED WITH THE DECOMMISSIONING OF THE**
4 **WWTP?**

5 A. Yes. Order No. PSC-16-0013-PAA-SU, issued January 6, 2016, at pages 21 – 22, reduced
6 salary and wage expense by \$45,778, benefits expense by \$13,284 and payroll taxes by
7 \$3,947 to reflect the reduction in WWTP operators that would be needed post-
8 decommissioning of the plant. The order still allowed for 1.2 FTEs for wastewater plant
9 operators needed to continue operations on the wastewater system post-decommissioning
10 of the WWTP. However, the Company did not make an adjustment in this case to reflect
11 the reduction in the number of WWTP operators needed post-decommissioning.

12
13 Additionally, at page 23 of that order, the Commission removed 100% of the test year
14 sludge hauling expense. Yet, the Company did not remove the sludge hauling expense in
15 this case.

16

17 **Q. DO YOU RECOMMEND THAT LABOR COSTS BE REDUCED TO REFLECT**
18 **THE IMPACTS OF THE DECOMMISSIONING OF THE WWTP?**

19 A. Yes. In the last Sandalhaven rate case, the Company's MFRs included salaries & wages
20 expense for non-officers of \$131,692, which the Commission reduced to \$68,481 in Order
21 No. PSC-16-0013-PAA-SU. In this case, the Company's requested salaries & wages
22 expense is \$145,999 (\$135,506 before Company adjustments). Clearly, the Company has
23 not reflected the reduction associated with the reduced need for WWTP operators in its
24 filing. Therefore, I recommend that the salary and wages expense be reduced by \$47,495
25 and employee benefits expense be reduced by \$13,782 to reflect the reduced staffing needs

1 post-decommissioning of the Sandalhaven WWTP. These amounts are based on the
2 Commission ordered adjustments in Order No. PSC-16-0013-PAA-SU of \$45,778 and
3 \$13,284, grossed up for the 3.75% salary and wage increase incorporated in the Company's
4 current filing. Additionally, payroll tax expenses should be reduced by \$3,633. These
5 reductions are included in Exhibit DMR-11 at page 3.

6

7 **Q. SHOULD SLUDGE HAULING EXPENSE ALSO BE ADJUSTED?**

8 A. Yes. Test year expenses include \$13,455 for sludge hauling expense. Consistent with
9 Commission Order No. PSC-16-0013-PAA-SU in the last Sandalhaven rate case, these
10 expenses should be removed. While the Company's response to OPC Interrogatory No.
11 132(b) indicates that the expense included in Account 711 – Sludge Hauling
12 Expense "...also reflects lift station cleaning", the majority of the costs incurred during the
13 test year would be associated with the now decommissioning WWTP. The Company has
14 not provided the normalized on-going level of expense associated with the lift station
15 cleaning, nor has it provided the amount included in the test year expenses in Account 711
16 – Sludge Hauling Expense for lift station cleaning. Thus, as shown on Exhibit DMR-11 at
17 page 3, I recommend that the full \$13,455 of test year sludge hauling expense be removed.

18

19 **Q. SHOULD ANY ADDITIONAL TEST YEAR EXPENSES BE REMOVED AS A**
20 **RESULT OF THE DECOMMISSIONING OF THE WWTP?**

21 A. Yes. In its filing, the Company reduced the per book test year chemical expense of \$3,375
22 by \$230, resulting in an adjusted chemical expense of \$3,145. The adjustment is described
23 on Company MFR Schedule B-3 as "To reconcile to chemical schedule." The workpaper
24 provided by the Company in its supplemental response to OPC POD No. 4 shows the
25 chemicals as being used through October 2015, which is prior to the WWTP closure, and

1 based on the 20.627 million gallons that were treated by the now decommissioned plant
2 during the test year. The Company's adjusted test year chemical expenses, based on the
3 now decommissioned WWTP, should be removed in its entirety. The \$3,145 reduction to
4 the Company's adjusted test year expenses is reflected on Exhibit DMR-11 at page 3.

5

6 Remove Prior Period Purchased Sewage Treatment Expense

7 **Q. DID THE COMPANY ADJUST THE PURCHASED SEWAGE TREATMENT**
8 **EXPENSE THAT WAS RECORDED DURING THE TEST YEAR?**

9 A. Yes. The Company multiplied the amount of sewage that had been treated by the now
10 decommissioned Sandalhaven WWTP during the test year by the rate charged by
11 Englewood Water District for treatment. This increased the test year expense by \$150,165,
12 resulting in an adjusted purchased sewage treatment expense of \$349,521.

13

14 **Q. SHOULD ADDITIONAL ADJUSTMENTS BE MADE TO THE PURCHASED**
15 **SEWAGE TREATMENT EXPENSE INCLUDED IN THE ADJUSTED TEST**
16 **YEAR?**

17 A. Yes. The Company's response to Staff Interrogatory No. 1 shows that the test year
18 expenses include 14 months of purchased sewage treatment charges from Englewood
19 Water District, covering the period spanning October 24, 2014 through December 23,
20 2015. Clearly, only twelve months of expense should be included in the adjusted test year.
21 The charges for the Englewood Water District billing periods ending November 25, 2014
22 and December 26, 2014 of \$13,555 and \$13,570, respectively, should be removed from the
23 test year. As shown on Exhibit DMR-11, page 3, I reduced test year expenses by \$27,125
24 to remove the two extra months associated with the 2014 costs from the test year.

1 Additionally, as addressed by OPC witness Woodcock, the adjusted test year purchased
2 sewage treatment expense and purchased power costs should be reduced for excessive
3 inflow and infiltration. On Exhibit DMR-11, at page 7, the application of the excessive
4 inflow and infiltration percentage recommended by Mr. Woodcock of 8.37% to the
5 adjusted purchased sewage treatment expense and purchased power expense results in an
6 additional \$28,486 reduction to test year expenses.

7

8 Salvage Value of Decommissioned Plant

9 **Q. DID ORDER NO. PSC-16-0013-PAA-SU IDENTIFY OTHER ISSUES**
10 **ASSOCIATED WITH THE WWTP DECOMMISSIONING THAT ARE TO BE**
11 **ADDRESSED?**

12 A. Yes. At page 11 of the order, the Commission found it appropriate to amortize the net loss
13 on plant abandonment associated with an invoice for decommissioning the plant of \$97,696
14 over a period of ten years. In this case, the Company included the annual amortization
15 expense associated with the loss of \$9,770 as a pro forma adjustment in its MFRs. Page
16 10 of the Commission order indicates that the Company did not record any salvage value
17 for the components of the decommissioned plant and stated: "...should the utility recover
18 salvage value upon the completion of the decommissioning of the WWTP, the recovered
19 salvage value shall be addressed in Sandalhaven's next rate case." In its rebuttal, the
20 Company should provide the amount of salvage it received and provide supporting
21 documentation. Such proceeds should either be used to reduce the net loss amount being
22 amortized in the Company's filing or be flowed back to ratepayers through a separate
23 amortization. If the Company does not provide a salvage amount, I would recommend
24 50% of the decommissioning amortization expense, or \$4,885 be removed. Additionally,
25 if the Company has failed to receive any salvage, it should indicate as such, explain why it

1 has not received any salvage value, and describe the actions it has taken or is taking to
2 recover any salvage value.

3

4 Working Capital Allowance – Accrued Taxes

5 **Q. HOW DOES THE AMOUNT OF WORKING CAPITAL REQUESTED IN THIS**
6 **CASE COMPARE TO THE AMOUNT OF WORKING CAPITAL AUTHORIZED**
7 **BY THE COMMISSION IN THE PRIOR UTILITIES, INC. OF SANDALHAVEN**
8 **RATE CASE?**

9 A. In Order No PSC-16-0013-PAA-SU, utilizing a test year ended December 31, 2014, the
10 adjusted rate base adopted by the Commission included \$70,647 of working capital. In the
11 current case, the Company is requesting \$476,681 in working capital allowance for
12 Sandalhaven. This is an increase of over 570%.

13

14 **Q. WHAT HAS CAUSED THE SIGNIFICANT INCREASE IN REQUESTED**
15 **WORKING CAPITAL ALLOWANCE?**

16 A. In response to OPC Interrogatory No. 131, the Company attempts to explain the cause of
17 the significant increase in working capital allowance, stating: “The prior rate case was
18 based upon 1/8 O&M, whereas this case employs the Balance Sheet Approach.”
19 However, negative accrued taxes included in the liabilities component of the balance sheet
20 method calculation is the driving factor for this difference. Company MFR Schedules A-
21 17 and A-19 show an average test year a negative accrued taxes amount of \$384,771, which
22 increases the working capital allowance. Typically, the liabilities reduce the working
23 capital allowance under the balance sheet methodology; however, the negative balance in
24 this account in the test year results in an increase in working capital associated with accrued
25 taxes.

1 **Q. WHAT HAS CAUSED THE ACCRUED TAXES IN THE LIABILITIES SECTION**
2 **OF SANDALHAVEN'S BALANCE SHEET TO BE NEGATIVE OR IN A PREPAID**
3 **POSITION?**

4 A. The Company's revised response to OPC ROG No. 131(b) addresses the cause of the
5 prepaid position as follows:

6 State and Federal taxes were not overpaid in Sandalhaven as suggested in
7 our previous response to this question. The Company has carried a debit
8 balance in account 4371 – Deferred Federal Tax – Tap Fee Post 2000 of
9 \$571,791 for some time. Switching from the 1/8th to balance sheet method
10 partially increased the working capital calculation by this deferred tax debit.
11

12 While the Company's response identifies a balance of \$571,791, the Company's electronic
13 MFRs for Sandalhaven provided in response to Citizens' POD No. 1 shows a balance of
14 \$527,791 in Account 4371 associated with Deferred Federal Tax – Tap Fee Post 2000 and
15 \$90,347 in Account 4421 for Deferred State Tax – Tap Fee, for a combined amount of
16 \$618,138. These accounts translate to NARUC Account 190, which is a deferred tax asset
17 account. The \$618,138 combined federal and state balance is consistent with the amount
18 identified in the Company's prior rate case described later in this testimony. Thus, based
19 on the Company's response, the working capital balance in rate base is significantly
20 impacted by the deferred income tax asset account that has been on the Company's books
21 for many years. The electronic MFRs for Sandalhaven show that the accrued tax
22 component of working capital includes \$389,275 for Accrued Federal Income Tax and
23 \$43,424 for Accrued State Income Tax, with the balances remaining unchanged throughout
24 each month of the test year.

25
26 **Q. HAS THE COMMISSION RECENTLY ADDRESSED THE TREATMENT OF**
27 **THESE PURPORTED PREPAID TAX ITEMS ON THE REVENUE**
28 **REQUIREMENTS?**

1 A. Yes. Order No. PSC-16-0013-PAA-SU addresses the issue extensively at pages 17 through
2 20. In that case, the Company included a debit ADIT balance in the capital structure
3 associated with income taxes the utility paid on plant capacity fees received from property
4 developers. Since it was a debit balance, it reduced the amount of ADIT included in the
5 capital structure at zero cost by \$618,138. The Commission's order indicates that the CIAC
6 consisted mainly of payments from multiple developers from 1995 through 2006 to reserve
7 capacity to serve potential residents in planned developments and would not meet the
8 definition of a customer connection fee defined by the IRS treasury regulations and that
9 the Sandalhaven plant capacity charges are non-taxable CIAC. This order, at page 19,
10 determined the accumulated deferred income taxes at issue "...have been retired in
11 conjunction with the retirement of the WWTP and should be removed from the ADIT
12 balance in any case." Moreover, page 19 of this order, clearly states:

13 In light of the above, we find that the debit ADITs from taxes paid on plant
14 capacity charges shall be disallowed for ratemaking purposes. This same
15 issue was addressed in the utility's last case before us in Docket No 060285-
16 WS, and in that case, we also disallowed the inclusion of the debit ADITs.
17 (footnote omitted)
18
19

20 **Q. SHOULD THE NEGATIVE ACCRUED TAX BALANCE INCLUDED IN THE**
21 **COMPANY'S REQUESTED WORKING CAPITAL ALLOWANCE BE**
22 **ALLOWED?**

23 A. No, it should not. The Commission has clearly disallowed these costs to impact the revenue
24 requirements in prior Sandalhaven rate cases. The Company should not be permitted to
25 now shift the impact from the reduction in the ADIT zero cost component of the capital
26 structure to an increase in the working capital allowance reflected in rate base. As shown
27 on Exhibit DMR-11 at page 5, I have reduced working capital by \$432,700 to remove the
28 negative accrued (or prepaid) \$389,275 Federal Income Tax balance and the \$43,424 State

1 Income Tax balance from working capital. As shown on page 4 of Exhibit DMR-11, this
2 results in an adjusted working capital allowance for Sandalhaven of \$43,981.

3

4 Negative Accumulated Depreciation Balances

5 **Q. PREVIOUSLY IN THIS TESTIMONY, YOU INDICATED THAT NEGATIVE**
6 **ACCUMULATED DEPRECIATION BALANCES EXIST FOR WHICH THERE IS**
7 **NO BALANCE IN THE ASSOCIATED PLANT IN SERVICE ACCOUNT FOR**
8 **THE SANDALHAVEN SYSTEM. COULD YOU AGAIN BRIEFLY EXPLAIN**
9 **WHY THIS IS A CONCERN?**

10 A. Yes. As previously described, if there is \$0 balance in a plant account, no depreciation
11 expense is being recorded associated with that account as there is no balance to which the
12 depreciation rate can be applied. In the situation of the recently retired Sandalhaven
13 WWTP, there is no longer a plant asset; thus, there is nothing to depreciate. If for the same
14 plant account there is a negative accumulated depreciation balance on the Company's
15 books, that negative accumulated depreciation balance, which increases rate base, will
16 never go away unless specifically addressed. If not removed, the Company will earn a
17 return on the negative accumulated depreciation balance in perpetuity.

18

19 **Q. IN WHICH ACCOUNTS DOES THIS OCCUR FOR THE SANDALHAVEN**
20 **SYSTEM AND WHAT WAS THE CAUSE?**

21 A. The Company's filing includes several adjustments to plant in service and accumulated
22 depreciation as a result of the retirement of the WWTP. After the adjustments are reflected,
23 the balance in Treatment and Disposal Plant Account 354.4 – Structures & Improvements
24 is \$0 and the balance in the associated accumulated depreciation account is (\$253,409).
25 The adjustments reduce the balances in the following Treatment and Disposal Plant

1 Accounts to \$0: 354.4 – Structure & Improvements; 355.4 – Power Generation Equipment
2 Treatment Plant; 380.4 – Treatment & Disposal Equipment; and 381.4 – Plant Sewers.
3 After the adjustments are reflected, the net accumulated depreciation balance associated
4 with these four accounts is (\$163,421). Additionally, Treatment and Disposal Plant
5 Account 389.4 – Other Plant & Misc. Equipment has plant balance of \$239 and an
6 accumulated depreciation balance of (\$6,121) after the Company’s adjustments. Overall,
7 the accumulated depreciation balance for the Treatment and Disposal Plant is (\$169,542).
8 Absent an adjustment being made, this (\$169,542) balance will increase rate base in
9 perpetuity, with only a very minor offset associated with depreciation of the small \$239
10 remaining balance in the associated plant accounts, resulting in customers paying a return
11 on this negative amount with no stopping point in the future.

12

13 The Commission addressed the adjustments to reflect the plant retirement in its Order PSC-
14 16-0013-PAA-SU, at pages 9 and 10, and the adjustments reflected in the Company’s filing
15 for the retirement are consistent with the adjustments required in the Commission’s order.
16 The order, at page 9, indicates that the Company’s original filing in that case decreased
17 plant in service by \$1,061,091 and accumulated depreciation by \$787,253 for the WWTP
18 retirement. Presumably, this was because the plant had not yet been fully depreciated on
19 the Company’s books as the accumulated depreciation balance was less than the plant in
20 service balance for the plants. However, the order also indicates that after several inquiries
21 by staff, the Company provided revised calculations which removed \$1,084,426 from both
22 plant in service and accumulated depreciation for the WWTP. Rather than including the
23 unrecovered net plant balance (i.e., plant in service less accumulated depreciation) as part
24 of the calculation of the net loss on rate base to be amortized in future years, the
25 accumulated depreciation accounts were apparently reduced by the full balance in the

1 associated plant in service accounts. This resulted in the negative accumulated
2 depreciation balance discussed in the above paragraph which will increase rate base by the
3 \$163,421 in perpetuity unless addressed by the Commission.

4

5 **Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO ADDRESS THE**
6 **NEGATIVE ACCUMULATED DEPRECIATION BALANCE ASSOCIATED**
7 **WITH THE RETIRED WWTP?**

8 A. Yes. While the Company's adjustments resulting in the negative accumulated
9 depreciation balance for the Treatment & Disposal Plant accounts impacted by the WWTP
10 retirement appear to be consistent with the adjustments required in Commission Order
11 PSC-16-0013-PAA-SU, the result of requiring ratepayers to pay a return on non-existent
12 plant into perpetuity is not a fair or reasonable result. As indicated above, the Company
13 revised its original adjustment to accumulated depreciation in that case after inquiries and
14 data requests from Commission Staff. As I am not aware of the specifics that transpired
15 during Staff's investigation in the prior rate case that resulted in the modification of the
16 Company's adjustment to accumulated depreciation, I am aware of no extenuating
17 circumstances that could make the inclusion of the negative accumulated depreciation in
18 rate base either fair or reasonable. I recommend the Company address this issue in its
19 rebuttal testimony, explain why it revised its adjustment to accumulated depreciation in the
20 prior case, and offer a proposal addressing how this negative balance can be resolved taking
21 into account the reasons for the revision of the adjustment.

22

23 There are two approaches that could be used to address the negative accumulated
24 depreciation balances that exist on the Company's books. One option would be to remove
25 the remaining accumulated depreciation in the Treatment and Disposal Plant accounts from

1 the Company's books, thereby reducing rate base by \$169,542. Another option would be
2 to amortize the negative balance over a specific time period (e.g., ten years consistent with
3 the ten year amortization period approved for the net loss on the WWTP at page 11 of the
4 same Commission order). Typically, a net unrecovered balance associated with a forced
5 abandonment or prudent early retirement of a plant (i.e., plant in service less accumulated
6 depreciation) would be treated as a loss and amortized. My recommendation is that the
7 Commission remove the negative accumulated depreciation balance from rate base. As
8 shown on Exhibit DMR-11, at page 5, I have adjusted accumulated depreciation to remove
9 the negative balance, resulting in a \$169,542 reduction to rate base, which provides the
10 most expedient manner to deal with this issue.

11

12 ADJUSTMENTS SPECIFIC TO SANLANDO SYSTEMS

13 Remove Pro Forma Employee Addition

14 **Q. WHAT ADJUSTMENTS DID THE COMPANY MAKE TO THE ACTUAL TEST**
15 **YEAR SALARY AND WAGES EXPENSE FOR THE WATER AND**
16 **WASTEWATER SYSTEMS?**

17 A. The adjustments made to Sanlando salary and wages expense and employee benefits
18 expense are similar to those made by the Company to the Mid-County and LUSI systems,
19 previously discussed. These include adjustments to: 1) increase salaries, wages, and
20 employee benefits expenses by 3.75% for the annualization of 2015 salary and wage
21 increases and a 3.0% 2016 salary and wage increase; 2) an adjustment to increase salaries,
22 wages and benefits to reflect two additional employees, the promotion of an employee, and
23 conversion of a part time employee to a full time employee, the costs of which are allocated
24 to all systems; and 3) an adjustment to include \$27,000 of salaries and wages and \$8,100
25 of benefits for the addition of a new position specific to the Sanlando system.

1 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS ASSOCIATED WITH THE**
2 **COMPANY’S PRO FORMA ADJUSTMENT TO ADD LABOR COSTS FOR A**
3 **NEW EMPLOYEE SPECIFIC TO THE SANLANDO SYSTEMS?**

4 A. Yes. The Company has not demonstrated that the employee complement specific to
5 Sanlando has increased since the test year, nor has it demonstrated that it needs to increase
6 the employee complement directly assigned to Sanlando above the level of active
7 employees supporting the system during the test year. Thus, since UIF has failed to meet
8 its burden that these expenses are prudent and reasonable, as shown on Exhibit DMR-12
9 at page 4, I am removing the \$27,000 of salaries and wages expense (\$14,963 for water
10 system and \$12,037 for wastewater system) and \$8,100 of benefits expense (\$4,489 for
11 water system and \$3,611 for wastewater system) that the Company added to Sanlando
12 O&M expenses as part of its pro forma adjustments.

13

14 Remove Pro Forma Purchased Power Adjustment

15 **Q. SANLANDO MFR SCHEDULE B-3 INCLUDES A PRO FORMA ADJUSTMENT**
16 **FOR PURCHASED POWER THAT INCREASES PURCHASED POWER**
17 **EXPENSE BY \$26,653 FOR THE WATER SYSTEM AND \$21,440 FOR THE**
18 **WASTEWATER SYSTEM. WHAT SUPPORT HAS THE COMPANY PROVIDED**
19 **FOR THIS ADJUSTMENT?**

20 A. The workpapers provided by the Company in its supplemental response to Citizens’ POD
21 No. 4 merely identify the amount of adjustment as \$48,093 (combined water and
22 wastewater amount) and describe the adjustment as “Termination of interruptible power
23 tariff by Duke Energy.” Since the Company has failed to meet its burden to support this pro
24 forma adjustment, I removed the pro forma adjustment on Exhibit DMR-12 at page 4,

1 reducing the Company's adjusted purchased power expenses by \$26,653 for the water
2 system and \$21,440 for the wastewater system.

3

4 Remove Prior Year Equipment Rental Expense

5 **Q. EXHIBIT DMR-12, AT PAGE 4, INCLUDES ADJUSTMENTS TO REDUCE**
6 **WATER EXPENSES BY \$3,100 AND WASTEWATER EXPENSES BY \$2,493,**
7 **DESCRIBED AS "REMOVE PRIOR YEAR EQUIPMENT RENTAL EXPENSE."**
8 **PLEASE DISCUSS THESE ADJUSTMENTS.**

9 A. Staff Interrogatory No. 67 asked why the rental of equipment expense increased
10 substantially in January 2015, April 2015 and June 2015 when compared to other months.
11 The response indicated that the amounts were "...due to invoices from Walker Miller for
12 the renting of pumping equipment." The invoices provided with the response show that
13 the charges booked in January 2015 were for equipment that was rented by the Company
14 during 2014. As such, these are not appropriate to include and I have removed these
15 expenses, reducing test year expenses by \$3,100 for the water system and \$2,493 for the
16 wastewater system.

17

18 Remove Reclassified Costs from Materials & Supplies Expense

19 **Q. ARE THERE ANY LARGE NON-RECURRING EXPENSES THAT YOU**
20 **RECOMMEND BE REMOVED FROM THE TEST YEAR?**

21 A. Yes. The expense charged to wastewater account 720 – Materials & Supplies expense was
22 much higher in September 2015 compared to other months of the test year. When asked
23 what caused the substantial increase in September 2015 in Staff Interrogatory No. 68, the
24 Company responded: "The increase in September was due to substantial Deferred
25 Maintenance being reclassified to expenses." The attachment to the response shows two

1 entries being made on Sanlando's books on September 30, 2015 for \$10,890 and \$2,108.50,
2 described simply as "RCL Def Maint to Expense." No further explanation was provided
3 with the response explaining when the costs were initially incurred or why they were being
4 reclassified to expense. In response to Citizens Interrogatory No. 186, the Company
5 indicated that the charges were for sand and grit removal and the removal of a tank. The
6 invoices provided with the response showed that the charges were billed to the Company
7 on May 15, 2014 and May 21, 2014. Therefore, these expenses were not incurred in 2015
8 and are not appropriate for inclusion in the test year. On Exhibit DMR-12, at page 4, I
9 reduced wastewater expenses by \$12,999 to remove these accounting reclassifications
10 associated with costs incurred by the Company prior to the test year.

11
12 Remove Myrtle Lake Hills Water Main Pro Forma Adjustments

13 **Q. WHAT IS THE MYRTLE LAKE HILLS WATER MAIN PRO FORMA PLANT**
14 **ADDITION REFLECTED IN THE COMPANY'S FILING?**

15 A. In his direct testimony, at page 8, Company witness Flynn indicates that this project is to
16 "Design, obtain permits and construct water facilities to serve as many as 116 homes in
17 Myrtle Lake Hills subdivision whose current homeowners are experiencing failing private
18 wells and inferior water quality." Through pro forma adjustments, the Company added
19 \$658,854 to plant in service, \$7,661 to accumulated depreciation and \$15,322 to
20 depreciation expense for the project.

21
22 The Commission approved the Company's request to extend its service territory to provide
23 service to the Myrtle Lake Hills subdivision in Order No. PSC-16-0107-PAA-WU, issued
24 March 15, 2016. Page 4 of the order indicates, in part, as follows:

1 In its petition, Sanlando is not seeking to implement a service availability
2 charge on the Utility's entire customer base. The cost of construction of
3 water lines and soft costs associated with this proceeding, such as permitting
4 costs and legal expenses, will be reimbursed by the 116 lots to be added to
5 the system. The Utility's remaining 10,172 existing customers and any
6 future customers of Sanlando added to the system outside this proceeding
7 will remain unaffected. Sanlando has provided us with the preliminary
8 costs of the proposed main extension to serve the additional 116 lots,
9 allowing us to calculate a just and reasonable charge for the new customers
10 to be added to the system, satisfying the purpose of Section 367.101(1), F.S.

11
12 The order also authorizes the Company's proposed water main extension charge of \$5,526
13 per lot for the 116 property owners in the Myrtle Lake Hills subdivision and indicated the
14 cost estimate for the project was \$641,000.

15
16 **Q. DO YOU AGREE THAT THE COMPANY'S PROPOSED PRO FORMA**
17 **ADJUSTMENTS SHOULD INCLUDE THE MYRTLE LAKE HILLS WATER**
18 **MAIN PROJECT COSTS IN THE ADJUSTED TEST YEAR?**

19 A. No, I do not. Commission Order No. PSC-16-0107-PAA-WU made it clear that the project
20 would not affect the existing Sanlando customers, indicating that the costs of the project
21 would be reimbursed by the lots being added to the system and providing for a main
22 extension charge to cover the costs. In this case, the Company has included the project
23 costs in rate base. As there is no revenue included in the filing for the future customers
24 that will receive service as a result of the extension, and no CIAC offset associated with
25 the future customers paying the main extension charges, the costs of the extension will be
26 passed on to the existing Sanlando customers if the Company's adjustments are not
27 removed. This would clearly be an unfair result and inconsistent with the language and
28 direction in Commission Order PSC-0107-PAA-WU authorizing the project and associated
29 service territory extension.

1 **Q. WHAT ADJUSTMENTS NEED TO BE MADE TO REMOVE THIS PROJECT**
2 **FROM THE COMPANY’S ADJUSTED TEST YEAR?**

3 A. As shown on Exhibit DMR-12 at page 7, plant in service should be reduced by \$658,854
4 and accumulated depreciation should be reduced by \$7,661 to remove the Company’s
5 proposed pro forma adjustments. Additionally, as shown on Exhibit DMR-12 at page 4,
6 depreciation expense should also be reduced by \$15,322 to remove the Company’s pro
7 forma adjustment for the project.

8

9 ADJUSTMENTS SPECIFIC TO ORANGE COUNTY WATER SYSTEM

10 Pro Forma Crescent Heights Water Main Replacement Project

11 **Q. THE COMPANY HAS INCLUDED A PRO FORMA PLANT ADDITION FOR A**
12 **CRESCENT HEIGHTS WATER MAIN REPLACEMENT PROJECT IN ORANGE**
13 **COUNTY. ARE YOU RECOMMENDING ANY ADJUSTMENTS ASSOCIATED**
14 **WITH THIS COMPANY PROPOSED PRO FORMA PLANT ADDITION?**

15 A. Yes. In its filing, the Company included a pro forma plant addition to plant Account 331.4
16 – Transmission & Distribution Mains of \$1,811,360 for this project and reflected an
17 offsetting plant retirement of \$1,358,520, or 75% of the project costs, reducing both plant
18 in service and accumulated depreciation associated with Account 331.4 by the \$1,358,520
19 retirement amount. While the Company’s adjustment removes \$1,358,520 from the plant
20 account for the associated retirement of the existing assets, the balance on the Company’s
21 books in plant in service Account 331.4 at the end of the test year was only \$199,193.⁷
22 Thus, the Company’s proposed retirement adjustment is removing considerably more from
23 both the plant in service account and the associated accumulated depreciation account than

⁷ Orange County MFR Schedule A-5 shows a December 31, 2015 balance in the account of \$495,494; however, the Company removed \$296,301 of this balance on MFR Schedules A-3 and A-5 “To remove T&D Main booked incorrectly to Orange County,” resulting in a revised balance of \$199,193.

1 is recorded on the books for Orange County in Account 331.4. In fact, the Company's
2 proposed retirement adjustment would result in a negative accumulated depreciation
3 balance for the Orange County system in the adjusted test year. Clearly, this is not fair,
4 just or reasonable as the customers would end up paying a return on this amount in
5 perpetuity as previously discussed in this testimony. As shown on Exhibit DMR-15, at
6 page 7, I recommend that the pro forma retirement associated with the pro forma Crescent
7 Heights water main replacement project be capped at the \$199,193 balance in Account
8 331.4 – Transmission & Distribution Mains at the end of the test year. Citizens' witness
9 Woodcock has recommended \$1,806,000 for this pro forma plant addition, which is \$5,360
10 less than the amount included in the Company's filing for the pro forma plant addition.
11 This reduction is also included on Exhibit DMR-15 at page 7.

12

13 **Q. WHAT IS THE OVERALL IMPACT OF YOUR RECOMMENDED CAP ON THE**
14 **RETIREMENT AMOUNT AND MR. WOODCOCK'S RECOMMENDED**
15 **REDUCTION TO THE PROJECT COSTS?**

16 A. As shown on Exhibit DMR-15, at page 7, plant in service is increased by \$1,153,967 while
17 accumulated depreciation is increased by \$1,156,909. Additionally, the depreciation
18 expense incorporated in the Company's filing is increased by \$26,817.

19

20 **Q. HAVE YOU MADE ANY ADDITIONAL ADJUSTMENTS TO THE COMPANY'S**
21 **FILING ASSOCIATED WITH THIS PROJECT?**

22 A. Yes. On Exhibit DMR-15, at page 6, I increased the accumulated deferred income tax
23 component of the capital structure by \$326,091 to reflect the impacts of the bonus
24 depreciation allowances previously discussed in this testimony.

1 ADJUSTMENTS SPECIFIC TO PASCO COUNTY WATER SYSTEM

2 Summertree Wells and Plant Abandonment

3 **Q. THE COMPANY'S FILING INCLUDES SEVERAL ADJUSTMENTS**
4 **IDENTIFIED AS "SUMMERTREE DECOMMISSIONING WELLS AND**
5 **PLANTS." PLEASE DISCUSS THE ADJUSTMENTS MADE BY THE COMPANY**
6 **IN ITS FILING ASSOCIATED WITH THIS DECOMMISSIONING.**

7 A. In addressing the unsatisfactory quality of water in the Summertree water system, the
8 Company recently interconnected the system with Pasco County. The initial connection
9 fee was to be paid for by Pasco County through a grant from the Florida Department of
10 Environmental Protection ("DEP"). As a result of that interconnection, the Company has
11 abandoned the Summertree wells and certain other assets, hereinafter referred to as the
12 Summertree water supply assets. In Pasco County MFR Schedules A-3 and B-3, the
13 Company included many adjustments associated with the early retirement and
14 decommissioning of the Summertree water supply assets.

15

16 In reflecting the retirement and decommissioning of the Summertree water supply assets
17 in its filing, the Company removed 100% of the non-land plant in service balances in its
18 Source of Supply and Pumping Plant accounts and Water Treatment Plant accounts,
19 reducing plant in service by \$1,786,610. The Company also reduced accumulated
20 depreciation by the same \$1,786,610, resulting in a negative accumulated depreciation
21 balance for the Pasco County water system in its adjusted test year. The Company reduced
22 CIAC and accumulated amortization of CIAC by \$156,827 each for the retirements and
23 included \$180,000 in working capital for an estimated unamortized balance of well
24 decommissioning costs..

1 On Pasco County MFR Schedule B-3, the Company reduced depreciation expense by
2 \$61,015 and CIAC amortization expense by \$5,905 for the decommissioning. On the same
3 schedule, the Company also increased expense to include \$20,000 for an annual
4 amortization of the projected decommissioning costs.

5

6 **Q. DID THE COMPANY EXPLAIN WHY IT IS REMOVING 100% OF THE NON-**
7 **LAND SOURCE OF SUPPLY AND PUMPING PLANT IN SERVICE AND WATER**
8 **TREATMENT PLANT IN SERVICE BALANCES FROM ITS FILING AS A**
9 **RESULT OF THE SUMMERTREE PLANT ABANDONMENTS?**

10 A. No, it did not. The Orangewood system is also in Pasco County. It is not clear why the
11 Company removed 100% of the plant in service balances, and the removal of 100% of the
12 plant balances is not explained or supported in the Company's filing.

13

14 **Q. HAS THE COMMISSION ADDRESSED THE APPROPRIATE TREATMENT**
15 **FOR THE ABANDONMENT OF THE SUMMERTREE WELLS AND PLANT**
16 **ASSETS?**

17 A. Yes. In a Limited Proceeding Docket No. 150269-WS, the Commission addressed the
18 Summertree system interconnection with Pasco County and the associated abandonment
19 of the Summertree water supply assets. The Commission order in the docket, Order No.
20 PSC-16-0505-PAA-WS,⁸ was issued October 31, 2016, which was after the current case
21 was initially filed by the Company. In the Order, at pages 7 and 8, the Commission
22 addressed the recovery of the abandoned wells and the associated amortization expense,
23 calculating a preliminary cost to recover of \$558,697, an amortization period of 12.24 years

⁸ Order No. PSC-16-0505-PAA-WS was determined to be effective and final through Consummating Order No. PSC-16-0539-CO-WS issued November 28, 2016.

1 and an annual amortization expense of \$45,633. The preliminary cost of recovery of
2 \$558,697 included a net unrecovered book value of the assets of \$363,697, \$200,000 of
3 projected costs to retire, and (\$5,000) associated with a projected hydro tank salvage value.
4 The net unrecovered book value of \$363,697 was factored into the November 30, 2015
5 balances for plant in service, accumulated depreciation, CIAC and accumulated
6 amortization of CIAC. The calculation of the appropriate amortization period was
7 determined consistent with Rule 25-30.433(9), F.A.C., which provides the calculation for
8 determining the amortization period for prudent retirement of plant assets before the end
9 of their depreciable life.

10

11 In addition to addressing the appropriate recovery period and the annual amortization
12 expense for recovery of the loss on the early retired assets, the Commission also addressed
13 the reduction of O&M expenses that resulted from the well abandonments based on 2015
14 expenses and the increase in purchased water expense. The Company's filing in this case
15 did not include these adjustments for the discontinuing O&M expenses or for the new
16 purchased water costs that are being charged from Pasco County.

17

18 **Q. WERE ANY COMPONENTS OF THE COMMISSION'S CALCULATION OF**
19 **RECOVERY OF THE NET LOSS ON THE SUMMERTREE ASSET**
20 **ABANDONMENTS SPECIFICALLY LEFT OPEN FOR FUTURE REVIEW?**

21 A. Yes. Page 8 of the order indicates that the projected net cost to retire of \$200,000⁹ and the
22 estimated salvage value of a hydro tank to be relocated by the Company were to be
23 reviewed in this rate case.

⁹ The \$200,000 consists of projected gross retirement costs of \$220,000 less \$20,000 for anticipated State funding.

1 **Q. HOW DO THE PLANT IN SERVICE BALANCES REMOVED BY THE**
2 **COMPANY IN ITS FILING COMPARE TO THE AMOUNTS PRESENTED BY**
3 **THE COMPANY FOR THE SUMMERTREE WATER SUPPLY ASSETS**
4 **IMPACTED BY THE EARLY RETIREMENT IN DOCKET NO. 150269-WS?**

5 A. As previously mentioned, the Company has removed 100% of the non-land plant in service
6 balances in the Pasco County Source of Supply and Pumping Plant and Water Treatment
7 Plant accounts, reducing plant in service and accumulated depreciation each by \$1,786,610.
8 In the original schedules and revised schedules presented by the Company in Docket No.
9 150269-WS,¹⁰ at Schedule 18, the Company identified the plant in service balances for the
10 Summertree water supply assets being retired as \$715,518 as of November 30, 2015, with
11 the associated accumulated depreciation balances totaling \$275,034, for a combined net
12 plant in service balance of \$440,484. The Company's filing in this case removes
13 considerably more from plant in service and accumulated depreciation than what was
14 presented by UIF as pertaining to the Summertree water supply assets being retired in
15 Docket No. 150269-WS. The Company's filing in this case does not disclose or explain
16 the discrepancy.

17

18 **Q. SHOULD THE ADJUSTMENTS INCLUDED IN THE COMPANY'S FILING FOR**
19 **THE RETIREMENT AND DECOMMISSIONING OF THE SUMMERTREE**
20 **WATER SUPPLY ASSETS BE REVISED?**

21 A. Yes. The Company's adjustment contained in the filing for the retirement and
22 decommissioning of the Summertree water supply assets should be removed and replaced
23 in their entirety. I have removed all Company adjustments associated with the retirement

¹⁰ Filing and revised filing are identified as Document No. 08053-15 filed December 30, 2015 and Document No. 01272-16 filed March 9, 2016 in Docket No. 150269-WS.

1 and decommissioning of the Summertree water supply assets in Exhibit DMR-16, pages 4
2 and 7. On page 4, which presents my recommended Pasco County net operating income
3 adjustments, I remove the Company's adjustment to reflect \$20,000 of amortization
4 expense for the projected decommissioning costs and remove the Company's \$61,015
5 reduction to depreciation expense.

6

7 The revisions to rate base to reverse the Company's adjustments, shown on page 7 of
8 Exhibit DMR-16, accomplish the following: 1) increases plant in service by \$1,786,610;
9 2) increases accumulated depreciation by \$1,786,610; 3) increases CIAC by \$156,827; 4)
10 increases accumulated amortization of CIAC by \$156,827; and 5) reduces working capital
11 by \$180,000 to remove the projected unamortized decommissioning costs.

12

13 **Q. AFTER REVERSING THE COMPANY'S ADJUSTMENTS, WHAT**
14 **ADDITIONAL ADJUSTMENTS NEED TO BE MADE TO RATE BASE TO**
15 **REFLECT THE IMPACTS OF THE EARLY RETIREMENT AND**
16 **DECOMMISSIONING OF THE SUMMERTREE WATER SUPPLY ASSETS?**

17 A. Several adjustments need to be made to correctly reflect the treatment addressed in
18 Commission Order No. PSC-16-050-PAA-WS. As previously addressed, the original
19 schedules and revised schedules presented by the Company in Docket No. 150269-WS,¹¹
20 at Schedule 18, identified the plant in service, accumulated depreciation, CIAC and
21 accumulated amortization of CIAC balances for the Summertree water supply assets being
22 retired as of November 30, 2015, which is only one month prior to the end of the test year.

23 These are the amounts that were used by the Commission in determining the net book value

¹¹ Filing and revised filing are identified as Document No. 08053-15 filed December 30, 2015 and Document No. 01272-16 filed March 9, 2016 in Docket No. 150269-WS.

1 of the Summertree water supply assets being retired. Exhibit DMR-16, at page 7, includes
2 the following adjustments to remove the balances: 1) reduction to plant in service of
3 \$715,518; 2) reduction to accumulated depreciation of \$275,034; 3) reduction to CIAC of
4 \$160,460 and 4) reduction to accumulated amortization of CIAC of \$83,673. The resulting
5 net unrecovered balance of the assets of \$363,697 is factored into the calculation of the
6 abandoned Summertree water supply asset amortization expense.

7

8 **Q. WHAT ADDITIONAL ADJUSTMENTS NEED TO BE MADE TO THE TEST**
9 **YEAR EXPENSES ASSOCIATED WITH THE EARLY RETIREMENT AND**
10 **DECOMMISSIONING OF THE SUMMERTREE WATER SUPPLY ASSETS?**

11 A. As shown on Exhibit DMR-16 at page 4, I removed the test year O&M expenses that will
12 no longer be incurred by the Company as a result of the abandonment of the Summertree
13 water supply system, reducing expenses by \$48,609. These expenses were identified by
14 the Company as discontinuing in Docket No. 150269-WS and are based on calendar year
15 2015 expenses, which is the test year in this case.¹²

16

17 On the same page, I reduced depreciation expense by \$21,974, which is identified on
18 page 7 of the Commission's Order as the Commission adjusted depreciation expense net
19 of CIAC amortization that will discontinue as a result of the asset abandonments. The
20 determination of the \$21,974 incorporated in the Commission's order was based on the
21 Summertree water supply assets being retired and the associated CIAC being retired.

¹² The \$48,609 reduction to O&M expenses is addressed on pages 8 and 9 of Order No. PSC-16-0505-PAA-WS and broken down by cost type in Table 2 of the order on page 9.

1 Page 4 of Exhibit DMR-16 also includes an adjustment to increase purchased water
2 expense by \$117,206 and an adjustment to reflect amortization expense associated with the
3 net loss on the abandoned assets of \$43,914.

4

5 **Q. HOW WAS THE ADJUSTMENT TO INCREASE WATER SUPPLY EXPENSE BY**
6 **\$117,206 DETERMINED?**

7 A. Commission Order No. PSC-16-0505-PAA-WS, on Table 3 at page 10, calculated the
8 Pasco County purchased water expense as \$106,398. The calculation was based on
9 projected gallons to be sold to the Summertree system customers grossed up by 10% for
10 gallons needed for flushing and 10% for other losses. The resulting estimated gallons was
11 multiplied by the bulk water rate of \$3.57 per thousand gallons. The \$3.57 bulk water rate
12 is based on the Bulk Water Agreement between the Company and Pasco County that was
13 provided as Attachment A to the Commission's order. On Exhibit DMR-16, at page 9, I
14 used the same methodology replacing the estimated gallons in the Commission's order with
15 the water sales in gallons for the Summertree system customers that is included in the test
16 year of 27,359,000.¹³ Consistent with the Commission's methodology in the recent order,
17 I grossed up the sales to customers by 10% for flushing and 10% for other losses and
18 applied the \$3.57 bulk water rate, resulting in \$117,206 of purchased water expense.

19

20 **Q. ABOVE YOU INDICATE THAT YOU INCLUDED \$43,914 FOR THE**
21 **AMORTIZATION OF THE NET LOSS ON ABANDONED ASSETS, WHILE THE**
22 **COMMISSION'S RECENT ORDER NO. PSC-16-0505-PAA-WS CALCULATED**
23 **AN AMORTIZATION EXPENSE ASSOCIATED WITH THE ABANDONED**
24 **ASSETS OF \$45,633. CAN YOU PLEASE DISCUSS HOW YOU CALCULATED**

¹³ Test year sales to Summertree customers, in gallons, from Company MFR Schedule E-2 for the Summertree system.

1 **YOUR RECOMMENDED AMORTIZATION EXPENSE OF \$43,914 AND**
2 **EXPLAIN WHY IT DIFFERS FROM THE AMOUNT CONTAINED IN THE**
3 **RECENT COMMISSION ORDER?**

4 A. The calculation of the recommended amount to be recovered through amortization,
5 amortization period and resulting amortization expense of \$43,914 is presented on page 10
6 of Exhibit DMR-16. As previously mentioned, the amortization expense, as well as the
7 amortization period to use, was calculated by the Commission in Order No. PSC-16-0505-
8 PAA-WS based on the calculation prescribed in Commission Rule 25-30.433(9). The rule
9 states as follows:

10 The amortization period for forced abandonment or the prudent retirement,
11 in accordance with the National Association of Regulatory Utility
12 Commissioners Uniform System of Accounts, of plant assets prior to the
13 end of their depreciable life shall be calculated by taking the ratio of the net
14 loss (original cost less accumulated depreciation and contributions-in-aid-
15 of-construction (CIAC) plus accumulated amortization of CIAC plus any
16 costs incurred to remove the asset less any salvage value) to the sum of the
17 annual depreciation expense, net of amortization of CIAC, an amount equal
18 to the rate of return that would have been allowed on the net invested plant
19 that would have been included in rate base before the abandonment or
20 retirement. This formula shall be used unless the specific circumstances
21 surrounding the abandonment or retirement demonstrate a more appropriate
22 amortization period.
23

24 On page 10 of my exhibit, I provide a side-by-side comparison of the calculation contained
25 in the Commission's order, on Table 1 at page 8, to the revised calculation I recommend
26 be used in this case. Both methods are based on the calculations prescribed in Commission
27 Rule 25-30.433(9). As shown on lines 2 and 4 of Exhibit DMR-16, page 10, I am
28 recommending two revisions be made to the calculation of the total loss to be amortized to
29 reflect the impact of additional depreciation on the now retired assets and to remove the
30 net cost to retire the assets.

1 **Q. WHAT IS THE PURPOSE OF THE REVISION TO REFLECT THE IMPACT OF**
2 **ADDITIONAL DEPRECIATION?**

3 A. The determination of the net book value of the abandoned assets in Docket No. 150269-
4 WS was based on the per-book balances as of November 30, 2015. The assets remained
5 in service until the interconnection with Pasco County for the provision of water service to
6 the Summertree system customers was placed into service, which occurred on December
7 21, 2016 at which time the Company discontinued use of the Summertree wells.¹⁴ The
8 Company would have continued to depreciate the assets from the November 30, 2015 date
9 through December 2016, resulting in 13 additional months of depreciation expense. As
10 shown on lines A.1 to A.4 of Exhibit DMR-16, page 10, the additional 13 months of
11 depreciation on the assets results in additional accumulated depreciation on the assets of
12 \$23,803 subsequent to the November 30, 2015 date upon which the original net loss
13 calculation was based. I recommend that this additional \$23,803 recovery of the asset cost
14 be factored into the determination of the amount of net loss on abandonment to recover
15 from customers.

16

17 **Q. PLEASE EXPLAIN WHY YOU HAVE REMOVED THE PROJECTED NET COST**
18 **TO DECOMMISSION THE ASSETS OF \$200,000.**

19 A. At page 8 of its Order, the Commission stated that because the \$220,000 of gross retirement
20 cost and the \$20,000 of anticipated State funding are estimates, the issue will be reviewed
21 in this rate case. Citizens witness Woodcock has indicated that the Company has not
22 supported the \$200,000 included in its filing for the decommissioning. As the Company
23 has not met its burden to support the \$200,000 estimated cost, I have removed the
24 decommissioning costs from the calculation of the net loss.

¹⁴ Response to Citizens Interrogatory No. 196.

1 **Q. WHAT IS THE RESULT OF YOUR RECOMMENDED REVISIONS TO THE**
2 **CALCULATION OF THE AMORTIZATION EXPENSE?**

3 A. The preliminary calculation presented on Table 1 of the Commission's Order, at page 8,
4 resulted in total costs (i.e., net loss on early retirement and decommissioning) of \$558,697
5 to be amortized over 12.24 years, resulting in an annual amortization expense of \$45,633.
6 As shown on page 10 of Exhibit DMR-16, the two revisions to the calculation discussed
7 above result in \$334,894 of net loss on early retirement and an amortization period of 7.63
8 years, resulting in annual amortization expense of \$43,914. I have included the
9 amortization expense on Exhibit DMR-16 at page 4 in determining the adjusted net
10 operating income for the Pasco County water systems.

11

12 Pro Forma Water Main Replacement Project – Accumulated Depreciation

13 **Q. THE COMPANY INCLUDED PRO FORMA PLANT ADDITIONS OF \$1,500,000**
14 **FOR PROJECTED BUENA VISTA AND ORANGEWOOD SYSTEM WATER**
15 **MAIN REPLACEMENTS. ARE CITIZENS RECOMMENDING ANY**
16 **ADJUSTMENTS ASSOCIATED WITH THIS PROPOSED PRO FORMA PLANT**
17 **ADDITION?**

18 A. Yes. Citizens witness Woodcock has recommended that these projected pro forma plant
19 additions be rejected by the Commission for reasons addressed in his testimony. I have
20 reflected the removal of the Company's pro forma adjustments for the project on Exhibit
21 DMR-16, at pages 4 and 7, reducing plant in service by \$375,000 (net of retirement
22 amount), increasing accumulated depreciation by \$1,107,525, reducing depreciation
23 expense by \$8,737, and reducing property tax expense by \$25,654.

1 **Q. IN THE EVENT THE COMMISSION ALLOWS ALL OR A PORTION OF THESE**
2 **COMPANY PROPOSED PRO FORMA PLANT ADDITIONS, ARE THERE ANY**
3 **REVISIONS THAT SHOULD BE MADE TO THE COMPANY'S METHOD OF**
4 **REFLECTING THE PROJECTS IN ITS REVENUE REQUIREMENTS?**

5 A. Yes. As part of its adjustment, the Company included associated plant retirements based
6 on 75% of the project costs, reducing both plant in service and accumulated depreciation
7 associated with Account 331.4 – Transmission and Distribution Mains by \$1,125,000. As
8 of the end of the test year, the balance in plant Account 331.4 was \$1,187,309 and the
9 accumulated depreciation associated with the account was \$365,909, resulting in a net plant
10 in service balance of \$821,400. Under the Company's method, it would remove most of
11 the assets in plant in service Account 331.4 from its books. The proposed project would
12 not replace the transmission and distribution mains in their entirety. If the Company's
13 proposed method of reflecting the associated retirement based on 75% of the plant addition
14 cost was accepted, the result would be a negative accumulated depreciation balance for the
15 account of (\$727,806) in the adjusted test year. Clearly, this is not fair, just or reasonable.
16 Given the low amount of accumulated depreciation compared to plant in service on the
17 Company's books associated with Account 331.4 – Transmission and Distribution Mains,
18 there likely is very little cost remaining in plant in service associated with the mains the
19 Company proposes to replace. Prior to the Commission allowing any of this proposed pro
20 forma project in rate base, the Company should be required to provide either the actual
21 amount in plant in service for the assets being replaced or a more reasonable estimate
22 amount if the actual amount is not available to the Company.

1 ADJUSTMENTS SPECIFIC TO PASCO COUNTY WASTEWATER SYSTEM

2 System-Wide Negative Accumulated Depreciation Balance

3 **Q. NEAR THE BEGINNING OF YOUR TESTIMONY, YOU INDICATED THAT**
4 **THE COMPANY'S FILING REFLECTS A NEGATIVE ACCUMULATED**
5 **DEPRECIATION BALANCE FOR THE PASCO COUNTY WASTEWATER**
6 **SYSTEMS. WOULD YOU PLEASE ELABORATE?**

7 A. Yes. Pasco County MFR Schedule A-2 shows that the test year average per books plant in
8 service balance is \$1,034,888 and the accumulated depreciation balance is negative
9 (\$423,771) resulting in accumulated depreciation actually increasing rate base. Pasco
10 County MFR Schedule A-10 shows that the test year average balance in accumulated
11 depreciation for Account 380.4 - Treatment & Disposal Equipment is (\$500,307) and the
12 average test year balance for Account 398.7 – Other Tangible Plant is (\$688,032). For
13 these same accounts, Accounts 380.4 and 398.7, the average plant in service balances
14 shown on MFR Schedule A-6 is (\$29,277) and (\$393,887), respectively. Based on the
15 information I have reviewed in this case and the Company's filing, it is not clear why
16 negative balances would exist on the Company's books for these two plant accounts and
17 why substantial negative accumulated depreciation balances exist associated with these
18 accounts.

19

20 **Q. DID THE COMMISSION STAFF IDENTIFY PROBLEMS WITH THE**
21 **COMPANY'S BOOKS FOR THE PASCO WASTEWATER SYSTEM IN ITS**
22 **AUDIT?**

23 A. Yes. The Commission's Audit Report, Audit Control No. 16-259-1-1 in Finding 3
24 identifies numerous problems associated with the Company's booking of the Commission
25 Ordered Adjustments from prior Commission orders. As part of its analysis, the audit

1 report indicates that “Audit staff used the prior ordered balances and subsequent additions
 2 and retirements to determine the balances by county, by system as of December 31, 2015.”
 3 A review of Staff’s workpapers associated with the audit, at Workpaper 28-7, shows
 4 significant variances from the Audit Staff’s average test year plant in service and
 5 accumulated depreciation balances and the balances included by the Company in its MFRs.
 6 For the two accounts identified above as having negative plant in service balances and
 7 significant negative accumulated depreciation balances in the Company’s filing, the table
 8 below compares the balance in the Company’s MFR filing to the audited balances
 9 contained in Staff’s workpapers:

	<u>Acct. 380</u>	<u>Acct. 398</u>
<u>Per Company:</u>		
Plant in Service	(29,277)	(393,877)
Accumulated Depreciation	500,307	688,032
Net Plant in Service	<u>471,030</u>	<u>294,155</u>
<u>Per Commission:</u>		
Plant in Service	213,277	49,502
Accumulated Depreciation	<u>(186,395)</u>	<u>(17,326)</u>
Net Plant in Service	<u>26,882</u>	<u>32,176</u>

10

11 Based on Staff’s audit, the negative accumulated depreciation balances shown in the filing
 12 for the Pasco wastewater system and the overall negative accumulated depreciation balance
 13 for the system were the result of accounting errors.

14

15 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS AT THIS TIME TO**
 16 **REMOVE THE NEGATIVE ACCUMULATED DEPRECIATION BALANCE FOR**
 17 **THE PASCO WASTEWATER SYSTEM?**

18 A. Yes. On Exhibit DMR-16, on pages 4 and 7, I have included Staff’s recommended audit
 19 adjustments found in Audit Finding 3 for the Pasco wastewater system. While the
 20 Company has not yet submitted a formal response to Staff’s Audit Report, I nonetheless

1 am reflecting the Pasco County wastewater system adjustments to address the significant
2 problem with the Company's inclusion of negative accumulated depreciation for the
3 system. The overall impact of the adjustments is a reduction to rate base of \$660,625.
4

5 ADJUSTMENTS SPECIFIC TO PINELLAS COUNTY WATER SYSTEM

6 Pro Forma Water Main Replacement Project

7 **Q. THE COMPANY HAS INCLUDED A PRO FORMA PLANT ADDITION FOR A**
8 **LAKE TARPON WATER MAIN REPLACEMENT PROJECT IN PINELLAS**
9 **COUNTY. ARE YOU RECOMMENDING ANY ADJUSTMENTS ASSOCIATED**
10 **WITH THIS COMPANY PROPOSED PRO FORMA PLANT ADDITION?**

11 A. Yes. In its filing, the Company included a pro forma plant addition to plant Account 331.4
12 – Transmission & Distribution Mains of \$1 million for this project and reflected an
13 offsetting plant retirement of \$750,000, or 75% of the project costs, reducing both plant in
14 service and accumulated depreciation associated with Account 331.4 by the \$750,000
15 retirement amount. Citizens' witness Woodcock has recommended the project be reduced
16 to \$800,000. Additionally, I recommend that the retirement incorporated in the Company's
17 filing associated with the project be removed, effectively increasing both plant in service
18 and accumulated depreciation by \$750,000.
19

20 **Q. WHY SHOULD THE RETIREMENT INCLUDED IN THE COMPANY'S FILING**
21 **ASSOCIATED WITH THE PRO FORMA WATER MAIN REPLACEMENT BE**
22 **REMOVED?**

23 A. At the end of the test year, the balance in the plant in service Account 334.1 – Transmission
24 & Distribution Mains was only \$549,517, and the associated accumulated depreciation was
25 \$86,151, for a net plant in service balance of \$463,366. The retirement adjustment

1 reflected in the Company's filing would remove more the 100% of the original plant costs
2 that remain in the plant in service account and result in a negative accumulated depreciation
3 balance for the account. Company Exhibit PCF-35 sponsored by Company witness Flynn
4 indicates that the Lake Tarpon water system is nearly 50 years old and that the water mains
5 being replaced have reached the end of their useful life. Considering the 43 year life
6 assumed in the depreciation rates used by the Company, the existing water mains being
7 replaced should already be fully depreciated on the Company's books. In response to
8 Citizens' Interrogatory No. 67(c), the Company indicates that the balance for Account
9 331.4 is associated with the replacement of the original 2" galvanized pipe in a previous
10 2014 capital project. Additionally, the Company's filing in the prior Pinellas County rate
11 case, Docket No. 120209-WS, at MFR Schedule A-5, shows that the balance in plant in
12 service Account 331.4 – Transmission & Distribution Mains as of December 2011 was
13 only \$167,605. Thus, it appears that very little, if any, balance remains on the Company's
14 books associated with the water mains being replaced as the assets should have already
15 been fully depreciated on the Company's books and subsequently removed from plant in
16 service and accumulated depreciation.

17
18 **Q. WHAT IS THE OVERALL IMPACT OF THE REMOVAL OF THE**
19 **RETIREMENT ADJUSTMENTS?**

20 A. As shown on Exhibit DMR-17, at page 5, plant in service is increased by \$750,000 while
21 accumulated depreciation is increased by \$750,000. Additionally, as shown on page 3 of
22 Exhibit DMR-17, the depreciation expense incorporated in the Company's filing is
23 increased by \$17,442.

1 **Q. WHAT IS THE IMPACT OF MR. WOODCOCK'S RECOMMENDED \$200,000**
2 **REDUCTION TO THE PROJECT COSTS?**

3 A. As shown on Exhibit DMR-17, at page 5, plant in service should be reduced by \$200,000
4 and accumulated depreciation should be reduced by \$2,326. Additionally, depreciation
5 expense should be reduced by \$4,651 as shown on Exhibit DMR-17 at page 3.

6

7 **Q. HAVE YOU MADE ANY ADDITIONAL ADJUSTMENTS TO THE COMPANY'S**
8 **FILING ASSOCIATED WITH THIS PROJECT?**

9 A. Yes. Citizens' witness Woodcock has determined that \$800,000 was the supported amount
10 for the project, which is \$200,000 less than the amount included on Pinellas MFR Schedule
11 A-3 for the project. The impact of Mr. Woodcock's recommended \$200,000 reduction in
12 the project costs is included in Exhibit DMR-17 at pages 3 and 5. Additionally, the impact
13 of the project revisions and associated bonus depreciation allowances are included in the
14 ADIT adjustment on Exhibit DMR-17, at page 6.

15

16 Correction of Working Capital Error

17 **Q. HOW DID THE COMPANY DETERMINE THE WORKING CAPITAL**
18 **ALLOWANCE FOR THE PINELLAS SYSTEM?**

19 A. For the currently consolidated Utilities Inc. of Florida counties (i.e., Marion, Orange,
20 Pasco, Pinellas, and Seminole Counties), the Company determined working capital on a
21 consolidated basis using the balance sheet approach, which it then allocated to each of the
22 respective county systems based on the December 31, 2015 Effective Residential
23 Connections ("ERCs"). The Pinellas County water system is allocated 4.449% of the
24 resulting working capital allowance.

1 **Q. DO ANY ADJUSTMENTS NEED TO BE MADE TO THE WORKING CAPITAL**
2 **ALLOWANCE INCLUDED IN THE PINELLAS COUNTY MFRS?**

3 A. Yes. On Pinellas County MFR Schedule A-17, the Company increased working capital,
4 prior to allocation, by \$79,890 for accrued taxes, whereas the working capital calculation
5 for the remaining consolidated systems included a reduction to working capital of \$79,890
6 for accrued taxes. In response to Citizens' Interrogatory No. 115, the Company agreed that
7 the increase in working capital for accrued taxes in the Pinellas County MFR Schedule A-
8 17 was an error. Once corrected, the working capital allowance for Pinellas County
9 declines by \$3,924 from \$16,289 to \$12,365. This correction, reducing working capital by
10 \$3,924, is reflected on Exhibit DMR-17 at page 5.

11
12 ADJUSTMENTS SPECIFIC TO MARION COUNTY WATER SYSTEM

13 Depreciation Expense on Fully Recovered Assets

14 **Q. ON EXHIBIT DMR-18, AT PAGE 4, YOU INCLUDED TWO ADJUSTMENTS TO**
15 **THE MARION COUNTY WATER SYSTEM DEPRECIATION EXPENSE. CAN**
16 **YOU PLEASE EXPLAIN WHAT THESE ADJUSTMENTS ARE FOR?**

17 A. Yes. For two of the Marion County water system plant accounts, the assets have recently
18 become fully depreciated. Marion County MFR Schedule A-5, A-9, and B-13 show that
19 the plant in service account balance in Source of Supply and Pumping Plant Account 304.2
20 – Structures & Improvements is \$62,271 and the accumulated depreciation balance for the
21 same account is \$64,468, with an annual depreciation expense for the account of \$1,936.
22 The same above referenced MFR schedules also show that the plant in service account
23 balance in Source of Supply and Pumping Plant Account 307.2 –Wells and Springs is
24 \$28,117 and the accumulated depreciation balance for the same account is \$29,874, with
25 an annual depreciation expense for the account of \$938.

1 Thus, the assets in Accounts 304.2 and 307.2 are now fully depreciated as the accumulated
2 depreciation balances now exceed the plant in service balances for these two accounts. As
3 the assets are fully depreciated, depreciation expense should be discontinued on these
4 assets. Additionally, I recommend that the Company remove the plant in service and
5 accumulated depreciation balances for these two accounts from its books to ensure
6 depreciation expense does not continue in the future on these fully recovered assets. As
7 shown on Exhibit DMR-18, at page 7, I removed both the plant in service and the
8 accumulated depreciation for Accounts 304.2 and 307.2 from the Company's adjusted test
9 year rate base, resulting in a net increase in rate base of \$3,954. As shown on Exhibit
10 DMR-18, page 4, I removed the \$1,936 of depreciation expense associated with Account
11 304.2 and the \$938 of depreciation expense associated with Account 307.2 from the
12 Company's adjusted test year depreciation expense. On Marion County MFR B-3, the
13 Company has made an adjustment increasing depreciation expense by \$1,962 to annualize
14 the depreciation expense associated with service line assets placed into service during the
15 test year. Similarly, the Company should also remove this depreciation expense included
16 in the test year for fully depreciated assets.

17

18 ADJUSTMENTS SPECIFIC TO SEMINOLE COUNTY SYSTEMS

19 Crystal Lake Purchased Water Expense

20 **Q. HAVE THERE BEEN MAJOR CHANGES IN OPERATIONS FOR ANY OF THE**
21 **SEMINOLE COUNTY WATER SYSTEMS?**

22 A. Yes. In response to Citizens' Interrogatory No. 9, the Company indicated that the Crystal
23 Lake system was interconnected with the Ravenna Park water system after the failure of
24 the single water supply well at Crystal Lake. The Ravenna Park wells now supply water

1 to both systems. The costs of the interconnection project are included in the pro forma
2 plant additions in the Company's filing.

3

4 **Q. SHOULD ANY ADJUSTMENTS BE MADE TO THE COMPANY'S FILING AS A**
5 **RESULT OF THE INTERCONNECTION AND NEW WATER SUPPLY**
6 **ARRANGEMENT?**

7 A. Yes. In explaining the 462% increase in purchased water costs that occurred between the
8 test year in the prior rate case (test year ended December 31, 2011) and the current rate
9 case on Seminole County MFR Schedule B-7, the Company indicated: "Loss of Crystal
10 Lake well required the purchase of bulk water until Proforma project is completed." Test
11 year purchased water expenses for the Crystal Lake system include \$61,485 for purchased
12 water expense. Now that the interconnection project is complete and Crystal Lake is being
13 supplied by the Company's Ravenna Park wells, the purchased water expense should be
14 discontinued. Thus, the \$61,485 of purchased water expense is removed on Exhibit DMR-
15 14 at page 4. In response to Citizens' Interrogatory 84(d), the Company states that all of
16 the purchased water came from the City of Sanford and that the amount purchased totaled
17 \$117,896. However, the Company's filing for Seminole County, at MFR Schedule B-5
18 and B-7 shows \$68,510 of purchased water expense in the test year, and \$61,485 of that
19 amount was booked to the Crystal Lake system.

20

21 Water Main Replacements – Retirement Cap

22 **Q. THE COMPANY HAS INCLUDED SUBSTANTIAL PRO FORMA PLANT**
23 **ADDITIONS FOR WATER MAIN REPLACEMENT PROJECTS IN SEMINOLE**
24 **COUNTY. ARE YOU RECOMMENDING ANY ADJUSTMENTS ASSOCIATED**
25 **WITH THESE WATER MAIN REPLACEMENT PROJECTS?**

1 A. Yes. In its filing, the Company included pro forma plant additions to plant Account 331.4
2 – Transmission & Distribution Mains of \$8,551,884 for the various Seminole County water
3 main replacement projects and reflected an offsetting plant retirement of \$6,413,913, or
4 75% of the project costs, reducing both plant in service and accumulated depreciation
5 associated with Account 331.4 by the \$6,413,913 retirement amount. Citizens’ witness
6 Woodcock recommends the plant additions be reduced to \$8,513,640, which is a \$38,244
7 reduction to the pro forma plant additions incorporated in Company Seminole MFR
8 Schedule A-3. Additionally, I recommend that the retirement incorporated in the
9 Company’s filing be reduced from the \$6,413,913 reflected by the Company to \$886,000,
10 effectively increasing both plant in service and accumulated depreciation by \$5,527,913
11 for the associated plant retirements.

12
13 **Q. WHY SHOULD THE RETIREMENT INCLUDED IN THE COMPANY’S FILING**
14 **ASSOCIATED WITH THE PRO FORMA WATER MAIN REPLACEMENTS BE**
15 **REDUCED?**

16 A. At the end of the test year, the balance in the plant in service Account 334.1 – Transmission
17 & Distribution Mains was only \$1,922,100, and the associated accumulated depreciation
18 was \$645,696, for a net plant in service balance of \$1,276,404. The retirement adjustment
19 reflected in the Company’s filing would remove significantly more 100% of the original
20 plant costs that remain in the plant in service account and result in a significant negative
21 accumulated depreciation balance for the account. The water mains being replaced are
22 very old systems that the Company indicates have reached the end of their service lives.
23 Thus, the original costs of the water mains being replaced should be either fully depreciated
24 on the Company’s books or close thereto.

1 In response to Citizens' Interrogatory No. 70(c), the Company indicates that the
2 accumulated depreciation balance for Account 331.4 reflects significant investment made
3 by the Company in 2013 in Park Ridge when the mains were replaced and capital
4 investments were made in Jansen and Weathersfield. As an example, the Company
5 indicates that some water mains in Jansen were damaged in 2004 by fallen trees as a result
6 of hurricanes impacting the service area. The Company's filing in a previous Seminole
7 County rate case prior to the 2004 and 2013 water main replacement projects identified by
8 the Company in its response, Docket No. 020071-WS, at MFR Schedule A-5, shows that
9 the balance in plant in service Account 331.4 – Transmission & Distribution Mains as of
10 December 2000 was only \$885,984. Thus, the balance remaining on the Company's books
11 associated with the water mains being replaced is substantially less than the retirement
12 amount the Company incorporated in its filing and substantially less than the test year-end
13 balance in the account of \$1,922,100.

14
15 **Q. WHAT CAP DO YOU RECOMMEND BE PLACED ON THE RETIREMENTS**
16 **ASSOCIATED WITH THE WATER MAINS BEING REPLACED IN THE PRO**
17 **FORMA ADJUSTMENTS?**

18 A. I recommend that the retirements be capped at \$886,000. This is based on the plant in
19 service balance in Account 331.4 – Transmission and Distribution Mains as of December
20 31, 2000 and would exclude the water main replacement projects going into service since
21 2000. Since the water mains being replaced are the older mains that have reached the end
22 of their useful lives, it is logical that the original cost of the mains being replaced would
23 not exceed the December 2000 balance in the account.

1 **Q. WHAT IS THE OVERALL IMPACT OF MR. WOODCOCK'S RECOMMENDED**
2 **REDUCTION TO THE PRO FORMA PLANT COSTS AND YOUR**
3 **RECOMMENDED REDUCTION TO THE RETIREMENT ADJUSTMENT?**

4 A. As shown on Exhibit DMR-14, at page 9, plant in service is increased by \$5,489,669 and
5 accumulated depreciation is increased by \$5,516,978, resulting in a net decrease in water
6 rate base of \$27,309. Additionally, the depreciation expense incorporated in the
7 Company's filing is increased by \$127,572.

8

9 Problems with Certain Plant in Service and Accumulated Depreciation Balances

10 **Q. ARE THERE ANY SPECIFIC SEMINOLE COUNTY WATER AND**
11 **WASTEWATER PLANT ACCOUNTS THAT SHOW BALANCES THAT CAUSE**
12 **A CONCERN?**

13 A. Yes. For the water system, on MFR Schedules A-5 and A-9, Account 330.4 – Distribution
14 Reservoirs & Standpipes, it shows a plant in service balance of \$372,355 with a negative
15 accumulated depreciation balance of (\$523,108), resulting in a net plant in service balance
16 in rate base of \$895,463. The fact that the Company has a large negative accumulated
17 depreciation balance in this account and that the negative balance exceeds the plant in
18 service balance for the same account, is a concern based upon previous discussions in this
19 testimony. For the wastewater system, MFR Schedules A-6 and A-10 shows Account
20 360.2 – Collection Sewers – Force show a plant in service balance of \$27,928 and an
21 accumulated depreciation balance of (\$57,090), for a net plant in service balance in rate
22 base of \$85,018. This raises the same concern.

23

24 Additionally, wastewater Account 380.4 – Treatment & Disposal Equipment shows a plant
25 in service balance of (\$496,163) and accumulated depreciation of (\$75,470), resulting in a

1 net reduction in rate base of \$420,693. It is not logical that a negative plant in service and
2 a negative net plant in service balance exist for the wastewater treatment and disposal
3 equipment. In response to Citizens' Interrogatory No. 74, the Company indicated that the
4 negative plant balance is the result of the Commission's decision in the previous rate case
5 in which the Seminole County wastewater treatment plant was removed as a result of
6 interconnection with the City of Sanford. Commission Order No. PSC-07-0505-SC-WS,
7 at page 15, indicates, under the discussion of Staff Audit Finding 12, as follows:

8 The utility's filing incorrectly includes amounts for the Seminole County
9 wastewater treatment plant. Because the wastewater system interconnected
10 with the City of Sanford, Seminole County's entire wastewater treatment
11 plant has been removed.
12

13 It is not clear why a negative balance would currently be on the Company's books for the
14 wastewater treatment and disposal equipment instead of a \$0 balance given the
15 Commission's removal of the plant, nor does the Company explain or support such a
16 balance in its filing.

17

18 **Q. THE COMMISSION'S AUDIT STAFF, IN FINDING NO. 3 OF ITS AUDIT**
19 **REPORT, RECOMMENDS MANY ADJUSTMENTS TO PLANT IN SERVICE**
20 **AND ACCUMULATED DEPRECIATION FOR THE VARIOUS UIF SYSTEMS.**
21 **DID COMMISSION AUDIT STAFF IDENTIFY ANY CONCERNS WITH THESE**
22 **SPECIFIC ACCOUNTS?**

23 A. Yes. As previously mentioned, Staff has recommended many adjustments in its audit
24 report. Previously in this testimony, I indicated that I included the impacts of Staff Audit
25 Finding 3 for the Pasco County wastewater system to correct the problems with the system
26 wide negative accumulated depreciation balance in the test year for the Pasco County
27 wastewater system. For the Seminole County accounts discussed above, the audit

1 workpapers show changes to each of the accounts. For example, Audit Workpaper 28-10
2 shows that the audited average test year balance for Account 380.4 – Treatment & Disposal
3 Equipment is \$2,595 and the accumulated depreciation balance is \$1,430, for a net plant in
4 service balance of \$1,165. This is compared to the per-Company net plant in service for
5 the account of (\$420,693). Clearly, Audit Staff takes issue with the adjustment made by
6 the Company in reflecting the Commission ordered adjustment from a prior rate case.

7

8 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS AT THIS TIME TO**
9 **ADDRESS THE PROBLEMS WITH THE NEGATIVE ACCUMULATED**
10 **DEPRECIATION BALANCES AND NEGATIVE PLANT BALANCES**
11 **DISCUSSED ABOVE?**

12 A. Yes. On Exhibit DMR-14, on pages 4 and 7, I have included Staff's recommended audit
13 adjustments found in Audit Finding 3 for the Seminole County water and wastewater
14 systems. While the Company has not yet submitted a formal response to Staff's Audit
15 Report, I nonetheless am reflecting the Seminole County adjustments in Audit Finding 3
16 to address the significant problem with the Company's balances in several accounts for the
17 systems. The overall impact of the adjustments is a reduction to rate base of \$1,022,818
18 for the water system and increase in rate base of \$391,303 for the wastewater system.
19 Additional water and wastewater depreciation expense is increased by \$26,599 and
20 \$72,343, respectively.

21

22 CONCLUSION

23 **Q. CAN YOU SUMMARIZE YOUR RECOMMENDATIONS IN THIS RATE CASE?**

24 A. Yes, I can. Based on my review of the Company's consolidated MFRs, testimony,
25 discovery responses, and prior Commission orders, I am recommending an increase of

1 \$2,487,577. My adjustments are on a system by system basis for a total decrease to the
2 requested revenues of \$4,427,877. Please refer to Exhibit DMR-2 and earlier in my
3 testimony for a system by system breakdown of the total increase.

4

5 **Q. DOES THIS COMPLETE YOUR PREFILED TESTIMONY?**

6 A. Yes, it does.

1 CHAIRMAN BROWN: Staff.

2 MS. MAPP: Staff has no questions at this
3 time.

4 CHAIRMAN BROWN: Thank you.

5 Mr. Sayler.

6 BY MR. SAYLER

7 Q And did you prepare a summary for this
8 proceeding, ma'am?

9 A I would like to give just a very brief summary
10 for the Commission.

11 In this case, I was asked to review the
12 revenue requirement presented by the Company, and I
13 focused on rate base and operating expense and revenues,
14 items that would impact overall revenue requirements.
15 So in this case I recommended several adjustments within
16 my testimony to the Company's minimum filing
17 requirements and the revenue requirements within those
18 filing requirements. And I also flowed through the
19 impact and helped calculate some of the impacts of some
20 of the recommendations presented in Andy -- Andrew
21 Woodstock's testimony that was went over earlier today.

22 As a result of the adjustments, I'm
23 recommending in my testimony and Mr. Woodstock's
24 recommended adjustments to the Company's initial filing,
25 my schedules and calculations and analysis result in a

1 rate increase for this company of \$2,487,577. That
2 would be \$1,473,544 for the water operations, and
3 approximately 1 million for the wastewater operations.
4 And, again, these are only based on adjustments that
5 were quantified as of the date our testimony was
6 submitted.

7 I then in my testimony address some -- first
8 some adjustments that impact multiple systems so not
9 just specific to certain system. I point out an issue
10 and problems with the method used by the Company for
11 reflecting retirements associated with the proforma
12 plant addition and the fact that many of those
13 retirements that would flow to the Company's MFRs result
14 in removing more than the original cost of the plant for
15 those retirements. So I recommend various adjustments
16 to correct that concern.

17 Additionally, there are a few other
18 adjustments impact multiple systems, and I also discuss
19 a problem with having negative accumulated depreciation
20 balances for the various systems and the problems that
21 results in.

22 And then I recommend specific adjustments for
23 each system. I went through all of the them -- the fire
24 system, (indiscernible) system -- and the adjustments
25 made by the Company for each of those systems.

1 For many of the adjustments I'm recommending
2 for situations in which the Company had proforma expense
3 adjustments in MFRs that hadn't been supported to read
4 as direct testimony to an explanation of the MFRs or a
5 response to discovery requests seeking the work papers
6 and documentation and support. So for situations in
7 which I found the Company didn't support the proforma
8 adjustment, I recommended that those be removed.

9 And then there were issues, various
10 adjustments within my testimony for issues of expenses
11 that had been recorded during the test year; so a period
12 adjustment either for the prior year or subsequent year
13 that had been reflected in the test year and the MFRs.

14 So that's just a previous summary. I'm not
15 going to go adjustment by adjustment because there were
16 numerous issues and problem with the MFRs causing the
17 need for a lot of adjustments. Thank you.

18 CHAIRMAN BROWN: Thank you.

19 MR. SAYLER: Madam Chairman, we tender this
20 witness for cross examination.

21 CHAIRMAN BROWN: Thank you. Noting
22 Mr. Armstrong's absence, I believe he obviously
23 waives his right for cross-examination; so we will
24 go directly to the Utility.

25

1 EXAMINATION

2 By MR. FRIEDMAN

3 Q Thank you, Ms. Ramas.

4 On Page 6, Line 14, you state that "Once an
5 asset or group of assets is fully recovered." Do you
6 recall that testimony, that point, you discontinued
7 depreciation? Do you remember that -- those lines of
8 questions and that answer?

9 A Yeah. Page 6 which line is that starting?

10 Q I think it starts on Line 14. "Once an asset
11 or group of assets" --

12 A Yes.

13 Q -- "is fully recovered."

14 Are you aware of any PSC rule that
15 specifically says that?

16 A Not specifically. I read through all the
17 depreciation rules that the Commission has. But what's
18 happening is I've recommended several adjustments in
19 this case where the group of assets -- so all the assets
20 for a specific system in a specific account; so it would
21 include all that group of assets within that account
22 have already been fully recovered, and that all of the
23 original costs for that plant has already -- the amount
24 of accumulated depreciation exceeds the original cost of
25 that plant. So I've recommended several places in the

1 testimony where that depreciation discontinue as a set
2 group of assets and that account has been fully
3 recovered.

4 **Q But the PSC's depreciation rule doesn't say**
5 **that; does it?**

6 A I'm not sure the depreciation rule covers
7 every potential eventuality, but I'm not aware of
8 anything in the depreciation rules that specifically say
9 that you stop depreciation -- depreciating asset after a
10 company has fully recovered the cost of that asset.
11 Some things may be more -- I guess I would take as
12 common sense or just general accounting as opposed to
13 something that has to be solidified in a formal rule.

14 **Q Okay. And so you think there's a GAAP rule**
15 **that says that? When you said "general accounting," I**
16 **assumed you meant --**

17 A Well, under general accounting rules, you
18 collect the cost of an asset over a life of an asset,
19 and that's the cost of the asset as well as other things
20 that might be considered in depreciation expense. After
21 those costs are fully recovered, from an accounting
22 perspective, it wouldn't be appropriate to continue to
23 depreciate assets that have been fully recovered.

24 **Q Okay. You would agree, would you not, that if**
25 **the original cost of a particular asset is not known or**

1 the year that the retired plant was originally placed in
2 service, that it's been this Commission's practice to
3 determine retirement by using a 75 percent of
4 replacement cost?

5 A I know that's happened in several orders in
6 several past decisions. But it's my opinion that you
7 also have to use some, I guess I would say, judgment or
8 even common sense that if you have X amount in an
9 account for an asset, that you don't retire more than
10 the total cost in that account for that asset when
11 retiring a plant item.

12 Q All right. Okay. But the first part of my
13 question, you would agree that that is Commission
14 policy; do you not?

15 A I've seen it done by the Commission. I guess
16 I'm not sure if it's a written rule, but I have seen it
17 done in cases where the original cost isn't known. And,
18 again, I haven't challenged the use of that 75 percent
19 rule in this case with the exception of situations in
20 which utilities as a result removing more than the
21 original cost of the asset when that occurs.

22 Q All right. So you're not faulting the use of
23 the rule; you're just faulting a result?

24 A I think in using the rule you need to also
25 apply some, I guess I would say, common sense to that

1 and look at the total cost on the books for that asset.
2 And if the 75 percent rule would cause you to remove
3 more than has ever been incurred for the asset, you
4 shouldn't remove more.

5 **Q And that's what you term "common sense." Is**
6 **that your conclusion?**

7 A It would seem like common sense to me that you
8 wouldn't remove more from the books for an asset than
9 you ever spent for that asset.

10 **Q But you didn't point to any rule or GAAP**
11 **principle that says that?**

12 A I don't have my GAAP right here in front of
13 me; so I can't cite a specific rule right now.

14 **Q All right. Let's move along.**

15 **All the way to Page 19, Ms. Ramas.**

16 A I'm there.

17 **Q Okay. You beat me.**

18 **This is where you discuss the Company's**
19 **request to include the unamortized rate case expense in**
20 **with the existing rate case expense and then just**
21 **reamortize the whole amount over four years. Do you**
22 **remember that issue?**

23 A Yes, I do.

24 **Q All right. And you cite 367.081(8) which says**
25 **the recovery should be not over -- more than four years;**

1 correct?

2 A Actually, it's 367.81(8). I think you said
3 188. It's 81.(8) that I cite here. I'm just -- I think
4 you -- or I misheard the rule you cited.

5 Q I could have said it differently, but I'm
6 looking at something that said 367.081.(8).

7 A Oh, yes. 081 and then (8) for -- I'm sorry.
8 I misunderstood.

9 Q I left out the parentheses. I apologize.
10 This has got a four-year amortization period;
11 right?

12 A Yes.

13 Q Okay. And it says unless otherwise justified
14 or in the public interest?

15 A Correct.

16 Q All right. Do you understand this rule to be
17 something that is more beneficial to the Company to have
18 the four years versus five years?

19 A A shorter amortization period would cause the
20 Company to recover the cost over a faster period of time
21 than a longer five-year period.

22 Q Which you would think, would you not, would be
23 the goal of any company to recover that over an earlier
24 period of time rather than longer?

25 A For the most part. I've seen situations where

1 that may not be the case because of the rate base
2 impact, but I would agree with you with regards to the
3 specific type of costs.

4 **Q Okay. So do you believe that if the Utility**
5 **was willing to extend that for a greater period of four**
6 **years the Commission wouldn't have jurisdiction to do**
7 **that?**

8 A I wouldn't say the Commission doesn't have
9 jurisdiction because the rule does say that they can
10 consider a longer amount of time if justified and in the
11 public interest. But as pointed out in my testimony,
12 for the various amounts the Company is asking to roll on
13 in this case, there's already Commission decisions
14 establishing the time frame to recover those rate case
15 expenses associated with prior dockets. The Commission
16 has already ordered on a four-year period.

17 So in that situation, I'm not sure I agree
18 it's appropriate to then instead roll into a new rate
19 case's expense and spread it out further. And even more
20 so in this case, if the Commission ultimately chooses to
21 go to consolidated rates, even though, as you say, it
22 would reduce the total amount of expense in the revenue
23 requirement, it would then pass on rate case -- costs
24 associated with rate cases for prior systems before the
25 consolidation to other systems.

1 **Q** Okay. And does -- OPC has recommended a
2 **solution to that I understand.**

3 **A** I recommended in my testimony a way to be able
4 to stick with the already Commission-ordered four-year
5 amortization periods that are in effect and to have
6 those cost only impact the systems that those rate case
7 expenses pertain to. And I -- that's addressed in my
8 testimony.

9 **Q** **On Page 23.**

10 **A** I'm there.

11 **Q** **No. I'm going to move on from that.**

12 **In -- you're aware it's Commission policy not**
13 **to allow rate expenses for curing deficiencies; correct?**

14 **A** I'm sorry. Could you repeat that?

15 **Q** **Yes is the easy answer.**

16 **You would agree, would you not, that it is the**
17 **Commission's policy to not allow rate case expense to**
18 **cure MFR deficiencies; correct?**

19 **A** That's my general understanding, and I would
20 definitely agree with that policy.

21 **Q** **And.**

22 **Q** **And in your review of the -- did you review**
23 **the rate case -- various rate case expense documentation**
24 **that was filed throughout this case?**

25 **A** Some. I'm not sure I looked at every page,

1 page for page, and some of the more recent information
2 that came in on that. I wouldn't have reviewed
3 everything. I did review the attachment to Mr. Deason's
4 rebuttal testimony, the summary page and some of the
5 backup pages, but not every single page.

6 As I explained in my testimony, it's my
7 understanding that Staff does that around the hearing
8 portion. So I didn't go through them all, item by item,
9 to determine what should be removed from that.

10 **Q Okay. So you don't -- you didn't see anything**
11 **in the summary of a rate case expense that you have**
12 **identified that should have been taken out?**

13 A Not at this point in time, no, I haven't.

14 **Q Isn't it true that in this case OPC served**
15 **discovery even before the official date of filing was**
16 **established?**

17 A When you mean "official date of filing," do
18 you mean when the MFR deficiencies were corrected? With
19 the --

20 **Q Yes. That's the official date of filing.**

21 A Yes. We served -- I prepared with OPC
22 testimony when we first received the case, but my
23 experience in Florida cases is you really need to start
24 gathering data pretty quickly in order to be able to
25 fully evaluate the MFRs by the testimony due date. So I

1 didn't think it would be prudent to hold off on asking
2 questions until the MFR deficiencies were corrected.

3 **Q Even though you knew the MFRs were going to**
4 **change by virtue of the fact that they were deficient?**

5 A We knew they would change but not in their
6 entirety. And, in fact, I don't recall that any of the
7 adjustments I recommended in this case pertained to
8 items that changed as a result of deficiency
9 corrections. My recollection is I believe almost all,
10 if not all, the A, B, and C schedules in this case and
11 possibly the D schedules remained largely unchanged, if
12 not entirely unchanged, as a result of correcting the
13 deficiency.

14 **Q But isn't it true that as a result of OPC's**
15 **servicing discovery before the official date of filing was**
16 **established that Utility had to respond to in**
17 **providing -- providing discovery responses that were**
18 **really irrelevant because the MFRs had changed?**

19 A As I believe I just testified, almost all --
20 well, all the adjustments I recommended, those items
21 didn't change between the original MFR filing and the
22 correction of the deficiency. So it really didn't
23 impact my recommendation.

24 **Q Weren't one of the discovery responses asking**
25 **for work papers in connection with the original MFRs?**

1 A Yes. With -- I did also ask a data request
2 focusing on the adjustments contained -- the proforma
3 adjustments contained in the A and B and C schedules in
4 this case. And, again, those A, B, and C schedules
5 didn't change; so those work papers wouldn't have
6 changed as a result of correcting the deficiency.

7 **Q And you were satisfied with the documentation**
8 **that was provided in response to that discovery?**

9 A Absolutely not.

10 **Q Let's move to the health insurance issue. The**
11 **health insurance reserve. Do you recall that issue? I**
12 **think it's on Page 30.**

13 A Yes, I do.

14 **Q Now, that's an expense that the Company incurs**
15 **every year; is it not?**

16 A It incurs health insurance expense every year,
17 and it is normal to make adjustments to the accruals in
18 the amounts that have been recorded in the health
19 insurance expense.

20 **Q Do I understand that your position is to take**
21 **out the health insurance reserve amount in its entirety?**

22 A No. I believe -- I believe the Company
23 misunderstood my testimony after reading Ms. Swain's
24 rebuttal testimony. I don't opine that this reserve
25 adjustment is a nonrecurring, one-time adjustment and

1 that it is not normal to book adjustments to the health
2 insurance reserve.

3 If you look at my testimony, I discuss on
4 Page 30, particularly from Lines 4 to 14, the amount of
5 expense -- total Water Services Corporation Health
6 Insurance Reimbursement expense for 2014, for 2015,
7 which is the test year, and then for 2016. And I point
8 out there that there was a significant increase between
9 2014 and 2015 of \$227,000. And then between 2015 and
10 2016, it dropped by 119,000. So as a result, I found
11 that that reserve adjustment for the 110,000 made it so
12 that it wasn't reflective of the typical expense level.

13 **Q So --**

14 **A** So more on the level of expense in total and
15 that amount of reserve adjustment cause those expenses
16 to be skewed.

17 **Q What amount of reserve adjustment did you**
18 **allow in your calculations?**

19 **A** Well, the whole health insurance expense is an
20 accrual account. It's done on accrual basis of
21 accounting. So throughout the year the Company should
22 be monitoring and looking at its overall health
23 insurance expense. I mean, what this expense does, it's
24 the cost going from the parent company to the Utilities,
25 Inc. of Florida systems and charging health insurance

1 expense to the system. So you need to look at the
2 overall total expense. By taking out this reserve
3 adjustment, I'm still allowing a reasonable level of
4 health insurance expense that's consistent with the
5 prior and subsequent year levels.

6 **Q Didn't the prior and subsequent year levels**
7 **include a -- the same health care reserve? Isn't that**
8 **reserve included in each year?**

9 A Yeah. What it is is that expense account is
10 the whole health insurance reimbursement expense that's
11 charged although the costs are booked to that account,
12 and the Company does each year -- it would record an
13 adjustment to the expense; so a form of accrual for
14 costs that, say, they haven't gotten all the invoices
15 for the health insurance. So each year there is -- are
16 adjustments made to that reserve. I'm not saying that's
17 not normal to accrue or to estimate outstanding health
18 insurance claims.

19 **Q Okay. And am I correct in certain**
20 **circumstances where there's variability in the expense,**
21 **you've recommended that there be a three-year average?**

22 A I did for one specific adjustment dealing with
23 Eagle Ridge materials and supplies expense. I could
24 have done the same with this adjustment and come out to
25 a similar result as what occurred with my removing that

1 reserve adjustment of 110,000.

2 **Q So do you agree now that an appropriate**
3 **alternative would be to average it?**

4 A For health insurance expense, that would be --
5 one thing you can look at and could be a reasonable item
6 to average especially when you're dealing with the
7 timing of when the invoices come in for health
8 insurance. I agree it could be appropriate to look at a
9 longer period instead of the single 12-month period in
10 setting a normalized level to include base rate.

11 **Q On Page 48, we're talking about one of the**
12 **employees, one of the new positions. Do you see that?**
13 **I think it is starting on Line -- Question is on Line 10**
14 **and discussed on Line 11.**

15 A Yes.

16 **Q No. This isn't one of the new positions.**
17 **This is the operating. I'm sorry.**

18 Do you recall that at Mid-County they had an
19 operator position that was open for a number of months
20 during the year?

21 A I'm sorry. This testimony addresses the
22 Company's proforma adjustment to add a new employee to
23 the Mid-County system that wasn't in the test year.

24 **Q No. Look at -- start at Line 13. "In**
25 **response to Citizens' Interrogatory No. 152, the Company**

1 indicated that the increase in annual salary and wage
2 expense at Mid-County in the test year reflects the
3 absence of one operator for 11 months of the year."

4 A Yes, I see that. And it's in several
5 different descriptions of the three new positions that
6 were added. But, yes, that is one of the explanations
7 provided by the Company for this -- this position being
8 added to the accounting.

9 Q This isn't one of the three position that they
10 were talking about the proforma though on; is it?

11 A Yes, it is. What the Company did with regards
12 to the proforma salary and wage adjustments, there were
13 two new positions that were spread to all of the
14 systems. There was a moving from one position -- a
15 part-time to full-time that was spread to all the
16 systems and a promotion for another position that was
17 spread to all the systems. And I've left those intact.
18 I haven't recommended any adjustments to those positions
19 in the filing; so that proforma adjustment is still in
20 there. And then the Company also made an adjustment to
21 add three operators to three different systems, one of
22 which was the Mid-County.

23 Q And you say here that the Company has not
24 demonstrated a need for this employee at Mid-County; is
25 that correct?

1 A Based on the information I received from the
2 Company, I didn't see that the Company had demonstrated
3 a need or that it had filled the position.

4 **Q Do you see that they said in their response**
5 **they had been actively recruiting someone for that**
6 **position?**

7 A They said that in response, but I had asked
8 data request about the employee account after the test
9 year and the overall employee count. My recollection is
10 that it hadn't increased or it hadn't increased
11 providing more than needed the positions that I -- or
12 which remain in the proforma. So I didn't see any
13 demonstration that they had actually made that change.

14 **Q Well, you wouldn't necessarily see that in the**
15 **overall employee count; would you?**

16 A Not necessarily as the Company didn't provide
17 that information specific on total for the Florida
18 operation.

19 **Q You didn't ask for it by system; did you?**
20 **Didn't y'all just ask for what --**

21 A I'm trying to remember because there was a lot
22 of information we requested. I don't recall asking for
23 it by system.

24 **Q On Line -- on Page 55, Line 34, we're talking**
25 **about the CIAC at LUSI.**

1 MR. SAYLER: What page are you on?

2 MR. FRIEDMAN: Bottom of the 55, top of 56.

3 THE WITNESS: I'm there.

4 BY MR. FRIEDMAN

5 Q And you say that, "It is not clear why the
6 Company is attempting to make a \$2.2 million purported
7 Commission Ordered Adjustment to Contribute Property."
8 Do you see that?

9 A I'm sorry. Can you point me to the line?

10 Q It starts on Line 34 on Line -- on Page 55.
11 The Company moved 980 then moved 112. Do you see that,
12 starting on the top of Page 57 --

13 A Yes. But it wasn't clear why the Company had
14 made the Commission Ordered Adjustment to move -- or why
15 in those MFRs it made an adjustment to move the amounts
16 between those various accounts.

17 Q Okay. Did you review Audit Finding 2 of the
18 auditors in this case?

19 A I would have reviewed it, yes.

20 Q And did the audit staff find a problem with
21 this adjustment to the best of your recollection?

22 A I don't recall seeing something specific to
23 this adjustment. And, again, I'm not sure that the
24 audit staff are tasked with making sure that items
25 listed a revenue requirement based on prior Commission

1 orders.

2 This issue was really the fact that the
3 Commission had specifically determined in a prior
4 order that a used and useful percentage should not be
5 applied to those accounts, and my recommendation here is
6 following that prior Commission order. So I'm not sure
7 if Staff's task in its audit is to opine on the revenue
8 requirement treatment or just to confirm the amount.
9 And they may do that. I'm just not sure I saw it in
10 their audit report where they -- my understanding is
11 they're auditing the numbers in the file. They're not
12 necessarily opining on how the Commission should treat
13 something.

14 **Q You don't think the audit opines on how the**
15 **Commission should treat stuff?**

16 A Well, yes. To the degree that they're
17 auditing the books and they're finding that there are
18 issues with the books, I suppose they are, in fact,
19 opining that adjustments should be made to correct those
20 amounts.

21 **Q Do you believe there's ever a time when there**
22 **may be CIAC for nonuse and useful plant?**

23 A I suppose there may be, but, again, my
24 testimony was limited to the specific CIAC already
25 addressed by the Commission in a prior order and, for

1 this exact same system, the application of the used and
2 useful percentage to that CIAC that was previously
3 determined by the Commission.

4 Q Okay. But you don't know whether there's a
5 time when CIAC should be applied to nonuse and useful
6 plant.

7 A None that I specifically reviewed.

8 Q And do you think -- is there ever a time when
9 CIAC should be used on prepays?

10 A I'm sorry. Could you elaborate on what you're
11 asking?

12 Q Yeah. Do you know -- do you know what prepaid
13 connections are? When somebody pays --

14 A I assume that's -- are you asking about a
15 situation when the developer made payment in advance for
16 future connections?

17 Q Correct. Yeah. Precisely.

18 Would you apply a CIAC to the prepaids -- I'm
19 sorry -- to the nonuse and useful prepaids?

20 A I haven't really thought that all the way
21 through. And, again, I haven't opined on that in my
22 testimony. My testimony is limited to an issue that the
23 Commission has specifically addressed in a prior case.

24 It would be though -- I would like to note
25 that if those prepaids have come into the Company, they

1 have the use of that cost resource of capital. They
2 have those funds to their -- to use at their discretion.

3 Q All right. And bottom of Page 56 starting at
4 Line 22, we're talking about the reduction sludge
5 hauling at Lake Groves. Do you see that where you
6 address that?

7 A Yes, I do.

8 Q Wasn't the answer that the Company gave that
9 there would be a reduction in sludge hauling expense up
10 to 3,500 a month?

11 A I thought it was of 3,500 a month and not up
12 to, but if you give me a moment, I have that response
13 with me so I can be sure I'm citing it correctly.

14 (Pause)

15 Yeah. The response the Company provided to
16 OPC in response to Interrogatory 8 says, "Reduction in
17 sludge hauling expense of 3,500 per month assuming the
18 pilot test shows the efficiency (sic) of equipment as
19 designed."

20 So it didn't say up to. It said, "of 3,500."

21 Q Okay. And -- and does the response stop right
22 there?

23 A No. Would you like me to read further?

24 Q Please?

25 A It says, Initial indications are that the

1 solar unit may only be able to be effective at half the
2 design loading rate resulting in a projected cost
3 savings about 1,750 per month. If the project is not
4 successful and not added to rate base, the impact would
5 be about a ten percent increase due to increase in
6 sludge production from customer growth increasing flow
7 to the plant.

8 **Q Don't you read that to say that the 3500 was**
9 **what they estimated and now it looks like it's probably**
10 **half that?**

11 A Well, it says initial indications that it may
12 only be able to work up to half the design capacity.
13 It's my understanding the Company went forward with the
14 project, and this is one that Mr. Woodcock did include
15 in his recommended projects for inclusion. I had
16 discussed this with Mr. Woodcock, and I also looked at
17 the attachment provided by the Company in support of
18 this project that was provided with Mr. Flynn's
19 testimony, and Mr. Flynn's attachment also cited that
20 \$42,000 cost savings.

21 So, therefore, since the project is included
22 as a proforma plant addition, it was my opinion that the
23 cost savings that could result from that project should
24 also be reflected.

25 **Q And in estimating that cost, you took the**

1 **highest of the estimated costs; correct?**

2 A Yes, which is also the amount that is
3 reflected in the project support that was attached to
4 Mr. Flynn's testimony for the same project.

5 Q **But that included the caveat that, oops, we**
6 **may not get there; correct?**

7 A I don't recall his attachment to Mr. Flynn's
8 testimony including the caveat. This response did
9 include a caveat, but I don't recall Mr. Flynn's support
10 for --

11 Q **No --**

12 A -- that caveat.

13 Q **I meant this response here. Doesn't that**
14 **insinuate that the Company doesn't expect to get the**
15 **whole 3,500?**

16 A It would depend on the actual performance of
17 the unit -- whether the Company -- I don't know what
18 their current assumption is regarding the likely cost
19 savings.

20 Q **Wasn't that last sentence the assumption: We**
21 **don't expect that we're going to get but about half that**
22 **amount? Isn't that the latest assumption?**

23 A That's what the initial indications are. I
24 don't see where it says that they assume they're only
25 going to get that.

1 **Q Have you seen Ms. Swain's rebuttal testimony**
2 **where she indicates that the accrued federal taxes were**
3 **reversed in 2016?**

4 A That the accrued and prepaid taxes that the
5 amounts were reversed off the books in 2016?

6 **Q Yes.**

7 A Yeah, I read her testimony.

8 **Q Would you agree that the accrued federal taxes**
9 **should be removed from the MFRs?**

10 A I would agree for the two systems in which I
11 removed them in this case. For the other ones that were
12 identified in Ms. Swain's rebuttal testimony, that came
13 into the record late; so as a result we asked for
14 discovery on that. I had asked for the full journal
15 entry recording it as well as any work papers or
16 calculations supporting it. We received the journal
17 entry, but I don't have enough information to opine if
18 the full adjustments that she included in her rebuttal
19 testimony on that issue should be adopted or not.

20 I agree the two identified in my testimony,
21 yes, should be reflected because I had that information
22 early in the case and had asked discovery on it and had
23 more information on it. For the other adjustments
24 associated with those prepaid and accrued federal taxes,
25 I don't have enough information to opine one way or

1 another if I agree with that adjustment.

2 **Q Are you aware of what action caused the**
3 **Company to record an accumulated deferred income tax for**
4 **Tap Fees Post-2000?**

5 A My understanding on that issue is based on a
6 prior Commission order that discussed it at some length.
7 Do you want me to go over my understanding from that
8 Commission order? I believe I referred to that
9 Commission order in my testimony.

10 **Q Okay. So when the Company paid income tax on**
11 **the Tap Fees collected after 2000, was the deferred tax**
12 **a permanent tax difference, a permanent timing**
13 **difference?**

14 A Well, it's my understanding from the reading
15 of the Commission order -- and, again, the Commission
16 order number, the Docket Number, and parts of that order
17 are quoted in my testimony.

18 It's my understanding that the Commission had
19 found that the Company -- that those amounts shouldn't
20 have been taxable and that the Company should not have
21 paid that tax amount. And, therefore, the impact on
22 accumulated deferred income taxes, it's a deferred
23 income tax asset; so it's effectively reducing the
24 amount of ADIT accrued in the capital structure. So the
25 Commission determined that they didn't agree that should

1 be included and reversed back. That's my understanding
2 which is based on the reading of the Commission order
3 which has pretty extensive language on the issue.

4 **Q Do you know whether it's a permanent timing**
5 **difference or not?**

6 A Typically, if you're paying taxes in advance,
7 they're for the most part temporary differences. But in
8 this situation where the Commission determined that tax
9 shouldn't have been paid to begin with, I guess, how do
10 you know if it's permanent or temporary. If they
11 shouldn't have paid it at all, I would hope it's
12 corrected by the Company. Because if they paid taxes on
13 amounts that they shouldn't have paid, I would think you
14 would want to file an amended return, but I understand
15 that you're probably past the time you can correct those
16 historic tax -- from those tax returns.

17 **Q Okay. So your answer is you really don't know**
18 **what the --**

19 A If it's temporary or permanent? If you're
20 paying a tax that you shouldn't be required to pay, I
21 guess I couldn't tell you if it's temporary or
22 permanent. It's permanent if you don't seek a refund of
23 an income tax amount that weren't due to be paid to
24 begin with.

25 **Q So do you believe that the ADIT should have**

1 **been advertised over a period of time that the CIAC**
2 **would have been amortized for tax purposes?**

3 A No. That's not my opinion. My opinion is
4 that the Commission's prior order should be followed in
5 this case in which it was determined that these taxes
6 shouldn't have been paid to begin with. Therefore, rate
7 payers shouldn't be penalized by the reduction to the
8 ADIT balance as a result of that.

9 **Q Are you aware that CIAC is amortized over time**
10 **for taxes?**

11 A It would depend. There's different treatments
12 for different types of CIACs. And, again, my testimony
13 is only opining to the specific ADITs having to do with
14 these post-2000 Tap Fees.

15 **Q Let's go to Page 72 on Line 9. You talk about**
16 **the Sanlando -- you removed the expense in Sanlando**
17 **associated with the tank removal. Do you see that?**

18 A Yes, sir. There was -- my recollection is it
19 was two separate invoices that were originally booked by
20 the Company in 2014 that were moved into 2015. Has to
21 do with sand and grit removal as well as the removal of
22 the tank, and the total of those two invoices, combined
23 total was \$12,999.

24 **Q And was it your understanding that was a**
25 **nonrecurring expense?**

1 A Yes, a nonrecurring expense that was paid the
2 year prior to the test year in this case.

3 **Q Okay. And don't you believe it would be**
4 **appropriate to defer and amortize it?**

5 A Again, these costs -- if these costs had
6 fallen into the test year, then I agree it would
7 probably be reasonable to consider amortization of those
8 costs. These are pre-test year costs with the company
9 through a journal entry moved from the year prior to the
10 test year into the test year. Therefore, my opinion is
11 you should just remove them.

12 **Q But isn't it normal Commission practice to**
13 **defer and amortize nonrecurring expenses?**

14 A My understanding is for expenses that fall
15 within the test year -- I recall having been asked this
16 in deposition. I don't have specific knowledge about
17 what the Commission does with nonrecurring expenses that
18 fall outside of the test year, whether it's typical to
19 defer and amortize them. It seems like there should be
20 a request for deferral rather than automatic assumption
21 of deferral between rate cases of nonrecurring costs.

22 **Q And, finally, you talk about Myrtle Hills**
23 **proforma plan --**

24 A Yes.

25 **Q -- on the next page, on Page 72. Do you see**

1 **that?**

2 A Yes, I do.

3 **Q And am I correct that you're recommending that**
4 **that be removed; that the cost of Myrtle Hills water**
5 **main project be removed because it's going to be paid**
6 **for by CIAC in the future?**

7 A Yes. And that was specifically addressed in
8 the Commission order cited within my testimony that in
9 establishing the main extension charge to be charged to
10 new customers, the Commission looked at the total
11 projected costs of the project in establishing the
12 charge, and the order also indicated that the existing
13 customers wouldn't be paying costs for that main
14 extension.

15 **Q Isn't that true for the main extension,**
16 **though; that it would be recovered eventually through**
17 **CIAC?**

18 A With regards to a main extension to serve a
19 larger service territory, yes, that should be the case;
20 that if the CIAC charges are calculated to recover those
21 costs.

22 **Q Would the fact that this Myrtle Hills water**
23 **main project also benefited existing customers have any**
24 **impact on your consideration of whether to remove it or**
25 **not?**

1 A No, it would not because the specific main
2 extension lists just very recently addressed by this
3 same Commission, and that Commission found in the order
4 that the cost of that main extension wouldn't be
5 incurred by or impact rates of the existing customers.
6 And, again, this is a post-test year project. This
7 isn't a project that was placed into service during the
8 test year. This is one of those projects that the
9 Company is asking for a special exception to go beyond
10 the test year to include in the revenue requirement in
11 this case.

12 **Q All right. And so your opinion is related**
13 **solely to the Commission's action in that prior order**
14 **that you reference?**

15 A That, and my view is it's unfair to charge the
16 current existing customers end rates the cost of the
17 plant expansion to serve new customers, particularly
18 when the Company has included no adjustments to include
19 the CIAC that's collected on that system nor any
20 revenues from the new customers that are being hooked up
21 to that system in the revenue requirements.

22 **Q But isn't it true that that system is also**
23 **going to benefit existing customers through better**
24 **service because it loops the line through having**
25 **hydrants?**

1 A I believe that's what the Company says in its
2 testimony in this case. But the total cost of that
3 project didn't change significantly of that added
4 benefit because the costs are fairly consistent with
5 what was presented to the Commission in the case that
6 resolved this in Order 16-0107.

7 **Q And you don't think that cost that was**
8 **presented in that order you referenced included the**
9 **benefits that the non-Myrtle Hills customers would get**
10 **for that system?**

11 A I'm not sure. But if it did, the Commission's
12 order didn't indicate it as such because it indicated
13 that the cost of the system would be paid for by the new
14 customers being added to the system and not charged to
15 the existing customers.

16 **Q And that's my point is that you're relying on**
17 **that -- on that order, are you not?**

18 A Partially. And also, as a matter of fairness,
19 if you're going to add a proforma plant addition that
20 allows for the hook-up of 116 additional customers and
21 include the rate base in the cost of that extension but
22 don't include any of the revenues or any of the CIAC
23 received for those same extensions, it's unfair to the
24 existing customers, at least for the revenue
25 requirements in this case. Perhaps in the next rate

1 case that uses a test year at some future time, at that
2 time you would have had the CIAC collected, at least
3 part of it, and you would have had additional revenues
4 to help cover the cost of this main extension.

5 **Q But wouldn't you say that -- I mean, you have**
6 **to admit that the existing customers are gonna benefit**
7 **from it. So they get it for free?**

8 A Again, I don't know for a fact that the
9 existing customers benefit from it. That's something
10 that was asserted I believe in Mr. Flynn's testimony or
11 in response to discovery. I don't have any -- I'm not
12 an engineer; so I don't have personal knowledge that it
13 benefits the other customers.

14 **Q So if they did get a benefit, they would get**
15 **it for nothing; correct?**

16 A No. In the next rate case, after this is
17 placed into service and after some of these new
18 customers have actually connected to the system, that
19 cost would be included in rate base. It would be offset
20 by the CIAC, and it would be offset by the additional
21 revenues that are collected. So at that future time
22 when that project falls in a test year, then they --
23 they would also be paying for the cost of that.

24 **Q I understand. So when you take it out of this**
25 **project, you're not saying that it won't be recovered in**

1 **the future?**

2 A No. Just that it's untimely to include as a
3 proforma project in this case.

4 MR. FRIEDMAN: That's all we have. Thank you.

5 CHAIRMAN BROWN: Thank you, Mr. Friedman.

6 Staff. And I will point -- or make a reminder
7 that you do not feel the need to ask duplicative
8 questions that have been already been asked by
9 Mr. Friedman.

10 MS. MAPP: Yes. We've made note of a couple
11 of questions. They've been removed. However, we
12 do have exhibits that we'd like to be passed out.

13 CHAIRMAN BROWN: All right.

14 MS. MAPP: Because they are already collated,
15 there are some exhibits that we won't use because
16 they were already covered by Mr. Friedman; so we
17 won't mark those.

18 CHAIRMAN BROWN: Okay. Just tell me what you
19 want to mark.

20 MR. SAYLER: Madam Chair, would it be
21 appropriate for a couple minute break?

22 CHAIRMAN BROWN: You know, I was thinking of
23 we would take our dinner break as soon as we're
24 done with this witness.

25 MR. SAYLER: Fine.

1 CHAIRMAN BROWN: All right.

2 (Pause)

3 CHAIRMAN BROWN: Ms. Mapp.

4 EXAMINATION

5 BY MS. MAPP

6 Q Good evening, Ms. Ramas. Are you ready?

7 A Yes, ma'am. Thank you. Good evening.

8 Q Good evening. My name is Kyesha Mapp for
9 Commission Staff, and I would first like to ask you
10 about negative accumulated depreciation.

11 In your testimony you discuss this topic. Can
12 you please explain why this is a concern in rate making?

13 A Well, there are several reasons presented in
14 my testimony. And I guess I first should give a little
15 bit of background of how accumulated depreciation
16 resolves.

17 So you have a plant that goes into service,
18 and over time the company is recovering that cost
19 through depreciation so that that asset is being
20 depreciated and you're charging depreciation expense.
21 You're building up an accumulated depreciation balance.
22 So the amount that impacts rate base is the plant in
23 service less that accumulated depreciation that's
24 already been recovered; so that net amount.

25 And as pointed out in my testimony, I noticed

1 problems with several systems where there were negative
2 accumulated depreciation balances which was the complete
3 opposite of what one would expect. And I also discussed
4 in my testimony several causes of that such as the
5 proforma adjustments where the Company is retiring
6 amounts based on 75 percent of the plant addition, and
7 that may exceed the original cost of the asset being
8 retired. That's one way that negative accumulated
9 depreciation can result on the books.

10 I also point out for, I believe, two systems
11 where there was a previous retirement of a plant. And
12 because of the way the retirement was booked, the result
13 was you no longer have any plant on the books. So the
14 plant balance is zero, but now you have a negative
15 accumulated depreciation balance on the books. If you
16 don't do something with that, either remove it or
17 somehow amortize a loss on retirement or come up with a
18 mechanism to remove that, then that negative accumulated
19 depreciation balance, which increases rate base, will
20 stay on the books in perpetuity and never go away unless
21 it is somehow addressed.

22 Hopefully that's answering your question. But
23 in general you wouldn't expect to see a negative
24 accumulated depreciation balance on the books. It's
25 extremely rare, and I'm not even sure I've come across

1 it outside of this case and for this company.

2 Q Yes. Thank you for answering that question.

3 Can you turn with me, please, to Page 47 of
4 your testimony?

5 A Right. I'm there.

6 Q At Lines 13 through 14, you state that you are
7 not challenging UIF's application of a 3.75 percent
8 increase in salaries and wages and employee benefits for
9 each of the systems.

10 A Correct.

11 Q And you also state that, regarding Mid-County,
12 that UIF's adjustment to increase salaries and benefits
13 by 3.75 percent results in an increase of \$9,052 and
14 \$2,848 respectively; correct?

15 A Correct.

16 Q Do you dispute the test year salaries and
17 wages that the 3.75 percent apply to?

18 A No, I do not.

19 Q And can you turn now to one of the exhibits
20 that have been handed out? I believe it's labeled
21 Patrick -- Rebuttal Testimony of Patrick Flynn, Pages 2
22 through 3.

23 CHAIRMAN BROWN: So it's the third exhibit in
24 my pack. May be that in yours.

25 So we're going to go ahead and identify that

1 as Exhibit 288. Again, the description is Rebuttal
2 testimony of Patrick Flynn.

3 (WHEREUPON Exhibit 288 was admitted into
4 the record.)

5 THE WITNESS: Okay. Yeah. That's the fourth
6 in line, and it was No. 288 you said?

7 CHAIRMAN BROWN: 288.

8 THE WITNESS: Thank you.

9 BY MS. MAPP

10 Q You've previously had an opportunity to review
11 Patrick Flynn's rebuttal testimony; correct?

12 A Yes.

13 Q Okay. In your testimony you propose an
14 adjustment to the test year materials and supply expense
15 for Eagle Ridge based on a three-year average. However,
16 Mr. Flynn's rebuttal testimony states that he disagrees
17 with your adjustment, and he asserts that it would be
18 more accurate to use a linear regression analysis to
19 project costs.

20 Do you take issue with the proposed linear
21 regression analysis?

22 A Absolutely. First, using the historic
23 numbers -- and I believe I cited all the historic
24 numbers in my testimony going back a number of years --
25 I don't see how you could use those actual numbers and

1 plot a linear regression analysis and end up with an
2 expense that exceeds the test year amount. So, first,
3 that's one reason I disagree with his testimony in that
4 regard. And second of all, I don't agree that a linear
5 regression approach should be taken for this expense
6 level. I recommended using a three-year average of
7 costs.

8 **Q Thank you.**

9 A You're welcome.

10 **Q What do you believe is a function of an**
11 **accrued tax account?**

12 A Accrued tax account. Do you mean as far as
13 like, say, accumulated for deferred income taxes, or --
14 I know I have several adjustments in my testimony having
15 to do with prepaid tax amounts on the balance sheet.

16 **Q The balance sheet with accrued capital -- I'm**
17 **sorry -- working capital.**

18 A Okay. In the working capital, you may have a
19 prepaid income tax expense dealing with the timing of
20 when the taxes are paid versus when they're due. I'm
21 not sure that answers your question.

22 **Q Do you agree that an accrued tax balance would**
23 **be a tax that's payable in the future that you're**
24 **accruing it for?**

25 A Yeah. I think it goes the other way. It

1 could be a prepaid or an accrual where you're accruing
2 for a tax you're going to pay in the future or you're
3 prepaying -- or you're recording prepaying a tax that
4 would impact the future.

5 **Q For rate-making purposes, does the accrued tax**
6 **component of working capital represent a current or**
7 **noncurrent liability?**

8 A In order to be included in working capital, it
9 should only be the current portion.

10 **Q Is it appropriate to carry forward an accrued**
11 **tax balance, either a positive or negative, for multiple**
12 **years?**

13 A No, not outside. You have accumulated
14 deferred income taxes, which is a different issue that
15 impacts the capital structure. But as far as the impact
16 on working capital, it should only include the current;
17 so that should not include long-term tax differences.
18 Those would more -- be more appropriately considered and
19 accumulated for income tax balances that impact the
20 capital structure.

21 **Q Can you turn to Page 63 of your testimony,**
22 **please?**

23 A I'm there.

24 **Q Okay. And from Pages 63 to 66 of your**
25 **testimony, you detail an adjustment to remove a negative**

1 accrued tax balance included in Sandalhaven's working
2 capital and attribute the issue to the accumulated
3 deferred income taxes associated with Tap Fees; is that
4 correct?

5 A Correct. That was based on a company data
6 response because I noticed -- how this adjustment came
7 about is I noticed that there was a significant amount
8 included in working capital for this prepaid tax item.
9 So first it caught my attention. I thought it was odd
10 that you would have a prepayment for this system of that
11 size. So I looked at some of the historic general
12 ledgers of the Company and found that it had been on the
13 books for quite some time. So I issued -- I issued data
14 requests asking about this.

15 At the time I wrote my testimony, I relied on
16 the Company's response to OPC Interrogatory 131-B which
17 is quoted within this testimony. Since and after
18 receiving Ms. Swain's rebuttal testimony, I discovered
19 that the Company is claiming that that response was
20 inaccurate or wrong. So I'm not certain that that
21 balance now is -- pertains to those deferred Tap Fees,
22 but either way it's a prepaid balance that's been on the
23 books for a long time and many years, and it should be
24 removed from the working capital calculation. And I
25 believe this was one of the items that Ms. Swain may

1 have removed in her rebuttal testimony.

2 Q Okay. And the interrogatory that you just
3 mentioned that had incorrect -- or was later identified
4 as being an incorrect response was 131-B.

5 Based on that response, do you now agree that
6 the accrued taxes and working capital are not related to
7 deferred accumulated income taxes associated with Tap
8 Fees Post-2000?

9 A I assume that because the Company says the
10 response was incorrect. But, again, for the accumulated
11 deferred income tax issue in this case, it's been very
12 frustrating trying to figure out how the amounts flow
13 through the MFRs. There are several other interrogatory
14 responses we received where the Company has indicated
15 that the amounts in the MFRs, certain C schedules,
16 either had incorrect titles or amounts reversed. And
17 when I was reviewing the MFRs, I did have trouble
18 tracing all the various ADIT amounts between working
19 capital and the accumulated deferred income tax balance
20 and the capital structure. I know the Company is now
21 claiming this response is wrong, and I'm assuming that
22 that claim's correct, but I don't have the accounting
23 records and the knowledge the Company has to be honest
24 to say what's right and what's wrong with regard to that
25 interrogatory. I'd have to rely on what the Company's

1 provided me.

2 Q So do you agree that the accrued taxes and
3 working capital are not related to the deferred
4 accumulated income tax associated with Tap Fees
5 Post-2000? I'm sorry. I couldn't hear that portion of
6 your answer.

7 A Specific to the amount, I adjusted in my
8 Exhibit DMR-11, which is discussed in this section of
9 testimony, it appears to me that those are not related
10 to deferred federal Tap Fees Post-2000 based on
11 Ms. Swain's rebuttal testimony saying this response was
12 incorrect. But I couldn't say for certain because,
13 again, I was relying on the Company's responses, and I
14 found out it was wrong. So as I sit here, that would
15 probably be a better question for the Company. They
16 have more knowledge on their books and records. I wish
17 I could give you an affirmative one way or the other,
18 but I just don't have a lot of confidence in the
19 information I received in this area in this case.

20 Q Thank you.

21 I'd ask if you could look to the exhibits, and
22 I believe it should be the top one that's labeled DDS
23 Late-filed Exhibit 3.

24 CHAIRMAN BROWN: It's not.

25 MS. MAPP: Oh, but --and I'd just like to make

1 a correction of the title. It should be late-filed
2 Exhibit 2, not 3.

3 CHAIRMAN BROWN: All right. So --

4 THE WITNESS: I'm sorry. Could you repeat
5 what I'm looking for?

6 MS. MAPP: It's BDS late-filed Exhibit
7 No. 3-2015 Federal Tax Accrual 2015.

8 THE WITNESS: Yes, I have that.

9 CHAIRMAN BROWN: Before you proceed, Ms. Mapp,
10 we are going to identify that, for the record, as
11 Exhibit 289. Again, it's DDS Late-Filed
12 Exhibit 2-2015, Federal Tax Accrual.

13 (WHEREUPON Exhibit 289 was marked for
14 identification.)

15 CHAIRMAN BROWN: You may proceed.

16 BY MS. MAPP

17 Q You've had an opportunity prior to today to
18 review the rebuttal testimony submitted by Witness
19 Swain; correct?

20 A Correct.

21 Q And within her rebuttal, Witness Swain
22 detailed additional adjustments to remove incorrectly
23 booked federal income tax from accrued taxes in multiple
24 systems, both debit and credit balances. Do you recall
25 that testimony?

1 A Yes. In fact, I had asked some discovery of
2 the Company after reviewing that testimony.

3 **Q Now, based on the exhibit in front of you, do**
4 **you agree with these adjustments that have been made?**

5 A I don't have enough information to agree one
6 way or another. We had asked for the discovery on this
7 for work papers, calculations, the full journal entry.
8 I don't have enough information, me personally, to opine
9 if these are right or wrong.

10 **Q Thank you.**

11 MS. MAPP: One moment, please.

12 That concludes Staff questions of this
13 witness.

14 CHAIRMAN BROWN: Thank you, Ms. Mapp.

15 Commissioners, any questions?

16 MR. ARMSTRONG: Madam Chair, I think I was
17 skipped in terms of I just have four simple
18 questions regarding the --

19 CHAIRMAN BROWN: Can you please speak into the
20 microphone too?

21 MR. ARMSTRONG: Oh, sorry. Can you hear me?

22 CHAIRMAN BROWN: I can.

23 MR. ARMSTRONG: Okay. I have -- I think I was
24 skipped, but I only have four simple questions --

25 CHAIRMAN BROWN: You weren't skipped. I asked

1 your client here. I assumed your absence was a
2 waiver.

3 MR. ARMSTRONG: I thought I'd go after -- I
4 thought I'd go after -- excuse me. I thought I'd
5 go after Public Counsel.

6 CHAIRMAN BROWN: You go -- actually it's
7 Public Counsel's witness. You were the first on
8 cross, and then followed by the Utility --

9 MR. ARMSTRONG: That's what I meant. I meant
10 after the Utility.

11 Can I just ask four questions? They're simple
12 questions. It will take 60 seconds -- probably 60
13 seconds.

14 CHAIRMAN BROWN: Assuming that they're not
15 friendly cross.

16 MR. ARMSTRONG: No. It's four questions.
17 Four simple questions.

18 CHAIRMAN BROWN: Okay.

19 EXAMINATION

20 BY MR. ARMSTRONG

21 **Q Ms. Ramas, regarding the negative accumulated**
22 **depreciation balances, UIF does a replacement cost**
23 **analysis with the application --**

24 **CHAIRMAN BROWN: Can you speak into the**
25 **microphone, please?**

1 BY MR. ARMSTRONG

2 Q With respect to the accumulated depreciation
3 balances, negative depreciation balances, UIF does a
4 replacement cost analysis with the application of a
5 Handy-Whitman Index at the time the plant is retired;
6 correct?

7 A I know they indicated as such in response to
8 one of the data requests I saw. But for purposes of
9 this case for all the proforma plant additions, they
10 apply the 75 percent of the cost of the original --
11 75 percent of the projected proforma costs. They apply
12 the 75 percent factor, and that's how they determine the
13 retirements that are reflected in the filing.

14 Q All right. Now, wouldn't this problem be
15 resolved if Utility, at the time it acquired assets that
16 had no original cost data at the time, if they did an
17 original cost study at that point and booked that
18 amount, wouldn't that eliminate this problem?

19 CHAIRMAN BROWN: That sounds a little bit like
20 friendly cross to me, Mr. Armstrong.

21 MR. ARMSTRONG: Well, Madam Chair, I just -- I
22 want -- first of all, it would be helpful for the
23 Commission to know if the original cost
24 information --

25 CHAIRMAN BROWN: How is that -- how is that

1 question adverse to your interest of your client?

2 MR. ARMSTRONG: How it is adverse?

3 CHAIRMAN BROWN: Yes.

4 MR. ARMSTRONG: Well, I can only ask questions
5 that are not adverse?

6 CHAIRMAN BROWN: Pursuant to the prehearing
7 order, there's no friendly cross allowed. I
8 reminded the parties several times during this
9 proceeding.

10 MR. ARMSTRONG: But I wouldn't consider that
11 friendly cross.

12 CHAIRMAN BROWN: I'm being pretty generous
13 even allowing you right now to go; so if you have
14 any questions that are not --

15 MR. ARMSTRONG: That was my only question.

16 CHAIRMAN BROWN: All right. Commissioners,
17 any questions?

18 Seeing none, redirect.

19 MR. SAYLER: Madam Chair, we did have one
20 redirect question, and it was before Mr. Anderson
21 (sic) started his line of questions.

22 EXAMINATION

23 BY MR. SAYLER:

24 Q Do you recall being asked questions about
25 negative accumulated depreciation by Staff and the

1 **Utility?**

2 A Yes, I do.

3 **Q All right. And if a Utility doesn't have the**
4 **original cost for assets when they acquired system, what**
5 **are things they can do to rectify that?**

6 A I assume it could do a study or analysis to
7 determine original costs. But they are booking amounts
8 to various accounts. Like, for example, part of the
9 concerns raised in my testimony is you have negative
10 accumulated depreciation where you have zero point
11 balance now. There's also situations where you do have
12 a plant balance on the book, and the depreciation -- you
13 know, the accumulated depreciation is exceeding that.

14 I'm not sure if that answers your question,
15 but you could do a cost study or study to determine the
16 original costs, of -- and they must do something to
17 spread the costs to the various accounts and estimate
18 those costs because they do have -- or plan on their
19 books broken out by account.

20 MR. SAYLER: No further questions.

21 CHAIRMAN BROWN: Thank you.

22 Let's get to exhibits. This witness has
23 sponsored Exhibit No. 113 through 133. Would you
24 like those moved into the record?

25 MR. SAYLER: Yes, ma'am.

1 CHAIRMAN BROWN: No objections?

2 No objection. We will go ahead and enter
3 into the record 113 through 133.

4 (WHEREUPON Exhibits 113 - 133 were
5 admitted into the record.)

6 CHAIRMAN BROWN: Public Counsel, you also have
7 Ms. Ramas errata, and it's been identified as 287.

8 MR. SAYLER: We would move that as well.

9 CHAIRMAN BROWN: Okay. We'll go ahead and do
10 that.

11 (WHEREUPON Exhibit 287 was admitted into
12 the record.)

13 CHAIRMAN BROWN: Staff, your 288 is rebuttal
14 testimony of Patrick Flynn. I don't think that
15 needs to be moved into record.

16 MS. MAPP: Yes. No. Staff would request,
17 however, to introduce 289.

18 CHAIRMAN BROWN: Okay. Seeing no objection,
19 we'll go ahead and enter into the record 289.

20 (WHEREUPON Exhibits 289 was admitted into
21 the record.)

22 CHAIRMAN BROWN: We are at -- you would like
23 your witness excused?

24 MR. SAYLER: Yes, ma'am.

25 CHAIRMAN BROWN: Thank you.

1 Thank you for your time, and safe travels.

2 So we are at 6:30. It's a wonderful dinner
3 break time, and I'd say we take an hour. I said 45
4 minutes earlier, yesterday, but we'll reconvene --
5 recess now until 7:30.

6 (Proceedings recessed until 7:34 p.m.)

7 CHAIRMAN BROWN: Good evening, everyone. Hope
8 you all are rested a little bit.

9 At this time we have -- we are on the Staff's
10 direct, and we've got Jessica Kleinfelter who has
11 not been sworn in.

12 Ms. Kleinfelter, thank you for coming out
13 here, and sorry we made you wait an additional hour
14 or so. Could you stand with me and raise your
15 right hand?

16 (WHEREUPON the witness was sworn)

17 CHAIRMAN BROWN: Thank you.

18 All right. Please be seated.

19 Staff, Mr. Taylor, it's all you.

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1 JESSICA KLEINFELTER

2 was called as a witness on behalf of the Florida Public
3 Service Commission, and having been first duly sworn,
4 testified as follows:

5 EXAMINATION

6 BY MR. TAYLOR

7 Q Good evening, Ms. Kleinfelter.

8 A Good evening.

9 Q Will you please state your name and your
10 business address?

11 A Jessica Kleinfelter, 2600 Blainstone Road,
12 Tallahassee, Florida 32399.

13 Q And by whom are you employed and in what
14 capacity?

15 A The Florida Department of Environmental
16 Protection. I'm a program administrator.

17 Q Have you prepared and caused to be filed on
18 March 20, 2017, eight pages of prefiled direct testimony
19 with attached exhibits JMK-1 through JMK-3?

20 A Yes.

21 Q As identified as Exhibits Nos. 134 through 136
22 on the Comprehensive Exhibit List as well as the
23 discovery response marked as Exhibit No. 202 on Staff's
24 Comprehensive Exhibit List?

25 A Yes.

1 **Q Do you have any changes or revisions to your**
2 **direct testimony?**

3 A I will have one minor change to one of the
4 tables in JMK-2. Status update on the eagle -- or I'm
5 sorry -- Cross Creek Wastewater Treatment Facility. In
6 the table it was listed as in compliance, but since that
7 time, that facility has received a compliance assistance
8 offer letter; so it remains out of compliance at this
9 time.

10 CHAIRMAN BROWN: Can you state what page that
11 is on that exhibit?

12 THE WITNESS: 8 of 9.

13 CHAIRMAN BROWN: Thank you.

14 UNIDENTIFIED SPEAKER: Which exhibit was that?

15 THE WITNESS: JMK-2.

16 CHAIRMAN BROWN: So the compliance status will
17 be changed to out of compliance?

18 THE WITNESS: Correct.

19 CHAIRMAN BROWN: Thank you.

20 BY MR. TAYLOR

21 **Q And if I asked you the same questions**
22 **contained in your pretrial direct testimony, would your**
23 **answers be the same today?**

24 A Yes.

25 **Q To the best of your knowledge and belief, are**

1 **the contents of your exhibits true and correct?**

2 A Yes.

3 **Q Thank you.**

4 MR. TAYLOR: Madam Chair, I would ask that the
5 prefiled direct testimony of Ms. Kleinfelter be
6 inserted into record as though read.

7 CHAIRMAN BROWN: We will insert Ms. Jessica
8 Kleinfelter's prefiled direct testimony into the
9 record as though read.

10 MR. TAYLOR: Thank you.

11 (Prefiled direct testimony inserted into
12 the record as though read.)

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **ON BEHALF OF COMMISSION STAFF**

3 **DIRECT TESTIMONY OF JESSICA KLEINFELTER**

4 **DOCKET NO. 160101-WS**

5 **MARCH 20, 2017**

6

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

8 A. My name is Jessica Kleinfelter. My business address is: Florida Department of
9 Environmental Protection, 2600 Blainstone Rd., Tallahassee, Florida, 32399.

10 **Q. Who is your current employer?**

11 A. I am currently employed by the Florida Department of Environmental Protection
12 (Department).

13 **Q. How long have you been with the Department?**

14 A. I have been employed by the Department since July 2002, over fourteen years.

15 **Q. What is your current position with the Department?**

16 A. I am a Program Administrator in the Department's Water Compliance Assurance
17 Program.

18 **Q. Please provide an overview of your duties and responsibilities in your current
19 position with the Department.**

20 A. My duties and responsibilities include the management of the Department's Water
21 Compliance Assurance Program. This program facilitates the statewide coordination of
22 compliance and enforcement activities relating to public drinking water systems subject to the
23 Florida Safe Drinking Water Act, domestic wastewater and industrial wastewater facilities
24 regulated under the Department's National Pollutant Discharge Elimination System (NPDES)
25 program, NPDES Stormwater and underground injection control. My duties and

1 responsibilities include the development of policy, guidance and training materials to ensure
2 consistency among the Department's six District offices and thirteen delegated local
3 programs. I ensure compliance and enforcement activities associated with the Department's
4 NPDES wastewater and stormwater programs are conducted and reported to the U.S.
5 Environmental Protection Agency (EPA). I also oversee the Department's Electronic
6 Discharge Monitoring Report System (EzDMR).

7 **Q. Please describe your educational background and professional experience.**

8 A. In 2001, I received a Bachelors in Science degree in Environmental Studies from the
9 University of West Florida in Pensacola, Florida. I've worked for the Department for over
10 fourteen years. I started out as an inspector and worked my way up into the Program
11 Administrator position I currently hold. Please see Exhibit JMK-1 attached, which is a true
12 and correct copy of my current **curriculum vitae**.

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

15 A. I have not testified before this Commission, but I testified in a third-party lawsuit
16 regarding permit violations associated with the construction of the Bay County Panama City
17 Airport. During construction of the new airport, I handled the Department's formal
18 enforcement action against a contractor for violations of a NPDES stormwater construction
19 generic permit, which resulted in the assessment of significant penalties. Multiple
20 construction, engineering and consulting firms sued one another over design and construction
21 related contract disputes.

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

23 A. The purpose of my testimony today is to address the compliance status and complaint
24 history for each of the Utilities, Inc. of Florida water and wastewater systems contained within
25 Exhibit JMK-2.

1 **Q. Have you prepared exhibits to your testimony?**

2 A. Yes, they are Exhibits JMK-1 through JMK-3.

3 **Q. Please briefly explain the exhibits to your testimony.**

4 A. Exhibit JMK-1 describes my educational and professional history. In the record
5 exhibit, with respect to the domestic wastewater and drinking water facilities that are the
6 subject-matter of this proceeding, I coordinated the compilation of three years of data (2014-
7 2016) related to each facility's compliance history and five years of data (2012-2016) related
8 to customer complaints. In order to summarize the data, I created an Excel spreadsheet that
9 contained the following column headings: County, Identification Number, Name, Business
10 Name, Compliance Status, Compliance Summary (2014-2016), and Complaints Summary
11 (2012-2016). Under my direction, the Department's Southwest District, Central District,
12 South District Offices, and the Florida Department of Health's Polk County Office reviewed
13 their records and summarized the compliance status and complaint findings for the relevant
14 time periods. I also asked for copies of any formal enforcement actions, where applicable.
15 Exhibit JMK-2 summarizes this data. Exhibit JMK-3 contains copies of formal enforcement
16 actions.

17 **Q. What is the source of the data and information contained in your exhibits?**

18 A. The Department maintains an electronic document management system called Oculus.
19 Oculus is essentially an electronic file cabinet, used to store Department and facility
20 permitting and compliance records. The regulatory offices reviewed the respective facility
21 files within Oculus and data contained in various Department databases for permit and
22 compliance information. After completing the reviews, the regulatory offices summarized the
23 findings within the spreadsheet and supplied my office with copies of applicable enforcement
24 actions.

25

1 **Q. Would you please provide a summary of your testimony?**

2 A. Please see Exhibit JMK-2 for summary tables of the compliance status and complaint
3 history for each water and wastewater utility and Exhibit JMK-3 for copies of formal
4 enforcement actions.

5 **Q. For your testimony, please state the water utilities for which you reviewed**
6 **Department compliance history.**

7 A. The following water utilities were reviewed: Pennbrooke; Lake Utility Services, Inc.
8 South; Lake Utility Services, Inc. North; Golden Hills Golf and Turf WTP; Crescent Heights
9 S/D; Davis Shores; Sanlando Utilities; Bear Lake Manor; Little Wekiva Estates; Oakland
10 Shores; Park Ridge; Phillips Section; Ravenna Park; Weathersfield; Jansen S/D; Utilities Inc.
11 of Florida, Labrador; Orangewood Water System; Summertree; Lake Tarpon Mobile Home
12 Village; Cypress Lake Utility; and Sun-n-Lakes of Lake Placid.

13 **Q. For the water utilities you just stated, how far back did you review their**
14 **corresponding Department compliance histories?**

15 A. Three years, 2014-2016.

16 **Q. For the water utilities you reviewed, were any of those utilities in compliance with**
17 **Department requirements for the previous 3 years?**

18 A. Yes.

19 **Q. Please list the water utilities that were in compliance the entire preceding 3 years.**

20 A. Please see Exhibit JMK-2, "Table 1 – Water Utilities In Compliance," for a list of the
21 water utilities that were in compliance the entire preceding 3 years.

22 **Q. Were any of the water utilities out of compliance with Department requirements**
23 **during the previous 3 years?**

24 A. Yes.

25

1 **Q. Please describe any incidents of non-compliance, and any resolution if applicable,**
2 **with Department requirements during the previous 3 years by water utility.**

3 A. Please see Exhibit JMK-2, "Table 2 – Water Utilities Out of Compliance," for
4 descriptions of the non-compliance and resolutions for the water utilities reviewed.

5 **Q. Did you review Department records to determine if the Department received any**
6 **complaints regarding the aforementioned water utilities?**

7 A. Yes.

8 **Q. Can you please describe the complaints you found and any associated resolution**
9 **in Department records?**

10 A. Please see Exhibit JMK-2, "Table 3 – Water Utility Complaints," for descriptions of
11 the complaints and resolutions for the water utilities reviewed.

12 **Q. For your testimony, please state the wastewater utilities for which you reviewed**
13 **Department compliance history.**

14 A. The following wastewater utilities were reviewed: Utilities Inc. of Pennbrooke; Lake
15 Groves WWTF; Crownwood WWTF; Wekiva Hunt Club WRF; Shadow Hills WWTF; Forest
16 Lake Estates WWTP; Mid-County WWTP; Cypress Lakes WWTP; Sandalhaven WWTP;
17 Sun’N Lake of Lake Placid WWTP; Eagle Ridge WWTP; and Cross Creek WWTP.

18 **Q. For the wastewater utilities you just stated, how far back did you review their**
19 **corresponding Department compliance histories?**

20 A. Three years, 2014-2016.

21 **Q. For the wastewater utilities you reviewed, were any of those utilities in**
22 **compliance with Department requirements for the previous 3 years?**

23 A. Yes.
24
25

1 **Q. Please list the wastewater utilities that were in compliance the entire preceding 3**
2 **years.**

3 A. Please see Exhibit JMK-2, "Table 4 – Wastewater Utilities In Compliance," for a list of
4 the wastewater utilities that were in compliance the entire preceding 3 years.

5 **Q. Were any of the wastewater utilities out of compliance with Department**
6 **requirements during the previous 3 years?**

7 A. Yes.

8 **Q. Please describe any incidents of non-compliance, and any resolution if applicable,**
9 **with Department requirements during the previous 3 years by wastewater utility.**

10 A. Please see Exhibit JMK-2, "Table 5 – Wastewater Utilities Out of Compliance," for
11 descriptions of the non-compliance and resolutions for the wastewater utilities reviewed.

12 **Q. Did you review Department records to determine if the Department received any**
13 **complaints regarding the aforementioned wastewater utilities?**

14 A. Yes.

15 **Q. Can you please describe the complaints you found and any associated resolution**
16 **in Department records?**

17 A. Please see Exhibit JMK-2, "Table 6 – Wastewater Utility Complaints," for descriptions
18 of the complaints and resolutions for the wastewater utilities reviewed.

19 **Q. In your experience at the Department, do you find any of the noncompliance**
20 **issues presented in your testimony to be unusual or excessive?**

21 A. No.

22 **Q. In your experience at the Department, do you find any of the complaints**
23 **discussed in your testimony to be unusual or excessive?**

24 A. No.

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1 **Q. Does this conclude your testimony?**

2 **A. Yes.**

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1 BY MR. TAYLOR

2 Q Ms. Kleinfelter, have you prepared a summary
3 of your direct testimony today?

4 A Yes.

5 Q And could you please provide that to the
6 Commission?

7 A The purpose of my testimony today is to
8 summarize the compliance status from 2014 to 2016 and
9 the complaint history status from 2012 to 2016 for the
10 Utilities, Inc. of Florida waste -- water and wastewater
11 systems subject to this rate case.

12 Attached to my testimony are the three.
13 Exhibits JMK-1 describes my educational and professional
14 history. JMK-2 are tables that summarize the compliance
15 status from 2014 to 2016 and also the complaint history
16 from 2012 to 2016 for the UIF systems. And JMK-3
17 contains copies of the informal enforcement actions that
18 are associated in JMK-2.

19 Q Thank you.

20 MR. TAYLOR: Ms. Kleinfelter is now available
21 for cross examination.

22 CHAIRMAN BROWN: Thank you and again welcome.

23 All right. We will begin with cross starting
24 with Office of Public Counsel.

25

1 EXAMINATION

2 BY MS. CHRISTENSEN

3 Q Good evening, Ms. Kleinfelter. You work with
4 D.E.P. as the program administrator with Water
5 Compliance Assurance Program; is that correct?

6 A Yes.

7 Q Okay. And your main responsibility in your
8 position is to make sure that D.E.P. is meeting federal
9 delegation commitments; is that correct?

10 A Yes.

11 Q Okay. Would you agree that you've never had a
12 position with D.E.P. where you have been responsible for
13 monitoring or testing drinking water standards?

14 A Correct.

15 Q Okay. And you've not been responsible for
16 monitoring wastewater compliance either; is that
17 correct?

18 A Correct.

19 Q Now, let's talk about the water quality from
20 UIF. You've listed all of the water quality complaints
21 that you compiled from D.E.P. sources in JMK-2; is that
22 correct?

23 A I compiled or asked our multiple district
24 offices for that information and gave them a table to
25 which they summarized that information. So I did not

1 actually do it myself; I just coordinated the effort.

2 Q Okay. And I think you just testified, but I
3 wanted to make sure those were the water complaints that
4 had been logged in at the district level; is that
5 correct?

6 A I'm sorry. What was the last word? District?

7 Q Level.

8 A Yes. At the district level, yes.

9 Q Okay. And I think, as you explained in your
10 deposition, to compile the information, you created a
11 table of all UIF systems and asked the district offices
12 to complete it with any complaints they'd issued and had
13 on record for these systems. Is that a fair statement
14 of what -- the process you used?

15 A Yes.

16 Q Okay. And those district offices were the
17 Southwest, Central, and South districts, and the Polk
18 County Health Department; is that right?

19 A I believe that is correct.

20 Q Okay. You want a minute to check?

21 A Southwest, Central, South, and Polk County.
22 Correct.

23 Q Okay. And I believe, as you explained in your
24 deposition, there's no centralized computer system where
25 D.E.P. aggravates -- aggregates, not aggravates --

1 aggregates all the calls taken regarding water
2 complaints at D.E.P.; is that right?

3 A That's correct.

4 Q And is it also correct that all the D.E.P.
5 district offices track the complaints they receive in
6 slightly different ways such as Excel spreadsheets,
7 SharePoint or Access?

8 A Correct.

9 Q Now, would you agree that some calls related
10 to water quality, like bad taste or odor, et cetera, may
11 not be recorded in one of these databases? Is that a
12 fair statement?

13 A It's possible that the complaint may not have
14 been recorded.

15 Q Okay. Fair enough.

16 And I think you also explained in your
17 deposition that, while the district office might log in
18 a complaint, they might also just -- I think you
19 described it as affirm it via e-mail or call to someone
20 in the office who would handle it, somebody who may have
21 been previously assigned?

22 A Yes.

23 Q Okay. Now -- and I think probably based on
24 your two prior answers you would agree that you don't
25 know whether or not every call or letter or e-mail

1 received by D.E.P. concerning secondary water quality
2 issues is considered a complaint and recorded in one of
3 the D.E.P. systems?

4 A Correct.

5 Q Okay. Now, D.E.P. uses an electronic document
6 system called Oculus; is that correct?

7 A Yes.

8 Q And the Oculus system is where D.E.P. keeps
9 its files, information related to permits, complaints
10 and enforcement; is that right?

11 A Correct.

12 Q Okay. And you would agree that not all of the
13 complaints make it into the Oculus system; is that
14 correct?

15 A I would say that it's a fair assumption. Yes.

16 Q Okay. And it's more likely that a complaint
17 that resulted in some sort of formal inspection or
18 action by D.E.P. would be recorded in the Oculus system.
19 Is that probably a correct and fair assessment?

20 A Yes. More likely, yes.

21 Q Okay. And I think in your deposition you
22 agreed that there could have been some reports that were
23 in the Oculus system that did not make it into your
24 testimony.

25 A It's possible because I did not actually comb

1 through the records myself. I asked the offices to
2 summarize the information and put it in the table. So
3 it's possible that something could have been missed.

4 Q Okay. For the compliance issues and
5 compliance history, those are listed in JMK-2; is that
6 correct?

7 A Correct.

8 Q Okay. And you followed essentially the same
9 procedure you used with the complaints to compile the
10 compliance issues for the UIF systems?

11 A Correct.

12 Q Okay. You sent out -- and that would be you
13 sent out an Excel spreadsheet with UIF systems listed
14 and asked the district offices and the Polk County
15 Health Department to complete that information; correct?

16 A Correct.

17 Q And I think you described the check that you
18 did on that information was basically to look for any
19 gaps in the information history; is that correct?

20 A Yes. And also just to make sure that the
21 language used made sense, that acronyms were spelled
22 out, and that sort of thing.

23 Q Okay. Now, let's look at Page 7 of your
24 testimony. I believe the question -- I think the
25 question was, "In your experience with the department,

1 do you find any of these noncompliance issues presented
2 in your testimony to be unusual or excessive," and I
3 think you answered no; is that correct?

4 A That's correct.

5 Q Okay. And you also have the same question and
6 answer for complaints on Page 7 of your testimony;
7 right?

8 A Correct.

9 Q Now, isn't it also true that you looked at the
10 compliance issues and the complaints that are the types
11 of issues that remain at the district level and do not
12 rise to the division level where you are? If I need to
13 rephrase that I will.

14 A Yes, please.

15 Q Okay. Isn't it correct that when you use the
16 terms "unusual or excessive," in part you're relying on
17 the idea that these are the types of complaints that
18 remain at the district levels and did not rise to the
19 attention of the division level?

20 A Correct.

21 Q Okay. And specifically these are not -- any
22 of the complaints that were identified for UIF did not
23 rise to the level where it came to your attention in
24 your office specifically; correct?

25 A Correct.

1 Q I wanted to draw your attention to the consent
2 orders that were attached to your testimony as part of
3 the JMK-3, and I wanted to specifically draw your
4 attention to your inclusion of the consent order for, I
5 believe it's the Sanlando -- the Sanlando consent order,
6 I think it's Page 3 of 44.

7 Now, you would agree that an unauthorized
8 discharge of approximately 750,000 gallons of untreated
9 domestic wastewater into Salt Water Creek -- you
10 wouldn't consider that a normal or not an excessive
11 violation; would you?

12 A In the context of my opinion in this testimony
13 unusual or excessive?

14 Q Correct. The way that you've used it in this
15 testimony.

16 A I did not review the individual consent orders
17 or the violations noted in them when I formed the
18 opinion that the material summarized by the districts
19 was unusual or excessive.

20 Q Okay. And you didn't do any studies or
21 analysis to determine if there were any water or
22 wastewater noncompliances issues that are unusual or
23 excessive; correct?

24 A Correct. I have no analysis.

25 Q Okay. And you also didn't do any studies or

1 analysis to determine if the water or wastewater
2 noncompliance -- I'm sorry -- complaint issues were
3 unusual or excessive?

4 A Correct.

5 Q Okay. And I believe you corrected your
6 testimony today, but I just wanted to confirm that Cross
7 Creek wastewater treatment is now out of compliance with
8 a consent letter being offered. Is that what you
9 testified to today?

10 A They received a compliance assistance offer
11 letter.

12 Q Okay. And is there any other systems that
13 have come to your attention since filing your testimony
14 that are currently not in compliance?

15 A No.

16 MS. CHRISTENSEN: Okay. Thank you. I have no
17 further cross.

18 CHAIRMAN BROWN: Thank you, Ms. Christensen.
19 All right. Summertree.

20 MR. ARMSTRONG: No questions.

21 CHAIRMAN BROWN: Thank you.

22 UIF.

23 EXAMINATION

24 BY MR. FRIEDMAN

25 Q Good evening. What's a compliance assistance

1 **letter?**

2 A A compliance assistance offer letter is a
3 vehicle that the Department uses to identify
4 deficiencies that are typically easily corrected within
5 a short time period. So in most cases those do not
6 result in any kind of formal enforcement action. They
7 could be the result of an inspection or a records review
8 by Department staff.

9 So the letter basically is an offer of
10 assistance. So the letter outlines what the deficiency
11 was, ways that it could be addressed, and then it
12 provides a time frame by which the utility can respond
13 to address it. And if the utility responds, it's
14 addressed, the matter is closed, no further action is
15 taken.

16 MR. FRIEDMAN: Thank you.

17 CHAIRMAN BROWN: That's all? Sir?

18 MR. FRIEDMAN: You won't let me do friendly
19 cross, will you? I've got a couple of pages if you
20 want me to do friendly cross.

21 CHAIRMAN BROWN: No, I wouldn't. I thought
22 you were going to try to sneak some in though.

23 MR. FRIEDMAN: No. I know better.

24 CHAIRMAN BROWN: All right. Commissioners.

25 Mr. Polmann.

1 COMMISSIONER POLMANN: Thank you, Madam Chair.

2 EXAMINATION

3 BY COMMISSIONER POLMANN

4 Q Good evening, Ms. Kleinfelter. Would you
5 please refer to your direct testimony on Page -- what's
6 numbered, I think, as Page 2? The bottom of that --
7 I'll ask you to just read -- you don't need to read it
8 out loud. Just please refer to Lines 20 through 23.

9 Do you have that, ma'am?

10 A Is that the "my duties and responsibilities"?

11 Q Yes. Starting there.

12 A Okay.

13 Q So -- and I'll just paraphrase. Your duties
14 and responsibilities within Department's Water
15 Compliance Assurance Program, this program concerns
16 compliance and enforcement including public drinking
17 water systems and domestic wastewater; is that correct?

18 A Yes.

19 Q And concerning the water and wastewater
20 facilities operated by UIF, are all of the facilities of
21 UIF that are within this rate case, are they subject to
22 the drinking water and domestic wastewater compliance
23 and enforcement activities within your purview?

24 A Not directly in my position. I'm not
25 typically involved in things that are going on at a

1 facility level. Typically those decisions and
2 activities are handled at the district or the county
3 level.

4 Q Let me rephrase that question.

5 I understand your answer. But looking back up
6 at the same page on Line 16, 17, I understand you are
7 the program administrator in the Department's Water
8 Compliance Assurance Program. Is that a statewide
9 program?

10 A Yes.

11 Q The district's -- and if I understand the
12 earlier response to the question, the districts -- do --
13 the D.E.P. districts around the state and the particular
14 ones that were -- that you've answered and in fact is in
15 your testimony, what is your role as program
16 administrator with regard to those districts?

17 A They do not report up through me. They have
18 their own district and level manager at the district
19 level. So my job, from a division standpoint, they
20 don't answer to me. They don't really report to me.
21 But from a division standpoint, we ensure that all of
22 our regulatory offices are following policy, guidance,
23 appropriate training, and things of that nature for the
24 federal reporting components that we then later send to
25 the Environmental Protection Agency. So we -- we handle

1 broad brush coordination of compliance and enforcement
2 activities but not facility-specific things typically.

3 Q All of the -- all of the activities within all
4 of the districts follow the same D.E.P. rules in terms
5 of compliance and enforcement for water and wastewater
6 facilities; is that correct?

7 A Correct.

8 Q Your direct testimony deals with -- and the
9 exhibits that you have provided deals with the
10 compliance status and the complaint history for UIF
11 water and wastewater systems; is that correct?

12 A Yes, for the years specified.

13 Q Yes. Thank you.

14 And you've included in your testimony -- and
15 you can refer to it here if you wish -- Tables 1, 2, 4
16 and 5, and those refer to water and wastewater systems
17 of UIF that are either in compliance or out of
18 compliance with D.E.P. rules; is that correct? If you
19 want to take a look at Tables 1, 2, 4, and 5 in your
20 direct testimony.

21 A The compliance status was provided by the
22 districts as far as is there anything outstanding based
23 on the last either file review or inspection that the
24 district or local program would have conducted.

25 Q Thank you.

1 My question concerns the in compliance or out
2 of compliance as a description. Is that with regard to
3 FEP -- D.E.P. rules and regulations?

4 A It's more of a general term in that those --
5 these facilities that are listed in compliance don't
6 have anything outstanding. Is it possible that there
7 may be a discharge monitoring report in a file that
8 shows an exceedance for six months ago, say, that
9 wouldn't necessarily be an indicator of the overall
10 compliance status of the facility when this summary was
11 put together.

12 Q I'm trying to understand the nature of
13 compliance -- in compliance or out of compliance; so
14 bear with me a second.

15 When those within the department are making
16 that assessment -- and I understand they -- within the
17 districts they provided information that you are
18 representing or displaying in these tables that I've
19 referred to and within the table it's denoted as in
20 or -- in compliance or not in compliance.

21 As the staff of D.E.P. provided that
22 information to you, is it fair to say that there are
23 parameters that are evaluated from which those
24 determinations are made? Are there particular
25 parameters that need to be assessed? Is there -- is

1 **there a fairly routine standard practice?**

2 A I would say yes in the understanding of
3 there's nothing outstanding. So if -- for example, if
4 you look at Table 2, the water utilities out of
5 compliance, you can see the very first two listed there,
6 like Utility Services, Inc., technically have an open
7 consent order with the Department, but they are
8 considered in compliance because there's an agreement in
9 place both parties have agreed to. They are working
10 toward resolution of whatever those corrective actions
11 were in the order. So we consider them, for all intents
12 and purposes, because they are working towards that
13 resolution to be in compliance because we have an
14 agreement with them.

15 Q Thank you. I understand your point. Let me
16 try to be -- maybe I'm asking the wrong question.

17 FDEP has authority to issue a consent order;
18 is that correct?

19 A Yes.

20 Q The consent order may be for a variety of
21 different subjects for different reasons. And that
22 authority comes through statute implemented and under
23 rule, this type of thing. You're granted authority
24 through specific -- you're given specific authority.

25 A Yes.

1 Q And in following your charge, there's
2 established process, and as you're executing that, you
3 make a determination about in compliance or out of
4 compliance. And what I'm trying to establish is there
5 is, in fact, a procedure in every case that all of the
6 districts follow from which you have created, with the
7 assistance of other staff, these tables that identify a
8 facility as in compliance or not in compliance?

9 A Correct.

10 Q And that, in fact, this is not just a matter
11 of somebody goes to a facility, looks around, and says,
12 oh, I think it's in compliance; oh, I think it's not in
13 compliance. Is it fair to say that there are standard
14 practices based on policies and rules and regulations of
15 D.E.P. on which a properly trained D.E.P. employee makes
16 these assessments?

17 A Yes.

18 Q Thank you.

19 Moving on. Are you generally knowledgeable --
20 and I mean generally, and I won't pursue that further.
21 But are you generally knowledgeable of the Commission's
22 charge, our charge to consider quality of service in
23 this rate case?

24 A Generally, yes.

25 Q So for discussion purposes here today, just to

1 pursue that, I'll make a statement.

2 Among factors that the Commission uses in
3 evaluating qualify of service, we are to consider
4 operating conditions as a factor as we evaluate quality
5 of service. Can we accept that concept?

6 A Yes.

7 Q So operating conditions is something we
8 consider in evaluating quality of service.

9 So on the matter of operating conditions, as
10 D.E.P. conducts a compliance review of a water or
11 wastewater system, in the context of what we just
12 described that you have rules and policies and following
13 your charge, my question is, to the best of your
14 knowledge, do D.E.P. rules provide any evaluation that
15 would conclude with a finding that denotes satisfactory
16 operating conditions or unsatisfactory operating
17 conditions?

18 Is there any place in your procedures or rules
19 that that kind of finding would have come up that you
20 would declare satisfactory operating conditions, with
21 those specific words, or unsatisfactory operating
22 conditions?

23 A Not using those words. When the -- typically
24 that operating conditions would be assessed at the time
25 of an inspection --

1 Q But it ends up --

2 A -- a physical site inspection.

3 Q Does it not end up with your finding of
4 compliance with regard to a particular rule or
5 regulation or noncompliance from which you then have
6 regulatory authority?

7 A There are three options. In compliance what
8 would be considered minor or out of compliance or
9 significant noncompliance. So typically an inspection
10 has multiple pieces that are evaluated: Wastewater
11 treatment plant, drinking water facility. And then
12 based on policy, guidance, things like that, a rating
13 would be given to the overall inspection. So there may
14 be items that are noted as minor noncompliance --

15 Q I understand.

16 A -- but the facility could still get a
17 satisfactory, in compliance result.

18 Q But your authority is to deal with compliance,
19 noncompliance. They're either -- there's levels of
20 noncompliance.

21 A In -- yes. There's in and out and then way
22 out.

23 Q Sure. And then you would apply your
24 enforcement by level. As counsel for the utilities
25 identified, there's -- in some cases, in fact, there's a

1 compliance assistance where you work with a utility and
2 things move along, and they're remedied. And there's
3 other cases where you may go so far as to issue a fine
4 or -- I don't know exactly, but there are ranges?

5 A Correct.

6 Q But there are a number of things you evaluate,
7 and you determine if they're in compliance or out of
8 compliance?

9 A Yes.

10 Q Now, our charge is, on quality of service,
11 something that we do. It's not something that D.E.P.
12 does; is that correct?

13 A Yes.

14 COMMISSIONER POLMANN: Thank you, ma'am.
15 That's all I have, Madam Chairman.

16 CHAIRMAN BROWN: Thank you, Commissioner
17 Polmann.

18 All right. Staff, redirect.

19 MR. TAYLOR: No redirect.

20 CHAIRMAN BROWN: Let's address the exhibits
21 associated with this witness. Exhibits 134 through
22 136. Would you like those moved into the record?

23 MR. TAYLOR: Yes, please.

24 CHAIRMAN BROWN: All right. We'll go ahead
25 and move those in the record.

1 (WHEREUPON Exhibits 134 - 136 were
2 admitted into the record.)

3 CHAIRMAN BROWN: And, Ms. Kleinfelter, thank
4 you again for coming on over here, and wish you a
5 good night. Thank you. You are excused.

6 (The witness was excused.)

7 CHAIRMAN BROWN: Look who's back. Welcome
8 back. Glad to see. Hope you had a good day. We
9 missed you.

10 All right. Staff, our next witness is Rhonda
11 Hicks, and -- your next witness is Rhonda Hicks,
12 and she was sworn. I saw her stand like the pro
13 that she is. Thank you.

14 Just confirm on the record, if you could,
15 Ms. Hicks, that you were sworn in.

16 THE WITNESS: Yes, I was.

17 CHAIRMAN BROWN: Thank you.

18 All right. Staff.

19 RHONDA HICKS

20 was called as a witness on behalf of the Florida Public
21 Service Commission, and having been first duly sworn,
22 testified as follows:

23 EXAMINATION

24 BY MR. TAYLOR

25 Q Good evening, Ms. Hicks.

1 A Good evening.

2 **Q Will you please state your name and business**
3 **address for the record?**

4 A My name is Rhonda Hicks. My address is 2 --
5 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399.

6 **Q And by whom are you employed and in what**
7 **capacity?**

8 A I'm employed by the Florida Public Service
9 Commission as Bureau Chief of the Bureau of Consumer
10 Assistance.

11 **Q Have you prepared and caused to be filed on**
12 **March 20th, 2017, five pages of prefiled direct**
13 **testimony with attached Exhibit RLH-1 identified as**
14 **Exhibit No. 137 on the Staff Comprehensive Exhibit List**
15 **as well as the discovery responses marked as Exhibits**
16 **201 and 202 on the Staff's Comprehensive Exhibit List?**

17 A Yes.

18 **Q Do you have any changes or revisions to your**
19 **prefiled direct testimony?**

20 A No, I do not.

21 **Q If I asked you the same questions contained in**
22 **your direct testimony today, would your answers be the**
23 **same?**

24 A Yes, they would.

25 **Q And to the best of your knowledge and belief,**

1 **are the contents of your exhibits true and correct?**

2 A Yes.

3 MR. TAYLOR: Madam Chair, I would ask that the
4 previously filed direct testimony of Ms. Hicks be
5 inserted into the record as though read.

6 CHAIRMAN BROWN: We will insert Ms. Rhonda
7 Hicks's prefiled direct testimony into the record
8 as though read.

9 (Prefiled direct testimony inserted into
10 the record as though read.)

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF RHONDA L. HICKS**

4 **DOCKET NO. 160101-WS**

5 **MARCH 20, 2017**

6

7 **Q. Please state your name and address.**

8 A. My name is Rhonda L. Hicks. My address is 2540 Shumard Oak Boulevard;
9 Tallahassee, Florida; 32399-0850.

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

11 A. I am employed by the Florida Public Service Commission (FPSC or Commission) as
12 Chief of the Bureau of Consumer Assistance in the Office of Consumer Assistance &
13 Outreach.

14 **Q. Please give a brief description of your educational background and professional**
15 **experience.**

16 A. I graduated from Florida A&M University in 1986 with a Bachelor of Science degree
17 in Accounting. I have worked for the Commission for 30 years, and I have varied experience
18 in the electric, gas, telephone, and water and wastewater industries. My work experience
19 includes rate cases, cost recovery clauses, depreciation studies, tax, audit, consumer outreach,
20 and consumer complaints. I currently work in the Bureau of Consumer Assistance within the
21 Office of Consumer Assistance & Outreach where I manage consumer complaints and
22 inquiries.

23 **Q. What is the function of the Bureau of Consumer Assistance?**

24 A. The Bureau's function is to resolve disputes between regulated companies and their
25 customers as quickly, effectively, and inexpensively as possible.

1 **Q. Do all consumers, who have disputes with their regulated company, contact the**
2 **Bureau of Consumer Assistance?**

3 A. No. Consumers may initially file their complaint with the regulated company and
4 reach resolution without the Bureau's intervention. In fact, consumers are encouraged to
5 allow the regulated company the opportunity to resolve the dispute prior to any Commission
6 involvement.

7 **Q. What is the purpose of your testimony?**

8 A. The purpose of my testimony is to discuss/outline the number of consumer complaints
9 logged with the Commission against Utilities, Inc. of Florida under Rule 25-22.032, Florida
10 Administrative Code, Consumer Complaints, from January 1, 2010, through December 31,
11 2016. My testimony will also provide information on the type of complaints logged and those
12 complaints that appear to be rule violations.

13 **Q. What do your records indicate concerning the number of complaints logged**
14 **against Utilities Inc. of Florida?**

15 A. From January 1, 2010, through December 31, 2016, the Commission logged 218
16 complaints against Utilities, Inc. of Florida.

17 **Q. What have been the most common types of complaints logged against Utilities Inc.**
18 **of Florida during the period January 1, 2010, through December 31, 2016?**

19 A. During the specified time period, approximately sixty-eight (68%) percent of the
20 complaints logged with the Commission concerned billing issues primarily related to improper
21 billing. The remaining thirty-two (32%) percent of the complaints involved service issues
22 primarily related to improper disconnections, outages, and other miscellaneous quality of
23 service issues.

24 **Q. Do you have any exhibits attached to your testimony?**

25 A. Yes. I am sponsoring Exhibit RLH-1, which is a summary listing of customer

1 | complaints logged with the Commission against Utilities, Inc. of Florida pursuant to Rule 25-
2 | 22.032, Florida Administrative Code. The complaints listed were received between January 1,
3 | 2010, and December 31, 2016, and were captured in the Commission's Consumer Activity
4 | Tracking System (CATS). The summary includes the date the complaint was received, the
5 | CATS tracking number, the Pre-Close type, the Close Type, and whether the complaint is
6 | related to service or billing.

7 | **Q. What is a Pre-Close Type?**

8 | A. A pre-close type is an internal category assigned to a complaint based solely on
9 | information provided by a customer during the initial complaint. The pre-close type indicates
10 | the type of issue at stake for the complaint. For example, a pre-close type may be improper
11 | disconnect, outages, quality of service, or improper billing, to name a few.

12 | **Q. What is a Close Type?**

13 | A. A close type is the internal code assigned to each complaint once staff completes its
14 | investigation of the initial complaint and a proposed resolution is provided to the customer.
15 | The close type code indicates the category of rule violation, if any, the complaint is classified
16 | under. For instance, a close type of WB would indicate a rule violation related to water billing,
17 | and a close type of WS would indicate a rule violation related to water service. In some
18 | instances, the pre-close type category will differ from the corresponding close type code
19 | because staff's investigation will reveal facts not readily available based upon the customer's
20 | initial complaint. For example, a customer may file a complaint regarding overbilling.
21 | However, once staff investigates, they may determine that overbilling did not in fact occur,
22 | and as such the close type code will differ to reflect that no overbilling took place.

23 | **Q. How many of the complaints summarized on your exhibit has staff determined**
24 | **may be a violation of Commission rules?**

25 | A. Of the 218 complaints logged against Utilities, Inc. of Florida during the period

1 January 1, 2010, and December 31, 2016, staff determined that 53 complaints appear to be
2 violations of Commission rules. These complaints have a Close Type which is indicated by a
3 WB or WS.

4 **Q. What was the nature of the apparent rule violations?**

5 A. The majority of the apparent rule violations were related to meter reading inaccuracies,
6 and customers being charged improper rates. The utility was also cited on several occasions
7 for failure to provide complaint resolution prior to the established deadline.

8 **Q. Does this conclude your testimony?**

9 A. Yes, it does.

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1 BY MR. TAYLOR

2 Q Ms. Hicks, have you prepared a summary of your
3 direct testimony?

4 A Yes, I have.

5 Q Will you provide that, please?

6 A My testimony summarized the number of consumer
7 complaints filed against Utilities, Inc. of Florida from
8 July 1, 2010, through December 31, 2016, which are
9 captured in the Commission's Consumer Activity Tracking
10 System, also known as CATS. It also summarizes the
11 type of complaints logged and those complaints that
12 appear to be rule violations.

13 Attached to my testimony is one exhibit. The
14 exhibit is a listing of complaints filed against
15 Utilities, Inc. of Florida from July 1st, 2010, through
16 December 31st, 2016, and this listing was created with
17 information generated by the Commission's Consumer
18 Activity Tracking System.

19 CHAIRMAN BROWN: Thank you.

20 MR. TAYLOR: Thank you. Ms. Hicks is now
21 available for cross.

22 CHAIRMAN BROWN: Thank you.

23 All right. Office of Public Counsel.

24 MS. PONDER: Yes. We do have exhibits.

25 CHAIRMAN BROWN: Okay. Staff, could you

1 please assist Ms. Ponder?

2 MS. PONDER: The initial exhibit is a CD which
3 compiles the initial response and the supplemental
4 response to OPC's POD-1, No. 1, and there's two
5 exhibits which contain excerpts from that, but we
6 would like to have the CD so numbered.

7 CHAIRMAN BROWN: Okay. So -- and that's with
8 the cover page?

9 MS. PONDER: Correct.

10 CHAIRMAN BROWN: So we're going to go ahead
11 and do that now. Are you going to be actually
12 using the CD?

13 MS. PONDER: No.

14 CHAIRMAN BROWN: Okay.

15 MS. PONDER: I used excerpts. The responses
16 are numbered as Exhibit 201. However, it wasn't
17 clear if the supplemental responses were included
18 in that; so we wanted to be sure, and that's
19 what -- the purpose of the CD.

20 CHAIRMAN BROWN: Okay. So we're going to then
21 label for identification purposes as 290, CD of
22 Staff's Response and Supplemental Response to OPC's
23 First POD, No. 1. Does that sounds okay?

24 MS. PONDER: Right.

25

1 (WHEREUPON Exhibit 290 was marked for
2 identification.)

3 CHAIRMAN BROWN: All right.

4 EXAMINATION

5 By MS. PONDER

6 Q Good evening.

7 A Good evening.

8 Q Your testimony was that the Commission logged
9 218 complaints into the Consumer Activity Tracking
10 System, CATS, during the relevant time period,
11 January 1, 2010, through December 31st, 2016; is that
12 correct?

13 A Yes.

14 Q In your Exhibit RLH-1, it represents a summary
15 listing the 218 complaints against UIF; is that correct?

16 A Yes.

17 Q Okay. In your deposition testimony, you
18 explained that when a consumer contacts your office, the
19 contact is designated as either an information request
20 or a complaint; correct?

21 A That's correct.

22 Q Okay. And the customer contact that's
23 designated as an information request -- excuse me. Let
24 me start again.

25 You testified that any customer contact that

1 **pertains to issues that are regarding issues not**
2 **regulated by the Commission are classified as**
3 **information requests; correct?**

4 A Right.

5 Q Okay. And so a customer calling to complain
6 **about secondary water quality issues such as bad-tasting**
7 **water would be classified as an information request?**

8 A Right. We wouldn't take a complaint on that.

9 Q Okay. And you testified that secondary water
10 **quality issues are classified as information requests**
11 **because they are outside the jurisdiction of the**
12 **Commission?**

13 A Right. We don't take complaints on taste,
14 smell, things like that.

15 Q Okay. And you did testify that customers
16 **complaining of secondary water quality issues are**
17 **referred to other agencies such as Department of**
18 **Environmental Protection or Department of Ag,**
19 **Agriculture and Consumer Services?**

20 A Yes. By statute we have to refer all
21 complaints that we have no jurisdiction over to the
22 Department of Agriculture and Consumer Services. That's
23 what we're supposed to do automatically. However, we do
24 offer other avenues, but we definitely always include
25 Department of Ag because we are required to.

1 Q So you would agree that none of the 218
2 complaints documented in your written testimony includes
3 a customer grievance concerning secondary water --

4 CHAIRMAN BROWN: If you could move the mic.

5 Thank you.

6 THE WITNESS: Okay. Now, repeat that
7 question.

8 MS. PONDER: Yes, ma'am.

9 BY MS. PONDER

10 Q So you would agree that none of the 218
11 complaints documented in your written testimony includes
12 a customer grievance concerning secondary water quality?

13 A No. I'm not going to agree with that because
14 they could. They could -- it could include a complaint
15 about taste or smell and other things. So without
16 looking at each individual complaint, I can't guarantee
17 that. No.

18 Q Okay. In your response to OPC's POD-1, you
19 provided OPC with approximately 1200 pages of documents
20 which constitute information requests; correct?

21 A Correct. In error.

22 Q And subject to check, would you agree that
23 there are 823 separate contacts or customers among these
24 information requests?

25 A Without counting or counting individually?

1 Q Yeah. Subject to check.

2 A Yeah. Subject to check.

3 Q Thank you.

4 Now, if you would, the first exhibit, which is
5 described as composite exhibit of complaints from the
6 Florida Department of Agriculture and Consumer Services,
7 Division of Consumer Services, if you would look over
8 the first two.

9 CHAIRMAN BROWN: Okay. First we're going to
10 go ahead and number that as 291, and again the
11 title will be a Composite Exhibit of Complaints
12 from Ag.

13 (WHEREUPON Exhibit 291 was marked for
14 identification.)

15 BY MS. PONDER

16 Q Ms. Hicks, would you agree that these first
17 two complaints are on the Division of Consumer Services
18 form and relate to UIF?

19 A Yes.

20 Q And generally just a complaint of the proposed
21 rate increase?

22 A Yes.

23 Q Okay. And then the last one is a little bit
24 different. It's a letter that was directed to UIF and
25 then copied to the Florida Department of Agriculture and

1 Consumer Services; correct?

2 A Correct.

3 Q Okay. Now, the next composite exhibit, if we
4 could -- 292?

5 CHAIRMAN BROWN: It will be 292, and do you
6 want to give it a title?

7 MS. PONDER: As described, Composite Exhibit
8 of Excerpts from Staff's Response to OPC's First
9 Request for Production of Documents No. 1.

10 CHAIRMAN BROWN: Okay. We will do that.

11 (WHEREUPON Exhibit 292 was marked for
12 identification.)

13 BY MS. PONDER

14 Q And would you agree that these -- if you can
15 take a minute to look at them, but then agree that they
16 are all information requests from CATS; is that correct?

17 A That's correct.

18 Q Okay. Now, if you'd look at the first
19 information request, this information request relates to
20 a customer of Utilities, Inc. of Florida who's
21 complaining that the drinking water smells like sulfur,
22 tastes bad, and has been black with bacteria at times;
23 is that correct? Do you see that statement at the
24 bottom --

25 A Yes.

1 Q And then on the fourth page of this
2 information request, the record indicates that your
3 office responded by e-mail and referred this customer to
4 D.E.P.; correct? Do you see that?

5 A Yes.

6 Q Okay. All right. So is that policy to
7 provide a written response or either a phone call to let
8 the customer know they need to contact D.E.P.?

9 A We typically try to respond to most of our
10 contacts, but we have an agreement with D.E.P. to send
11 them these types of contacts.

12 Q I see. Okay. Whether that's by e-mail or fax
13 or voice contact, it would be --

14 A If we capture it in CATS --

15 Q Okay --

16 A -- and if it related to one of those issues,
17 we will send it to D.E.P.

18 Q Okay. Any response by your office would be
19 documented in CATS?

20 A It should be, yes.

21 Q Is there any other type of -- other type of
22 follow-up done with information requests?

23 A No.

24 Q Okay.

25 A Sometimes we may send it to the company and

1 tell them to contact the customer, but as far as just
2 checking to make sure that that was actually done, we
3 don't generally do that.

4 Q And so when it's referred to D.E.P., how is
5 that done? It's logged into CATS? How is that referral
6 made especially if it's by phone?

7 A It's -- it's -- well, even if a caller -- or
8 we get a complaint by phone, it's captured in CATS. And
9 what happens is at intervals: Weekly, maybe every
10 couple of weeks, maybe even monthly, we will -- we will
11 capture these, and we will send them over to D.E.P.

12 Q Okay. And, again, these information requests
13 that are referred to D.E.P. and captured in CATS and
14 that we're looking at are not considered complaints?

15 A No. This is a C. This is an information
16 request.

17 Q Okay. Okay.

18 The next information request in the packet if
19 you could look at that. This information request
20 regards a customer of Cypress Lakes who complains that
21 his water is invariably cloudy, tastes bad, and smells;
22 is that correct? Do you see that?

23 A Yes.

24 Q Okay. And the next one is an information
25 request pertaining to Labrador Utilities, and the

1 customer complains that his water is undrinkable and
2 that he uses spring water for drinking and cooking;
3 correct?

4 A Yes.

5 Q And the last information request in this
6 composite exhibit pertains to UIF from a resident of
7 Summertree who called the quality of her water
8 disgraceful and unfit for human consumption and further
9 complains that it smells and causes her ice cubes to be
10 yellow. Do you see that information?

11 A Yes.

12 Q So, again, these are information requests and
13 not -- not complaints, and they're the type of grievance
14 that would not be included in your 218 complaints that
15 were represented in your testimony?

16 A Correct. These are -- these are all C's which
17 are information requests. Looks like they were --

18 Q You're saying they're all C's?

19 A They're all C's meaning they're contact forms,
20 information requests.

21 Q Okay. Contact forms.

22 Okay. Moving on. Are you aware that a large
23 number of written customer protests were placed in the
24 docket by Commission Staff?

25 A I'm not aware as to what was actually put in

1 there, but I know that when we get them and they are
2 protested dockets that we do place them in docket files.

3 Q Did you look at these written protests as
4 parts of your analysis for qualities of service?

5 A No, I did not.

6 Q Why not?

7 A I'm not testifying as to quality of service.
8 I'm testifying as to number of complaints.

9 Q And you didn't consider them for purposes of
10 the complaints?

11 A No, I did not.

12 Q Okay. And the supplemental response, the next
13 exhibit?

14 CHAIRMAN BROWN: So we're going to give that
15 Exhibit No. 293. Title, Exhibit of an Excerpt from
16 Staff's Supplemental Response to OPC's First
17 Request for POD.

18 (WHEREUPON Exhibit 293 was marked for
19 identification.)

20 BY MS. PONDER

21 Q If you would take a minute to look at this
22 document.

23 A Okay.

24 Q And this is what would be considered a
25 complaint; correct? Is it not?

1 A Correct.

2 Q This is an actual complaint logged into CATS.

3 And in your testimony you indicated

4 approximately 68 percent of the 218 complaints logged

5 with the Commission concern billing issues, and the

6 remaining 32 percent involve service issues related to

7 improper disconnections and other miscellaneous quality

8 of service issues; is that correct?

9 A Correct.

10 Q Okay. And so by designating a customer

11 contact as a complaint, there are distinct procedures

12 your office follows in accordance with the customer

13 complaint rule; is that correct?

14 A Correct.

15 Q Okay. And as a part of the complaint

16 resolution process, the Utility is notified of a

17 complaint and given 15 days to respond to your office;

18 is that right?

19 A Yes.

20 Q The complaint process is escalated and then

21 referred to a process review team if the customer or

22 company are not in agreement with a resolution; is that

23 correct?

24 A Correct.

25 Q And ultimately if the matter remains in

1 **dispute and certain criteria are met, a complaint may**
2 **proceed to an informal conference; is that correct?**

3 A Correct.

4 Q Okay. And then now the last exhibit that I
5 **handed out.**

6 **CHAIRMAN BROWN: Which will be 294 titled with**
7 **Section 367-0812 Florida Statutes.**

8 MS. PONDER: Yes.

9 (WHEREUPON Exhibit 294 was marked for
10 identification.)

11 BY MS. PONDER

12 Q **And, Ms. Hicks, if you don't mind, please read**
13 **the highlighted portion out loud.**

14 A "In determining whether a utility has
15 satisfied its obligation to provide quality of water
16 service that meets these standards, the Commission shall
17 consider complaints regarding the applicable secondary
18 water quality standards filed by customers with the
19 Commission, the Department of Environmental Protection,
20 the respective local governmental entity, or county
21 health department during the past five years, and" --

22 Q Okay. So you would agree that the statute
23 **passed in 2014 gave specific authority to the Commission**
24 **to consider secondary drinking water standards or**
25 **wastewater standards when setting rates for water or**

1 **wastewater service?**

2 A I haven't seen this before, so -- I'm not an
3 attorney --

4 MR. TAYLOR: Objection. I think that calls
5 for a legal conclusion.

6 CHAIRMAN BROWN: I agree. Objection
7 sustained.

8 BY MS. PONDER

9 Q Would you agree that, based on the statute,
10 any customer contact received by your office regarding
11 secondary water quality complaints, must be logged into
12 CATS or otherwise recorded such that the complaints are
13 properly before the Commission for consideration during
14 a rate case proceeding?

15 MR. FRIEDMAN: I object to the question. She
16 already said she had never -- she wasn't familiar
17 with the statute. I think it's inappropriate to
18 ask questions about a statute the witness said she
19 is unfamiliar with.

20 CHAIRMAN BROWN: Objection sustained.

21 BY MS. PONDER

22 Q So you would agree that the CATS system does
23 not record or otherwise capture any complaints regarding
24 secondary water quality?

25 MR. FRIEDMAN: Asked and answered.

1 CHAIRMAN BROWN: I agree.

2 MS. PONDER: All right. No more questions.

3 CHAIRMAN BROWN: Thank you.

4 MS. HELTON: Madam Chairman, I'm sorry. Maybe
5 I've just missed it, but what we marked as
6 Exhibit 290, the CD, I'm really not sure that I
7 understand what import it has to the record.

8 CHAIRMAN BROWN: I'm happy you brought that
9 up. I thought we were going to deal with that
10 during the exhibits.

11 MS. HELTON: Well, I thought while we had
12 Ms. Ponder here.

13 CHAIRMAN BROWN: Well, let's just hold off
14 until we get to the exhibits, and we'll have that
15 discussion then. Okay?

16 Let's just see right now if -- after OPC --
17 Summertree.

18 MR. ARMSTRONG: No questions. Thank you.

19 CHAIRMAN BROWN: Thank you.

20 Seminole County.

21 MR. BILENKY: No questions.

22 CHAIRMAN BROWN: Utility.

23 MR. FRIEDMAN: Thank you very much.

24

25

1 EXAMINATION

2 BY MR. FRIEDMAN

3 Q Ms. Hicks, what counsel has pointed out to you
4 in what you call customer contact requests has pointed
5 out ones that dealt with water quality issues. What
6 other type of complaint do customers have that fit
7 within that category of contact information requests?

8 A You mean just for water?

9 MS. CHRISTENSEN: I'm going to object to this
10 as not adverse to UIF's position. I think, as
11 we've been told by the Chairman today, if it's not
12 in adverse position to your -- friendly cross is
13 not allowed.

14 CHAIRMAN BROWN: I didn't even hear the
15 question.

16 MR. FRIEDMAN: I don't think that's friendly
17 cross. They --

18 CHAIRMAN BROWN: I didn't hear it, sir. Could
19 you repeat it?

20 MR. FRIEDMAN: Yes.

21 BY MR. FRIEDMAN

22 Q Other than the water quality type complaints,
23 what other type of matters are included within the
24 category of contact information request?

25 CHAIRMAN BROWN: I agree with Mr. Friedman.

1 **That is permissible.**

2 THE WITNESS: I'm trying to think.

3 Sometimes we get really off-the-wall-type
4 complaints. Like say, for example, someone could
5 call us thinking that we have jurisdiction over --
6 they might say they bought a gallon of water and
7 that water was nasty. And there may be things that
8 may not be related to a particular utility, but
9 they're calling us about a water issue. And that's
10 why it's kind of difficult. I'm thinking about,
11 like, an gallon of water that may not be right. It
12 may be -- they may call and say that they talked to
13 a manager and the manager was nasty, was very rude
14 to them. You know, there's not a whole lot we can
15 do about that. Just things of that nature.

16 BY MR. FRIEDMAN

17 **Q Have there been any instances --**

18 A Oh, excuse me. Another thing could be payment
19 arrangements. A bill is too high. I called the company
20 for arrangement. They wouldn't give of me a payment
21 arrangement.

22 **Q To your knowledge, during that time period of**
23 **your complaints, has the Commission ever had to follow**
24 **up with UIF for not responding to a complaint in a**
25 **timely manner?**

1 MS. CHRISTENSEN: Objection. Again, this is
2 not adverse to their position. In fact, this is
3 eliciting friendly cross.

4 MR. FRIEDMAN: Well, I'm trying to explore --
5 they took her deposition, and I'm trying to explore
6 some of the things they mentioned in her deposition
7 dealing with -- I've got two or three questions --

8 MS. CHRISTENSEN: We have not admitted the
9 deposition into the record, and it's beyond the
10 scope of what our cross-examination was. And this
11 witness, as the Chair has admonished us, is not
12 adverse to UIF's position, certainly not in that
13 question.

14 CHAIRMAN BROWN: Confirm with Staff.
15 Mr. Taylor?

16 MS. HELTON: Can Mr. Friedman repeat the
17 question, please?

18 MR. FRIEDMAN: Yes. The question was: In the
19 time frame that the -- that Ms. Hicks reviewed
20 complaints, was there any complaint that the
21 Commission Staff had to follow up with the Utility
22 on?

23 MS. HELTON: Given that I don't know the
24 answer to that, I'm not sure if that's friendly or
25 not. That's why I asked Mr. Taylor.

1 MR. TAYLOR: I would agree with Mary Anne on
2 that. I don't know that it's friendly cross.

3 CHAIRMAN BROWN: Well, I'm going to allow it.
4 I'm going to allow the question.

5 MR. FRIEDMAN: I would have done with all my
6 questions by now.

7 CHAIRMAN BROWN: Are you done? I'll allow the
8 question.

9 MR. FRIEDMAN: I don't know. As I say, I
10 would have been done if there --

11 CHAIRMAN BROWN: I'll allow the question.

12 MR. FRIEDMAN: Thank you.

13 BY MR. FRIEDMAN

14 Q Ms. Hicks, would you like me to repeat it
15 again?

16 A Okay. Yes.

17 Q All right. Do you recall during that time
18 period that you looked at the complaints against UIF did
19 the Staff at any time have to follow up with the Utility
20 for not responding to a complaint in a timely manner?

21 A Yes.

22 MS. CHRISTENSEN: Object. Where in her
23 testimony does she testify to this? That's beyond
24 the scope of her testimony.

25 CHAIRMAN BROWN: Mr. Friedman?

1 MR. FRIEDMAN: Fine. Forget it.

2 CHAIRMAN BROWN: Okay. Are you finished with
3 your questions?

4 MR. FRIEDMAN: Yes.

5 CHAIRMAN BROWN: All right. You tried.

6 All right. Moving on to commissioners. Any
7 questions? Commission Brisé.

8 COMMISSIONER BRISÉ: Thank you.

9 EXAMINATION

10 BY COMMISSIONER BRISÉ

11 Q And good evening, Ms. Hicks. How are you?

12 A Fine.

13 Q Good. And thank you for your testimony.

14 Just a quick question. If you can walk me
15 through the process of how the complaints are managed
16 within the office in terms of are all the complaints
17 managed through e-mail, or are there soft transfers to
18 D.E.P. or to Ag at different times?

19 A Are you asking me -- okay. So a complaint
20 comes in. Mail, e-mail, telephone --

21 Q Or if it's a call. If it's a call, is there a
22 soft transfer to --

23 A No.

24 Q Okay.

25 A No. D.E.P. -- it's a warm transfer. D.E.P.

1 is not a part of that, and actually no water and
2 wastewater company is part of that program.

3 **Q Okay.**

4 A Okay. Anything that goes to D.E.P. would have
5 to be sent --

6 **Q Electronically?**

7 A -- electronically. Mm-hmm. Or paper. But we
8 generally send electronically. So anything sent to them
9 is sent via e-mail.

10 **Q Okay. And just so that I'm clear, in**
11 **Exhibit 291, referencing the Department of Agriculture**
12 **and Consumer Services, you were given a couple of**
13 **examples of the consumer complaint forms. So there's a**
14 **customer here, and the complaint has to do with sort of**
15 **the costs being excessive and looking at base rate**
16 **structure for the utility. What kind of complaint would**
17 **that be? Would that be an informational?**

18 A This is a protest to the rate increase.
19 You're talking about the first one?

20 **Q Yeah, the first one.**

21 A Okay. For us this would be -- this would be a
22 protest to the rate increase.

23 **Q Okay.**

24 A It would -- it would eventually go into --

25 **Q The case file?**

1 A It would go in CATS as -- if it came to us,
2 but I don't see where it came --

3 Q No. This one didn't come to --

4 A Okay. If this came to us, it would go to the
5 docket file. It would go into CATS as information
6 request as a protest to the docket.

7 Q And the same would be true for the second one
8 that went -- that is an example of a type of complaint
9 that would go to Department of Agriculture and Consumer
10 Services where it says, "I feel -- I feel like I pay
11 enough for water. I don't need a huge hike."

12 A Yes. This is also -- would be a protest.

13 Q Okay. So that be would be a protest.

14 A It would not be a complaint.

15 Q And it wouldn't be a typical complaint. So
16 even some of the examples that are shown to be sent to
17 the Department of Agriculture and Consumer Services are
18 those type of things as well?

19 A Mm-hmm.

20 Q Okay.

21 A This would -- this would basically just be
22 recorded as a protest.

23 Q Okay. Thank you.

24 **CHAIRMAN BROWN: Thank you.**

25 **And thank you, Ms. Hicks, for your 30 years**

1 **plus of service to the Public Service Commission.**
2 **You do an excellent job.**

3 THE WITNESS: Thank you.

4 CHAIRMAN BROWN: Okay. Staff, redirect.

5 MR. TAYLOR: Staff has no redirect.

6 CHAIRMAN BROWN: So let's deal with the
7 exhibits first. The 137 that's attached to
8 Ms. Hicks, would you like that moved in?

9 MR. TAYLOR: Yes, please.

10 CHAIRMAN BROWN: Seeing no objection, we'll
11 move in Exhibit 137 into the record.

12 (WHEREUPON Exhibit 137 was admitted into
13 the record)

14 CHAIRMAN BROWN: Now, let's deal with Office
15 of Public Counsel exhibits, specifically 290. I
16 was a little confused by the use of it during cross
17 although there weren't objections lodged during the
18 live cross, but I would like to know the relevancy
19 of it at this juncture after you conducted cross
20 really.

21 MS. PONDER: Right. So the relevancy is it is
22 both the initial response and the supplemental
23 response by Staff to OPC's first POD No. 1. They
24 made two responses, and so the CD contains both.

25 On the exhibit list itself, Exhibit 201

1 references discovery response, but it doesn't
2 specifically say the supplemental response was
3 included, and so we want to make sure it goes in
4 the record.

5 CHAIRMAN BROWN: Okay.

6 MS. PONDER: And it's also relevant as far as
7 the records that the Commission records and does
8 not record.

9 CHAIRMAN BROWN: So you want the supplemental
10 response to something -- to 201. That's already
11 been --

12 MS. PONDER: Both, yes. The initial response
13 to POD-1, No. 1, and the supplemental response.

14 CHAIRMAN BROWN: Does 201 contain the initial
15 response, or does the CD 290 contain both?

16 MS. PONDER: Contains both.

17 CHAIRMAN BROWN: Okay. Staff?

18 MS. HELTON: So you're just wanting to make
19 sure that the discovery response, the initial and
20 the supplemental response, are in the record?

21 MS. PONDER: Yes. Correct.

22 MS. HELTON: You weren't sure about whatever
23 was provided the first time. I wasn't sure -- was
24 that part of Staff's Comprehensive Exhibit List?

25 MS. PONDER: It was 201, but it didn't

1 specify, and so, therefore, we did the CD.

2 CHAIRMAN BROWN: Just for clarity, Staff, do
3 you object?

4 MR. TAYLOR: No. No objection.

5 CHAIRMAN BROWN: All right. Seeing -- do any
6 of the parties object to 290 through 294? Seeing
7 no objections, we'll -- wait.

8 MR. FRIEDMAN: Which ones?

9 CHAIRMAN BROWN: 290.

10 MR. FRIEDMAN: 290. The exhibit she was just
11 talking about?

12 CHAIRMAN BROWN: Yes, sir.

13 MR. FRIEDMAN: No. If it's discovery
14 responses, then I'm okay with it.

15 CHAIRMAN BROWN: Sounds good.

16 And 290 through 294, any other objections?

17 MR. FRIEDMAN: I do want -- 291, are just --
18 apparently OPC just pulled some -- somehow got
19 documents from the Department of Consumer Services,
20 and there's nobody here saying anything about them.
21 And, I mean, there's no predicate for introducing
22 these. They're just records of some agency that
23 were stapled together. I don't see -- I don't see
24 that there's any predicate for introducing them
25 into evidence.

1 CHAIRMAN BROWN: Thank you. I was wondering
2 the relevancy even along the line of questioning.

3 MR. SAYLER: Yes, Madam Chairman.

4 First off, no one objected to introducing of
5 this at this time. No one objected to the fact
6 that it comes from the Department of Consumer
7 Services. We conducted a public records request,
8 and they submitted this to us. There are three
9 complaints. So we're introducing this as relevant
10 to the issue of customer service complaints because
11 her testimony indicates that some go to the
12 Department of Ag. Some go to the D.E.P. Well,
13 we've contacted the Department of Ag, and these are
14 three complaints that they provided to us over a
15 scope of five years, and that's why it's relevant
16 to this proceeding.

17 CHAIRMAN BROWN: Okay.

18 MR. FRIEDMAN: I don't know how -- how that
19 gives it -- he made a public record request that we
20 see nowhere in the record, and all of a sudden it
21 springs up to have some validity. I don't see how
22 you can do that. There's nobody introducing this.
23 There's no predicate for it.

24 CHAIRMAN BROWN: Are all the complaints over
25 five years? Are these all -- OPC, are these all

1 the complaints over five years?

2 MR. SAYLER: Yes, ma'am.

3 I mean, that's what they've provided to us at
4 our request.

5 CHAIRMAN BROWN: Staff?

6 MR. TRIERWEILER: Would the parties be willing
7 to stipulate that these reflect the only three
8 customer requests to that agency over a five-year
9 period for this utility?

10 CHAIRMAN BROWN: Mr. Friedman?

11 MR. FRIEDMAN: Is that what it reflects?

12 MR. SAYLER: That's my understanding. We
13 asked them to go back five --

14 MR. FRIEDMAN: I guess so.

15 CHAIRMAN BROWN: I thought so.

16 MR. FRIEDMAN: I mean, it's just --
17 technically it doesn't belong in here, but --

18 CHAIRMAN BROWN: Can we get a copy --
19 Mr. Sayler or Ms. Ponder, can we get a copy of the
20 public records request too to accompany this.

21 MR. SAYLER: I will have to inquire about the
22 e-mail that we sent.

23 CHAIRMAN BROWN: To make it all complete.

24 MR. SAYLER: Yes. We will obtain that from
25 Mr. Kelly who made the request on behalf of our

1 agency.

2 CHAIRMAN BROWN: Thank you. Although it was
3 stipulated, it will make the exhibit more complete.

4 All right. So, Public Counsel, you have
5 Exhibits 290 through 294.

6 MR. FRIEDMAN: And I did have an objection to
7 294. It's just a copy of the statute. Why put a
8 copy of the statute as the exhibit?

9 CHAIRMAN BROWN: You know, we've gone both
10 ways on that. We have. And typically we allow it
11 just for ease of reference. There's really no
12 prejudice to entering it into the record. It
13 helped counsel.

14 So I'm going to go ahead and move in 290
15 through 294 into the record.

16 (WHEREUPON Exhibits 290 - 294 were
17 admitted into the record)

18 CHAIRMAN BROWN: All right. Ms. Hicks. Go
19 have a good night's rest.

20 Thank you. You are excused.

21 (Witness excused.)

22 Staff, with that, would you like to call
23 Ms. Dobiac?

24 Well, good evening.

25 THE WITNESS: Good evening.

1 DEBRA DOBIAC

2 was called as a witness on behalf of the Florida Public
3 Service Commission, and having been first duly sworn,
4 testified as follows:

5 EXAMINATION

6 BY MS. JANJIC

7 Q Good evening, Ms. Dobiac. Would you please
8 state your full name and business address for the
9 record?

10 A My name is Debra Dobiac, and my business
11 address is 2540 Shumard --

12 CHAIRMAN BROWN: Would you bring your mic
13 down, please. You can shout all you want a little
14 bit louder for us.

15 THE WITNESS: Okay. My name is Debra Dobiac.
16 My business address is 2540 Shumard Oak Boulevard,
17 Tallahassee, Florida 32399.

18 BY MS. JANJIC

19 Q By whom are you employed and in what capacity?

20 A I'm employed by the Florida Public Service
21 Commission as a public utility analyst in the Office of
22 Auditing and Performance Analysis.

23 Q Have you prepared and caused to be filed in
24 this proceeding on March 20th, 2017, nine pages of
25 prefiled direct testimony with attached Exhibit DMD-1,

1 identified as Exhibit No. 138 on the Comprehensive
2 Exhibit List, as well as discovery responses marked on
3 Staff Comprehensive Exhibit List as Exhibit 201?

4 A Yes.

5 Q I will note that there are changes made to
6 direct testimony on Exhibit DMD1 which were filed on
7 April 25, 2017, in this docket. Other than those
8 changes, do you have any additional changes or revisions
9 to your prefiled direct testimony or Exhibit DMD-1?

10 A No, I do not.

11 Q If asked the same questions contained in your
12 revised direct testimony today, would your answers be
13 the same?

14 A Yes, they would.

15 Q Did you prepare Exhibit 201, or was it
16 prepared under your direction and supervision?

17 A It was under -- it was prepared under my
18 direction and supervision.

19 Q Is the exhibit true and correct to the best of
20 your knowledge and belief?

21 A Yes.

22 Q Would your answers be the same today as they
23 were when you prepared this exhibit?

24 A Yes.

25 Q Thank you. Ms. Dobiac --

1 Well, Chairman Brown, at this time I would ask
2 that the previously filed revised testimony of
3 Ms. Dobiac be inserted in the record as though read?

4 CHAIRMAN BROWN: We will file Ms. Debra
5 Dobiac's prefiled revised testimony into the record
6 as though read.

7 MS. JANJIC: Thank you.

8 (Prefiled revised testimony inserted into
9 the record as though read.)

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF DEBRA M. DOBIAC**

4 **DOCKET NO. 160101-WS**

5 **MARCH 20, 2017**

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

7 A. My name is Debra M. Dobiac. My business address is 2540 Shumard Oak Boulevard,
8 Tallahassee, Florida, 32399.

9 **Q. By who are you presently employed?**

10 A. I am employed by the Florida Public Service Commission (FPSC or Commission) in the
11 Office of Auditing and Performance Analysis. I have been employed by the Commission since
12 January 2008.

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

14 A. Currently, I am a Public Utility Analyst with the responsibilities of managing regulated
15 utility financial audits. I am also responsible for creating audit work programs to meet a specific
16 audit purpose.

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

18 A. I graduated with honors from Lakeland College in 1993 and have a Bachelor of Arts
19 degree in accounting. Prior to my work at the Commission, I worked for six years in internal
20 auditing at the Kohler Company and First American Title Insurance Company. I also have
21 approximately 12 years of experience as an accounting manager and controller.

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

24 A. Yes. I testified in the Aqua Utilities Florida, Inc. Rate Case, Docket No. 080121-WS and
25 the Water Management Services, Inc. Rate Case, Docket No. 110200-WU. I provided testimony

1 for the Water Management Services, Inc. Rate Case, Docket No. 100104-WU, the Gulf Power
2 Company Rate Cases, Docket Nos. 110138-EI and 130140-EI, and the Gulf Power Company
3 Hedging Activities, Docket Nos. 130001-EI and 140001-EI.

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

5 A. The purpose of my testimony is to sponsor the staff audit report of Utilities, Inc. of
6 Florida (UIF or Utility), which addresses the Utility's application for a rate increase. This audit
7 report is filed with my testimony and is identified as Exhibit DMD-1.

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

9 A. Yes, it was prepared under my direction.

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

11 A. The procedures that we performed in this audit are listed in the Objectives and
12 Procedures section of the attached Exhibit DMD-1, pages 4 through 10.

13 **Q. Were there any audit findings in the audit report, Exhibit DMD-1, which address
14 the historical 2015 amounts in the schedules prepared by the Utility in support of its filing
15 in the current docket?**

16 A. Yes. There were 11 audit findings reported in this audit and are found in the attached
17 Exhibit DMD-1, pages 11 through 27. These are summarized below:

18 **Finding 1 - Commission Ordered Adjustments- Cypress Lakes**

19 The 13-month average water rate base should be increased by \$37,035. The 13-month
20 average wastewater rate base should be decreased by \$135,012. There is no effect on net
21 depreciation expense. We compared the Commission ordered adjustments (COAs), as of
22 December 31, 2012, from Order No. PSC-14-0283-PAA-WS, issued May 20, 2013, in Docket
23 No. 130212-WS, to Cypress Lakes Utility, Inc.'s (CLU) supporting journal entry and noted that
24 plant adjustments were either not recorded or recorded incorrectly on November 30, 2014. We
25 also found that the balances of accumulated depreciation and accumulated amortization of

1 contributions in aid of construction (CIAC) were recorded on November 30, 2014 at the ordered
2 balance as of December 31, 2012. The Utility made no adjustment to record depreciation and
3 amortization for the 23 months in the general ledger or the minimum filing requirements
4 (MFRs). Our recommended adjustments include this correction.

5 **Finding 2 - Commission Ordered Adjustments- Lake Utility Services**

6 The 13-month average water rate base should be increased by \$42,077. The 13-month
7 average wastewater rate base should be increased by \$35,016. Net depreciation expense for
8 water should be increased by \$8,261. Net depreciation expense for wastewater should be
9 increased by \$3,117. We compared the COAs, as of June 30, 2010, from Order No. PSC-11-
10 0514-PAA-WS, issued November 3, 2011, in Docket No. 100426-WS, to Lake Utility Services,
11 Inc.'s (LUSI) supporting journal entry and noted that LUSI recorded the COAs in the Other
12 Tangible Plant-Water/Sewer accounts for plant, accumulated depreciation, CIAC, and
13 accumulated amortization of CIAC on December 31, 2011. LUSI included adjustments on MFR
14 Schedules A-3 and B-3, which transferred the COAs from the other tangible plant accounts to the
15 correct accounts. However, not all the COAs were included in the MFR adjustment schedules.
16 Our recommended adjustments correct this.

17 **Finding 3 - Commission Ordered Adjustments- Marion, Orange, Pasco, Pinellas,**
18 **and Seminole Counties**

19 The 13-month average water rate base should be decreased by \$481,461. The 13-month
20 average wastewater rate base should be decreased by \$244,129. Net depreciation expense for
21 water should be decreased by \$3,220. Net depreciation expense for wastewater should be
22 increased by \$46,872. Order No. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket
23 No. 090462-WS, established rate base as of December 31, 2008 and required Marion County to
24 make several adjustments to specific rate base account balances. For the other four counties, rate
25 base was established by Order No. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket

1 No. 120209-WS, which established rate base as of December 31, 2011 and required Orange,
2 Pasco, Pinellas, and Seminole Counties (UIF) to make several adjustments to specific rate base
3 account balances. We compared the COAs to UIF's supporting journal entry, and noted the
4 following.

5 1. The majority of the transactions recorded in the general ledger were not identified by
6 County.

7 2. The COAs were not recorded in the general ledger until December 31, 2014.

8 3. We could not verify if accumulated depreciation and accumulated amortization of CIAC
9 were recorded at the December 31, 2008 and December 31, 2011 balances, or as of December
10 31, 2014 due to lack of detail.

11 4. The MFRs did not have any adjustments relating to the COAs.

12 We used the prior ordered balances and subsequent additions and retirements to determine the
13 balances by county, by system, as of December 31, 2015, as noted in the recommended
14 adjustments above.

15 **Finding 4 - Accumulated Amortization of CIAC- Pennbrooke**

16 The 13-month average wastewater rate base should be decreased by \$239,460. Net depreciation
17 expense for wastewater should be increased by \$68,031. According to Pennbrooke's MFR
18 Schedule A-12, the wastewater CIAC balance for the Line/Main Extension Fees is \$1,216,759
19 and \$0 for Contributed Property of Structure and Improvements-General Plant as of December
20 31, 2015. According to Pennbrooke's general ledger, the line/main extension fees are separated
21 into 1) sewer force mains - \$169,978, 2) gravity mains/manholes - \$897,017, and 3) services for
22 customers - \$149,764. Audit staff agreed with these balances.

23 According to Pennbrooke's MFR Schedule A-14, the wastewater accumulated
24 amortization of CIAC balance for the Line/Main Extension Fees is \$911,767 and \$71,800 for
25 Contributed Property of Structure and Improvements-General Plant as of December 31, 2015.

1 According to Pennbrooke's general ledger, the line/main extension fees are separated into 1)
2 sewer force mains - \$114,713, 2) gravity mains/manholes - \$707,224, and 3) services for
3 customers - \$89,830. Audit staff calculated a balance of \$505,302 for gravity mains using the
4 correct rate as per Rule 25-30.140, Florida Administrative Code, regarding depreciation, which is
5 a variance of \$201,922. In addition, since there is no CIAC associated with the accumulated
6 amortization of CIAC for structure and improvements-general plant, we removed the balance of
7 \$71,800.

8 **Finding 5 - Accumulated Deferred Income Taxes**

9 This finding was provided for additional consideration by technical staff. In Order No.
10 PSC-16-0013-PAA-SU, issued January 6, 2016, Docket 150102-WU, the appropriate ratemaking
11 treatment for Sandalhaven's Accumulated Deferred Income Taxes (ADIT) for taxes paid on
12 plant capacity charges was discussed. The Commission determined at that time that the debit
13 ADITs paid on the plant capacity charges were disallowed for ratemaking purposes, citing
14 paragraph (b)(4)(i) of the IRS Treasury Regulation 1.118-2, which provides that plant capacity
15 charges are non-taxable CIAC if the charges were approved within 8 ½ months from the in-
16 service date. For this proceeding, we determined the Utility's ADIT debit balances for taxes paid
17 on plant capacity fees that were received from developers.

18 **Finding 6 - Operations and Maintenance Expense- Sanlando**

19 This finding was provided for additional consideration by technical staff. During our
20 review of Sanlando's O&M transactions, we found that NARUC Account 720-Materials and
21 Supplies - needs to be decreased by \$12,999 to remove extraordinary and out of period expenses.
22 The Utility states that this expense is for the demolition of a steel tank. The Utility believes that
23 the original tank was installed in 1991, and that it should be fully depreciated at this time. We
24 requested supporting documentation regarding the original cost of the steel tank, and as of
25 December 19, 2016, the Utility had not provided it. Audit staff did not reduce plant in service or

1 accumulated depreciation because we could not determine the original cost of the steel tank in
2 order to calculate the retirement.

3 **Finding 7 - Taxes Other than Income- Pennbrooke**

4 The water TOTI balance should be decreased by \$985 and the wastewater TOTI balance
5 should be decreased by \$820. We traced the property taxes to supporting documentation and
6 noted that a 2006 delinquent tax bill in the amount \$1,695 was paid in 2015. In addition, we
7 determined that a tax bill of \$110 was recorded twice. We recommend an adjustment to decrease
8 TOTI by \$1,805 (\$1,695 + \$110), \$985 for water and \$820 for wastewater.

9 **Finding 8 - Transportation**

10 This finding was provided for additional consideration by technical staff. The Utility did
11 not make adjustments for allocating plant vehicles, the associated accumulated depreciation,
12 depreciation expense, and transportation costs from the UIF regional office to each Florida
13 system in the MFRs that are usually made. In prior rate proceedings for this utility and affiliates,
14 the Commission has used the following methodology for these adjustments. The average cost of
15 the vehicle and its associated accumulated depreciation, depreciation expense, and transportation
16 costs is multiplied by the amount of time the employee, who is assigned to the vehicle, spends at
17 each system divided by his total hours worked. In addition, each Florida system uses the ratio of
18 its ERCs to the total ERCs for the State of Florida for pool vehicles and special equipment.

19 We could not determine adjustments for plant vehicles, the associated accumulated
20 depreciation, depreciation expense, and transportation costs because the supporting
21 documentation for the Utility's current filing for vehicle and transportation balances did not
22 include:

- 23 1. The support for pool vehicles and special equipment,
- 24 2. The calculation for determining transportation expense per vehicle, and
- 25 3. The operators provided in the payroll support did not agree with the operators assigned to

1 the vehicles in the transportation support.

2 **Finding 9 - Allocated Plant, Accumulated Depreciation, and Depreciation Expense**

3 The 13-month average water rate base should be increased by \$379,306. The 13-month
4 average wastewater rate base should be increase by \$223,203. Water depreciation expense
5 should be decreased by \$46,722. Wastewater depreciation expense should be decreased of
6 \$3,663. We noted that Utilities, Inc.'s (Company/Corporate) and UIF-regional office's COAs for
7 plant, accumulated depreciation, and depreciation expense for each system was not reflected in
8 the MFR rate base schedules. These adjustments from prior orders have not been recorded on
9 the Company's books. We calculated the adjustments by utilizing the restatement schedules
10 provided by the Utility.

11 We also verified that the Phoenix Project depreciation life was ten years as per
12 Commission Order No. PSC-14-0521-FOF-WS.

13 We reviewed plant, accumulated depreciation, and depreciation expense for corporate,
14 regional, and UA balances for each water and wastewater system in Florida. We allocated the
15 corporate and regional balances, based upon the appropriate ERCs. We noted that there were no
16 MFR adjustments for allocated plant, but adjustments were noted for the Phoenix Project. The
17 adjustment for the Phoenix Project was to account for the difference between the Commission
18 ten year depreciation life and the Utility's eight year depreciation life.

19 **Finding 10 - Allocated Operations and Maintenance Expense**

20 Water expenses should be increased by \$10,519 and wastewater expenses should be
21 increased by \$61,143, pending the outcome of the Mid-County and Sanlando issues discussed
22 below. We reconciled the allocated expenses from the corporate and regional offices to the UA
23 ledgers for each Florida system. We reviewed the corporate and regional expense accounts, and
24 calculated the effect on each system's O&M expense based on ERCs. We also removed
25 disallowed expenses such as Account No. 5795 – Contributions, Account No. 5870 – Holiday

1 Events/Picnics, and Account No. 5875 – Kitchen Supplies.

2 We also noted that Mid-County and Sanlando had material O&M increases of \$57,334
3 (wastewater only) and \$64,901 (\$35,968-water, \$28,933- wastewater), respectively. The Utility
4 did not provide sufficient support for these increases. If the Commission determines to remove
5 the effect of these, the adjustments would be a decrease of \$25,449 (\$10,519 - \$35,968) for water
6 expenses and a decrease of \$25,124 (\$61,143 - \$57,334 - \$28,933) for wastewater expenses.

7 **Finding 11 - Payroll, Benefits, and Taxes**

8 This finding was provided for additional consideration by technical staff. The Utility did
9 not make adjustments for allocating employees' salaries, benefits, and payroll taxes from the
10 corporate and regional offices in the MFRs that are usually made. In prior rate proceedings for
11 this utility and affiliates, the Commission has used the following methodology for these
12 adjustments. The Company would provide a list of all employees with their most current
13 annualized salary, associated payroll taxes, and a calculation for benefits per employee. These
14 amounts are allocated based on the ERC per system divided by the Company total. The
15 operators and call center personnel are allocated by the number of hours spent at each system
16 divided by the employee's total hours. The schedule was then compared to the costs recorded in
17 the UA ledger by division/system.

18 In the current rate case, the Company did not provide the information needed as
19 described above to audit staff. The payroll information that was provided did not facilitate us
20 determining the proper adjustments.

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

22 A. Yes, it does.

23

24

25

1 BY MS. JANJIC

2 Q Ms. Dobiac, would you please give the
3 Commission a brief summary of your direct testimony?

4 A Yes. Commissioners, my name is Debra Dobiac.
5 I served as the audit manager for the rate case audits
6 of Utilities, Inc. of Florida, Docket 160101-WS. The
7 auditor's report issued January 5, 2017, contains 11
8 findings. These findings are discussed in detail within
9 my prefiled testimony and exhibit.

10 That concludes my summary.

11 MS. JANJIC: Thank you, Ms. Dobiac.

12 I tender this witness for cross examination.

13 CHAIRMAN BROWN: Thank you.

14 Office of Public Counsel.

15 MR. SAYLER: Good evening, Madam Chair. We do
16 have a few questions for Ms. Dobiac.

17 EXAMINATION

18 BY MR. SAYLER:

19 Q Ms. Dobiac, how long have you been a staff
20 auditor in your current position?

21 A Almost ten years.

22 Q All right. Would you please turn to your
23 exhibit attached to your testimony and turn to Audit
24 Finding No. 2? That would be Page 13 of 32 in your --

25 CHAIRMAN BROWN: Reading my mind.

1 BY MR. SAYLER

2 Q -- exhibit.

3 A Okay.

4 Q Are you there, ma'am?

5 A Yes.

6 Q All right. You'd agree in the last sentence
7 it states -- it says, "We compare the Commission Ordered
8 Adjustments to the LUSI supporting journal entries." Is
9 that correct?

10 A I'm sorry. I'm not sure where you're reading
11 from.

12 Q In the last sentence of your first paragraph.

13 A Okay.

14 Q When it says "we," who is the we?

15 A Audit Staff.

16 Q Okay. And then later on in that sentence you
17 say -- state, "Noted that LUSI recorded the COAs."
18 That's Commission Ordered Adjustments; correct?

19 A Yes.

20 Q And the COAs and other tangible plant
21 water/sewer account for plant accumulated depreciation
22 CIAC accumulated amortization of CIAC and on
23 December 31, 2011. Do you see that?

24 A Yes.

25 Q You would agree that this is not the correct

1 way to book prior Commission Ordered Adjustments; is
2 that correct?

3 A Yes.

4 Q All right. Would you turn to the next page,
5 Audit Finding No. 3?

6 In the last sentence before you had the five
7 items, you state, "We compared the Commission Ordered
8 Adjustments to UIF supporting journal entries"; correct?

9 A Yes.

10 Q And underneath that you list several factors
11 regarding the Commission Ordered Adjustments and the
12 Utility's journal entry; correct?

13 A Could you repeat that?

14 Q Sure.

15 And -- okay. You would agree that the five
16 items underneath that sentence are the five things that
17 you compared the Commission Ordered Adjustments with
18 Utilities, Inc.'s supporting journal entry; is that
19 correct?

20 And these are part of your findings as it
21 relates to Finding No. 3; correct?

22 A Well, we compared, you know, the COAs to the
23 supporting journal entry, and this is what we noted.

24 Q All right. And for the first one, you said
25 the majority of the transactions were not identified by

1 county. Would you please describe to the Commission
2 what that means?

3 A In UIF's books and records, their balance
4 sheet is only designated by a three-digit business unit,
5 whereas the income statements have things such as a
6 six-digit number. And for the five counties,
7 specifically the balance sheet is just 252, and it
8 doesn't tell us which system that's applicable to or
9 which county. Whereas on the income statement, it will
10 be 252-100, 252-101, which designates a separate system.
11 So when you're recording commission or adjustments to
12 plant balances, unless you specify in the description
13 what county it belongs to, we don't -- we can't tell.

14 Q All right. Thank you.

15 And for No. 3 it says, "We could not verify if
16 the accumulated depreciation and accumulated
17 amortization of CIAC were recorded at the December 31th,
18 2008, and December 31th, 2011, balances or as of
19 December 31st, 2014."

20 Do you see that?

21 A Yes.

22 Q Does that mean that the Utility did not
23 provide any work papers to indicate the basis for those
24 adjustments?

25 A No.

1 **Q All right. What does it mean?**

2 A We couldn't tell, first of all, basically what
3 plant item the accumulated depreciation is applicable
4 to. And then, like in LUSI's case, they recorded the
5 accumulated depreciation as of the test year and not as
6 of the date that the recording -- what the accumulated
7 depreciation balance should be at that time. And so I
8 didn't know which date it would fall into. Whether they
9 brought them forward or not, I had no idea.

10 **Q So it is your testimony that they didn't**
11 **provide you any information to be able to help you**
12 **identify where it was -- to verify that; correct?**

13 A Yes.

14 **Q All right. And isn't that true that**
15 **Utilities, Inc., also failed to provide any sort of**
16 **reconciliation between the adjustments and the PSC**
17 **order? Is that correct?**

18 A I'm sorry. What?

19 **Q Isn't it true that Utilities, Inc. of Florida**
20 **failed to provide any sort of reconciliation between the**
21 **adjustment and the PSC order? Is that correct?**

22 A They provided the journal entry. I'm not sure
23 if I'm getting your question right.

24 **Q All right. Did the journal entry match the**
25 **order?**

1 A Actually, yes. It just didn't give us
2 complete information.

3 Q Okay. So they provided complete information,
4 and what was incomplete?

5 A I'm sorry. What?

6 Q What was incomplete about the information?

7 A We didn't know which county it was applicable
8 to. I couldn't tell by amount or plant.

9 Q Okay. Would you turn to Item No. 10 please,
10 which is Page 25 of 32?

11 A Okay.

12 Q Are you there, ma'am?

13 A Yes.

14 Q All right. And at the end of that -- near the
15 end of that first paragraph, it states, "We also removed
16 disallowed expenses such as Account No. 5795,
17 contributions; Account No. 5870, holiday
18 expenses/picnics; and Account No. 5875, kitchen
19 supplies."

20 Do you see that?

21 A Yes.

22 Q And as part of Staff's request for the audit,
23 did you look -- you looked into something called
24 leadership training expenses; is that correct?

25 A Yes.

1 Q All right. And did you remove leadership
2 training expenses as part of your audit work paper
3 No. 47-19?

4 A No, we did not.

5 Q And do you know why you were looking at
6 leadership training expenses?

7 A It was specifically asked for in the audit
8 service request.

9 Q And was there any reason behind why it was
10 asked for?

11 A You'll have to ask technical staff.

12 Q Yes, ma'am.

13 All right. Are you familiar that leadership
14 training expenses have been removed by prior Commission
15 orders?

16 A I don't recall.

17 Q Now, isn't it true your audit work papers show
18 some invoices for these leadership training expenses?
19 Is that correct? Subject to check. Or do you know?

20 A I don't recall off the top of my head, no.

21 Q To your knowledge, if your work papers show
22 that there are invoices for these leadership training
23 expenses, do you know whether the Utility provided any
24 documentation or explanation why these leadership
25 training expenses are necessary in order to provide

1 water and wastewater services to Florida customers?

2 A I don't recall. I'm sorry.

3 Q Okay.

4 Later on -- and, ma'am, nothing to be sorry
5 about. Thank you. An honest answer. We appreciate
6 that.

7 And in the next paragraph about halfway
8 through, after the word "however," it says, "Upon
9 further review, we noted that the sum of the ERC's per
10 system did not agree with the total ERCs applicable to
11 Florida."

12 Do you see that?

13 A Yes.

14 Q Is it correct that the Utility did not provide
15 an explanation or a reconciliation for these differences
16 in ERCs?

17 A Could you repeat that please?

18 Q Sure.

19 Would it be correct that the Utility did not
20 provide an explanation why there's a difference between
21 the ERCs per system that you noted in your audit
22 finding?

23 A Okay. We got support for the ERCs earlier on
24 in the audit process. We requested information
25 regarding the increase in O&M expense for Mid-County and

1 Sanlando. We wanted to understand what the basis was
2 for the increase. And what we got -- what we received
3 in response to that was another ERC schedule where the
4 total Florida ERCs did not sum up to what they actually
5 are. And so we stayed with our previous ERC schedule.
6 And that really didn't answer our question either.

7 Q All right. So they didn't explain why there
8 was two different numbers. Okay.

9 A That's why we deferred it to the analyst.

10 Q Okay. And what does "deferred to the analyst"
11 mean?

12 A We refer it to technical staff to deal with.

13 Q And when you mean "technical staff," does that
14 also include legal staff if there's something, or is
15 it -- or do you --

16 A I don't know the process. I just know we're a
17 part of the process.

18 Q All right. Thank you.

19 Returning back to Audit Finding No. 3 on
20 Page 14 of 32, are you there?

21 A Yes.

22 Q All right. And here your finding states that
23 the Commission Ordered Adjustments were not recorded
24 until December 31st, 2014. And this is pointed out in
25 your audit finding because the Commission Ordered

1 Adjustments are supposed to be made within 90 days of
2 the order; is that correct?

3 A Yes. I believe so, yes.

4 Q All right. And in this instance, you'd agree
5 that Utilities, Inc. failed to make the appropriate
6 adjustment within 90 days. Otherwise you wouldn't have
7 flagged it in your finding; correct?

8 A It would seem so.

9 Q All right. Now, if you notice -- note that
10 there is a violation of a Commission order or Commission
11 rule that you discover during the -- while you conduct
12 your audit, is it part of your job description to inform
13 anyone that there's a potential violation of a rule or
14 order?

15 A No, it's not. We just note what we find in
16 our findings.

17 Q Okay. Now, as part of your job duties, once
18 you've noted it in a finding, do you follow-up with
19 technical staff to make sure that it is an issue in the
20 rate case?

21 A Not usually.

22 Q What do you mean "not usually"? Is there
23 sometimes when you do? Or --

24 A If we have time.

25 Q Okay.

1 A Because by the time we complete this audit,
2 we're on to other audits as the process continues.

3 Q Fair enough.

4 Now, if your audit finding reveals
5 noncompliance with an order or rule, who with the
6 technical staff or legal staff is responsible to bring
7 these noncompliance --

8 MS. JANJIC: Objection. Asked and answered.

9 MR. SAYLER: That's a slightly different
10 question, Madam Chair.

11 CHAIRMAN BROWN: I'll allow it.

12 BY MR. SAYLER

13 Q My question is who with the technical staff --
14 would it be technical staff or legal staff who is
15 responsible for following through with the Commission
16 and the recommendation about these potential
17 noncompliance or violations of rules or orders? Do you
18 know?

19 A I don't really know off the top of my head.

20 Q I'm not asking for a particular person. I'm
21 just asking if it's a department.

22 A Well, I don't think it would be me reporting
23 it. If anything it would go to either my bureau chief
24 or our office director. They would make the call.

25 Q All right. So you don't know if there's

1 something in the administrative --

2 MS. JANJIC: Objection. Asked and answered.

3 CHAIRMAN BROWN: Sustained.

4 MR. SAYLER: I was asking about the
5 Administrative Procedures Manual. So if there's
6 some written policy --

7 CHAIRMAN BROWN: You didn't ask that.

8 MR. SAYLER: Well, as -- may I ask that
9 question?

10 CHAIRMAN BROWN: Yes.

11 MR. SAYLER: All right.

12 BY MR. SAYLER

13 Q Do you know if the APM addresses that topic,
14 ma'am, Administrative Procedures Manual?

15 A Excuse me. What?

16 Q Do you know if the Commission's Administrative
17 Procedures Manual addresses -- when the audit department
18 finds something irregular, does it address how that --

19 A I don't really know.

20 Q Okay. Would you please refer to Audit Finding
21 No. 9 on Page 22 of 32?

22 A Yes.

23 Q And Audit Finding 9 is allocated plant
24 accumulated depreciation, depreciation expense.

25 Would you read that first sentence for us,

1 ma'am?

2 A The first sentence --

3 Q Yes.

4 A -- in the audit analysis?

5 Q Yes, ma'am.

6 A "Audit Staff reviewed the MFR rate-based
7 schedules and noted that the corporate and regional
8 levels did not reflect the Commission Ordered
9 Adjustments for plant accumulated depreciation,
10 depreciation expense for each system."

11 Q And this is another instance where this
12 Utility didn't make that Commission Ordered Adjustment;
13 is that correct?

14 A Could you repeat your question? Could you
15 repeat your question?

16 Q Yes, ma'am. Is this another instance where a
17 Commission Ordered Adjustment wasn't properly made to
18 your knowledge?

19 A I still didn't get your question.

20 Q Okay. Your audit says you reviewed the MFR
21 rate-based schedules and corporate and regional
22 levels -- excuse me -- and noted that the corporate and
23 regional levels did not reflect the Commission Ordered
24 Adjustments for plant accumulated depreciation and
25 depreciation expense.

1 What you looked at, MFRs as well as the
2 corporate and regional levels, according to this, it
3 doesn't reflect the Commission Ordered Adjustments. Is
4 this an instance where the Utility didn't make --

5 MS. JANJIC: Objection to the form. It's very
6 confusing.

7 CHAIRMAN BROWN: I don't even know what you
8 just asked her.

9 BY MR. SAYLER

10 Q Well, is this an instance where the Utility
11 did not properly make a Commission Ordered Adjustment?

12 A Well, these are allocated costs; so we only
13 look at it as a point-in-time adjustment.

14 Q Okay. Would you turn to Audit Finding No. 8,
15 the prior page, and if you can also keep a finger on
16 Audit Finding No. 9. All right.

17 For Audit Finding No. 8, at the very bottom it
18 says, "Effect on the general ledger." You state, "We
19 defer this issue to the analyst"; correct?

20 A Correct.

21 Q And if you turn to Audit Finding No. 9 where
22 it says, "Effect on the general ledger," you state, "The
23 Utility should determine the effect on the general
24 ledger."

25 Do you see that?

1 A Yes.

2 **Q All right. Why does the audit staff defer**
3 **anything to the Utility as it relates to this audit?**

4 A Why did we defer the issue to the analyst for
5 Finding 8?

6 **Q No. Why did you defer Finding 9 to the**
7 **Utility?**

8 A Well, that's the effect on the general ledger.

9 **Q Okay.**

10 A They should know how to record these
11 adjustments.

12 **Q Okay. And then for Audit Finding No. 8, why**
13 **did you defer that to the analyst?**

14 A We didn't have enough information to make an
15 adjustment ourselves.

16 **Q All right. Ma'am, are you familiar with**
17 **Commission Rule 2530.450 entitled "Burden of Proof and**
18 **Audit Provisions"?**

19 A I wouldn't say I'm particularly --

20 **Q Okay.**

21 A -- knowledgeable about it, but, I mean, I
22 understand the burden of proof is on the Utility.

23 **Q Okay.**

24 MR. SAYLER: Madam Chair, I do have a copy of
25 the rule. I didn't produce 20 copies. I didn't

1 think I'd need to. May I give a copy to the
2 witness?

3 CHAIRMAN BROWN: Staff?

4 MR. SAYLER: And here is one for the Utility
5 as well.

6 MS. HELTON: What's the Rule Number,
7 Mr. Sayler?

8 MR. SAYLER: Rule 25-30.450.

9 CHAIRMAN BROWN: I thought the witness said
10 that she wasn't familiar with the rule necessarily,
11 particularly.

12 MR. SAYLER: Well, ma'am, I'm refreshing her
13 as it relates to the rule.

14 CHAIRMAN BROWN: Okay.

15 BY MR. SAYLER

16 Q All right. And just for the ease of the
17 record, I'm going to read it.

18 CHAIRMAN BROWN: Well, that's testifying,
19 Mr. Sayler.

20 MR. SAYLER: Well, I can have the witness read
21 it into the record.

22 CHAIRMAN BROWN: Why don't you ask her a
23 question.

24 MR. SAYLER: All right.

25

1 BY MR. SAYLER

2 Q If you look at the last sentence in this rule,
3 isn't it true it states, "Supporting worksheets,
4 et cetera, shall list all reference sources necessary to
5 enable Commission personnel to trace to the original
6 source of entry into the financial and accounting system
7 in addition to verify the amounts of the appropriate
8 schedules"?

9 A And then we do. On each work paper you'll see
10 a source as to where that documentation came from
11 whether it's an auditor-created work paper as opposed to
12 something provided by the Utility. It's all part of how
13 we do our work papers. And when we don't always have a
14 complete answer, that's when we write findings. When we
15 find anomalies, we write findings. And if we don't have
16 all the information, even though we requested it, for --
17 like, especially with this audit, we were doing twelve
18 audits in the period of doing one.

19 Q Okay. And -- and correct me if I'm wrong.
20 Right before I asked you this question, you said the
21 burden was on the Utility; is that right --

22 A Yes.

23 Q -- to provide this information? Okay.

24 I've got a couple more questions.

25 With regard to Utilities, Inc.'s books and

1 records, were you aware that this Utility was subject to
2 an order to show cause by order PSC 0306-47 and Docket
3 Number 020407?

4 MS. JANJIC: Objection. Outside of the scope
5 of her testimony.

6 CHAIRMAN BROWN: Mr. Saylor?

7 MR. SAYLER: She is an auditor who works for
8 the Commission, and she noted that there were some
9 failures to comply with the books and records, and
10 I was asking her if she knew. And if she doesn't,
11 then that's fine. I'm just asking her was she
12 aware that this Utility had been subject to orders
13 to show cause as it relates to not properly keeping
14 books and records --

15 CHAIRMAN BROWN: Why don't you rephrase the
16 question?

17 MR. SAYLER: Sure.

18 BY MR. SAYLER

19 Q In the course of your employment with the
20 Commission for the past ten years, were you aware of any
21 orders to show cause as it relates to this Utility not
22 complying with the Commission's -- or not properly
23 keeping their books and records according to the
24 Commission's standards and rules?

25 A I can't think of any off the top of my head

1 right now.

2 **Q Okay. Thank you. No further questions.**

3 A Okay.

4 CHAIRMAN BROWN: Thank you, Mr. Sayler.

5 Summertree.

6 MR. ARMSTRONG: Thank you, Madam Chair. We
7 just have eight questions that I think should be
8 very simple.

9 EXAMINATION

10 BY MR. ARMSTRONG

11 **Q Good evening, Ms. Dobiac. How are you?**

12 A I'm fine.

13 CHAIRMAN BROWN: I appreciate you giving us a
14 heads-up of how many you have.

15 MR. ARMSTRONG: I've given you each
16 question --

17 CHAIRMAN BROWN: Thank you.

18 BY MR. ARMSTRONG

19 **Q You ordered the costs that are allocated to
20 UIF by its affiliate WSC; correct?**

21 A WSC and then the Altamonte Springs office.

22 **Q Okay. Thank you.**

23 A That's regional.

24 **Q What is the total cost which WSC has allocated
25 to UIF in the test year?**

1 A I'm sorry. What?

2 Q What is the total cost that WSC has allocated
3 to UIF in the test year?

4 A Well, a plant -- our answer is in Finding 9,
5 and for O&M, our answer is in Finding 10.

6 Q Well, I'm just asking what the total
7 cost --the total cost --

8 A I don't recall that number off the top of my
9 head either.

10 Q Okay.

11 A A lot of transactions there.

12 Q Okay. And so you don't recall the amount of
13 general plant that WSC allocated to --

14 A There's a lot -- there's a lot of accounts
15 that we look through, and there's a lot of transactions
16 within those accounts that we look through. It's hard
17 to remember the total.

18 Q Okay. So you don't recall. That's -- that's
19 the answer.

20 Do you recall if you asked UIF to provide the
21 total costs allocated to it by WSC for 2016?

22 A We asked for the general ledger for WSC as
23 well as Altamonte Springs.

24 Q Did you -- but did you ask for the total costs
25 allocated by WSC for 2016?

1 A I -- we reviewed the general ledger which
2 contains records of all the costs.

3 Q Okay. For 2016?

4 A Yes.

5 Q Okay. Did you, in the course of your audit,
6 compare the costs allocated to UIF by WSC to the costs
7 paid by other Florida utilities for the same services?

8 A No, we do not.

9 Q Okay. Did you, in the course of your audit,
10 compare the quality of services provided by WSC to
11 Utilities, Inc., to other services provided on behalf of
12 other Florida utilities?

13 A No, we do not.

14 Q Okay. Thank you, Ms. Dobiac. That finishes
15 my cross.

16 CHAIRMAN BROWN: Thank you.

17 Seminole County.

18 MR. BILENKY: I only have about an hour's
19 worth.

20 We have no questions of this witness.

21 CHAIRMAN BROWN: Maybe for the next witness.

22 All right. Utilities. Mr. Friedman.

23 EXAMINATION

24 BY MR. FRIEDMAN

25 Q Let me just clarify something. The question

1 that Mr. Armstrong asked you about reviewing 2016, this
2 was a -- do you remember that question he asked you
3 about reviewing the general ledger for 2016?

4 A No. I heard 2015.

5 Q Okay.

6 A Did you say 2016? Oh, then sorry. We did
7 not.

8 CHAIRMAN BROWN: He did say 2016.

9 MR. FRIEDMAN: Okay. I just want to -- I
10 thought that's what -- I thought he was saying one
11 thing and she was hearing another, and I wanted to
12 make sure that the record was clear that what she
13 meant was 2015. Thank you.

14 BY MR. FRIEDMAN

15 Q Counsel asked you about Audit Finding No. 2.

16 Am I correct that in Audit Finding 2 the Utility made
17 the Commission Ordered Adjustments?

18 A Audit Finding 2. Yes, she did.

19 Q There was just a difference of opinion or
20 y'all thought they should have been done a different
21 way. Is that -- is that the complaint you're having --

22 A Correct. But they made adjustments in the
23 MFRs to make that correction.

24 Q Thank you.

25 And is that also true of Finding 3? I know

1 you pointed out that they were made late. The
2 Commission Ordered Adjustments were made there as well;
3 were they not?

4 A Yes.

5 Q I note in the audit that those were the only
6 two systems that there was any reference to Commission
7 Ordered Adjustments not being made; is that correct?

8 A Well, there's Audit Finding 1 as well.

9 Q Which system did Audit Finding 1?

10 A Cypress Lakes, Commission Ordered Adjustments.
11 Had a couple of adjustments there.

12 Q And they were made, but they just weren't made
13 in the same way that --

14 A Correct.

15 Q So would it be correct to summarize that in
16 every instance the Commission did -- I mean, the Utility
17 did, in fact, make the Commission Ordered Adjustments?

18 CHAIRMAN BROWN: Sounds like friendly cross to
19 me.

20 MR. FRIEDMAN: It's not. He's -- you know,
21 they're sitting here saying --

22 CHAIRMAN BROWN: Mr. Friedman, no. Please
23 move along with your questions.

24 BY MR. FRIEDMAN

25 Q Isn't it common for the audit staff to defer

1 things to the technical staff like you did in this case?

2 A Yes. We have a deadline to meet. So if we
3 haven't been able to get everything, then we pass it on
4 to technical staff so they can follow up on it.

5 Q And isn't it true that the -- whether or not
6 UIF makes the COAs doesn't affect the way you go about
7 doing the audit?

8 A No, it doesn't.

9 Q Isn't it true that in connection with your
10 audits you often find that utilities don't make the
11 Commission Ordered Adjustments within the 90-day
12 deadline?

13 A That's probably true.

14 Q And isn't it true that you only recall one
15 instance where UIF did not make the adjustments within
16 the 90 days?

17 MR. SAYLER: That was -- we would object to
18 the friendly cross.

19 CHAIRMAN BROWN: Objection sustained.

20 MR. FRIEDMAN: Nothing else.

21 CHAIRMAN BROWN: Okay. Commissioners? Any
22 questions, Commissioners, of this witness? None?
23 Redirect.

24 MS. JANJIC: Staff has no redirect but would
25 ask that the revised Exhibit DMD-1 identified as

1 138 in the Comprehensive Exhibit List be moved into
2 the record at this time.

3 CHAIRMAN BROWN: Way to go. Thank you for
4 moving that in.

5 Seeing no objections, we will go ahead and
6 enter into the record 138.

7 (WHEREUPON Exhibit 138 was admitted into
8 the record)

9 CHAIRMAN BROWN: Ms. Dobiac, thank you for
10 your service to the Public Service Commission, and
11 you are excused. Have a good night.

12 THE WITNESS: Thank you.

13 (The witness was excused)

14 CHAIRMAN BROWN: All right. I know you all
15 are wondering how late do you think we are going to
16 go? And you're wondering are we going to get to
17 Ms. Daniel. I see her in the back. I think I'd
18 like to if we could -- if the parties don't --
19 she's outside and she doesn't want to come in.

20 What I'd really like to do, if the parties are
21 prepared to move forward, at least start with --
22 since we start with Public Counsel, I'd like to get
23 through Public Counsel's cross and then -- and
24 possibly Summertree, and then recess for the
25 evening. Is there any strong opposition to that?

1 MR. BILENKY: No, ma'am. I have a different
2 colored bow tie for tomorrow.

3 CHAIRMAN BROWN: Oh, good. I hope it's
4 colorful.

5 Seeing no opposition, then, Staff, please call
6 your next witness.

7 MS. JANJIC: There she is. She's coming.

8 CHAIRMAN BROWN: I know you all are taking
9 bets back there. Are we going to do it?

10 We don't bet, by the way, at the Florida
11 Public Service Commission. Never.

12 Good evening.

13 THE WITNESS: Good evening.

14 MR. FRIEDMAN: You look so fresh.

15 CHAIRMAN BROWN: Did you take a nap out there?

16 THE WITNESS: Starbucks.

17 CHAIRMAN BROWN: Well, you look excellent.

18 Ms. Daniel, have you been sworn in?

19 THE WITNESS: I have.

20 CHAIRMAN BROWN: Great. Staff.

21

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1 PATTI DANIEL

2 was called as a witness on behalf of the Florida Public
3 Service Commission, and having been first duly sworn,
4 testified as follows:

5 EXAMINATION

6 BY MS. JANJIC

7 Q Good evening, Ms. Daniel. Would you please
8 state your full name and business address for the
9 record?

10 A I'm Patti Daniel. 2540 Shumard Oak Boulevard
11 Tallahassee, Florida.

12 Q By whom are you employed and in what capacity?

13 A I'm employed by the Florida Public Service
14 Commission. I'm the Bureau Chief of the Economic Impact
15 & Rate Design Section.

16 Q Have you prepared and caused to be filed in
17 this proceeding on March 20, 2017, 20 pages of prefiled
18 direct testimony with attached Exhibits PBD-1, PBD-2,
19 and PBD-3 identified as Exhibit Nos. 139, 140, and 141
20 on the Comprehensive Exhibit List?

21 A Yes.

22 Q I will indicate that there were changes made
23 to your Exhibit PBD-1, filed on April 10th, 2017;
24 changes made to direct testimony filed on April 24,
25 2017; and changes made to Exhibit PBD-3, filed on May 2,

1 2017.

2 Other than those changes already filed, do you
3 have any additional changes or revisions to your
4 prefiled direct testimony or exhibits?

5 A No, I do not.

6 Q If asked the same questions contained in your
7 revised direct testimony today, would your answers be
8 the same?

9 A Yes.

10 MS. JANJIC: At this time I would ask that the
11 previously filed revised testimony of Ms. Daniel be
12 inserted into the record as though read.

13 CHAIRMAN BROWN: We will go ahead and insert
14 Ms. Daniel's previously filed revised testimony
15 into the record as though read.

16 MS. JANJIC: Thank you.

17 (Prefiled revised testimony inserted into
18 the record as though read.)

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF PATTI B. DANIEL**

4 **DOCKET NO. 160101-WS**

5 **MARCH 20, 2017 – CORRECTED APRIL 24, 2017**

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

7 A. My name is Patti Daniel. My business address is 2540 Shumard Oak Boulevard,
8 Tallahassee, Florida 32399-0850.

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

10 A. I am employed by the Florida Public Service Commission (FPSC or Commission) as
11 the Chief of the Bureau of Economic Impact & Rate Design in the Division of Economics.

12 **Q. Please summarize your educational and professional background.**

13 A. I received a Bachelor of Business Administration with an accounting major in 1975
14 and a Master of Accountancy in 1976 from the University of Georgia. Following graduate
15 school, I worked for several Certified Professional Accounting firms in Atlanta, Georgia
16 preparing financial statements and tax returns. I was employed by the FPSC in 1984 and, after
17 several promotions, I now serve as Chief of the Bureau of Economic Impact & Rate Design. I
18 have analyzed and made recommendations on a variety of issues in all of the industries
19 regulated by the Commission.

20 **Q. What is the purpose of your testimony?**

21 A. The purpose of my testimony is to describe the Commission's rules and practices with
22 respect to rate design and service availability policies for water and wastewater utilities. I will
23 discuss the utility's proposal to consolidate rates and alternatives to the utility's requested rate
24 design. I will also describe mechanisms to address issues such as revenue stability, as well as
25 the Utilities, Inc. of Florida (UIF) customer demographics and consumption (demand)

1 patterns. Finally, I will address Commission policies and practices with respect to issues such
2 as guaranteed revenue and allowance for funds prudently invested charges and reuse rates.

3 **Q. Are you sponsoring any exhibits with your testimony?**

4 A. Yes, I am sponsoring Exhibits PBD-1 through PBD-3, which address UIF Residential
5 Customer Demographics, Water Bill Comparisons Based on 7,000 Gallons per Month, and
6 Wastewater Bill Comparisons Based on 6,000 Gallons per Month, respectively. These
7 exhibits were prepared by me and the information in the exhibits is correct to the best of my
8 knowledge.

9 **Q. What criteria does the Commission use in setting rates for water and wastewater**
10 **utilities?**

11 A. Section 367.081(2)(a)1., Florida Statutes (F.S.), prescribes that the Commission set
12 rates that are just, reasonable, compensatory, and not unfairly discriminatory, considering the
13 value, quality, and cost of the service. These criteria are demonstrated in the manner in which
14 the Commission evaluates each water and wastewater utility's rate structure and the resulting
15 rates. Customer demographics and consumption patterns are identified in order to develop
16 rates that provide revenue stability for the utility and send pricing signals to customers.
17 Revenue stability impacts the utility's ability to attract capital and make system upgrades.
18 Pricing signals can mitigate the cost of essential water consumption while encouraging water
19 conservation for nonessential consumption. In addition, the Commission considers whether
20 customer demand appears to be seasonal and the anticipated customer reaction to price changes.

21 **Q. Have you performed an analysis of the UIF request to consolidate the rate**
22 **structures and rates for its 12 water and 15 wastewater systems?**

23 A. Yes. In preparation of my analysis, I reviewed the utility's MFRs and testimony, as
24 well as prior Commission orders. I also reviewed utility witness Guastella's Exhibits JFG-4,
25 Schedule W-B and JFG-5, Schedule S-B, which contain comparisons of bills at the average

1 residential consumption for each water and wastewater system using the stand alone and
2 consolidated rates calculated by the utility.

3 I prepared Exhibit PBD-1, which contains a comparison of the geographic and
4 demographic characteristics of the UIF residential customers by system. The data used to prepare
5 this exhibit was collected from the utility's MFRs, Schedules E-3 and E-14 (residential customers,
6 average residential consumption, and seasonality) and the U. S. Census Bureau FactFinder website
7 (https://factfinder.census.gov/faces/nav/jsf/pages/community_facts.xhtml).

8 Exhibits PBD-2 and PBD-3 contain comparisons of monthly residential bills at 7,000
9 gallons for water and 6,000 gallons for wastewater using the stand alone and requested
10 consolidated rates calculated by the utility. The stand alone and consolidated rates were based
11 on the utility's requested revenue requirements. These comparisons are consistent with the
12 comparisons used in prior Commission orders (Order No. PSC-09-0385-FOF-WS, in Docket
13 No. 080121-WS; and Order Nos. PSC-11-0256-PAA-WS and PSC-12-0102-FOF-WS, in
14 Docket No. 100330-WS) in which consolidated rates and the resulting subsidy levels were
15 considered.

16 **UIF Service Areas and Customers**

17 **Q. Please provide a brief description of the UIF service areas and customers.**

18 A. The UIF service areas include ten counties; some of the systems within those counties
19 provide both water and wastewater service, while others provide only one service. The
20 households include retirement communities, RV parks, single and multi-family homes, and
21 apartment and condominium complexes in both rural and urban areas. Each system currently
22 has unique rate structures and rates that reflect the characteristics of those customers and each
23 system's costs.

24 **Q. What conclusions can be drawn from the comparisons in Exhibit PBD-1 addressing**
25 **the geographic and demographic characteristics of each UIF system's customers?**

1 A. Exhibit PBD-1 demonstrates the diversity in the utility's residential customer base.
2 The household size ranges from an average of approximately two to two and a half people per
3 household. Some service areas include as few as 100 customers, while others include in excess
4 of 10,000 customers. Average monthly customer consumption ranges from 1,290 gallons to
5 over 15,000 gallons per month, and many of the service areas have a seasonal customer base.

6 **Stand Alone and Consolidated Rate Designs**

7 **Q. Has the Commission addressed requests to consolidate rate structures and rates**
8 **in the past?**

9 A. Yes. The Commission has approved consolidated rates for water and wastewater
10 systems in the past (Order Nos. PSC-97-0531-FOF-WU and PSC-99-0635-FOF-WU, in
11 Docket No. 960444-WU; and Order No. PSC-03-1440-FOF-WS, in Docket No. 020071-WS)
12 based on criteria unique to those systems. However, in most of those cases, the service areas
13 were smaller and the customers were far less diverse than those of UIF.

14 In addition, the Commission has considered consolidated rates for several large water
15 and wastewater utilities. Cap band rates were approved for Southern States Utilities, Inc. in
16 1999 following a series of proceedings (Order Nos. PSC-93-0423-FOF-WS and PSC-95-1292-
17 FOF-WS in Docket No. 920199-WS; Order No. PSC-94-1123-FOF-WS in Docket No.
18 930880-WS; and Order Nos. PSC-96-0125-FOF-WS and PSC-96-1320-FOF-WS in Docket
19 No. 950495-WS). Approximately 90 water systems were grouped into eight bands and 37
20 wastewater systems were grouped into six bands. The Commission found that the cap band
21 rates represented a significant move toward a long-term goal of uniform rates and minimized
22 the amount of subsidies paid by customers. Subsidies were determined based on the difference
23 between bills at proposed stand alone rates and bills at the proposed consolidated rate for each
24 system.

25 The most recent example of this type of request is found in rate increase applications

1 by Aqua Utilities Florida, Inc. in 2008 and 2010 (Order No. PSC-09-0385-FOF-WS in Docket
2 No. 080121-WS; and Order Nos. PSC-11-0256-PAA-WS and PSC-12-0102-FOF-WS in
3 Docket No. 100330-WS). In those cases, the Commission ultimately approved cap band rates
4 for approximately 57 water and 25 wastewater systems.

5 **Q. Please provide a brief description of the cap band methodology.**

6 A. Under the cap band methodology, service areas with similar costs are grouped together
7 to minimize subsidies within groups, and a cap is set on the maximum bill a customer will pay
8 in each group. The revenues not recovered from customers in the highest cost systems, as a
9 result of the cap, are spread to the remaining lower cost systems. Once a revenue requirement,
10 cap, and subsidy limit have been determined, rates are determined through an iterative
11 comparison of groups of systems relative to the cap and subsidy limits.

12 Subsidies are inherent in any rate structure design because there are unique costs
13 associated with serving disparate customer groups. Limiting the subsidy level among systems
14 reduces the number of systems that can be grouped together for purposes of setting rates,
15 while increasing the subsidy level will allow more systems to be grouped together and result
16 in fewer rate groups.

17 **Q. How do stand alone and modified stand alone rates differ from cap band rates?**

18 A. Stand alone rates result in the closest approximation of the true cost of service of each
19 system. Modified stand alone rates and cap band rates address subsidy limits among
20 customers. Modified stand alone rates are based on individual system costs with a benchmark
21 or maximum bill at a particular level of consumption. Revenue deficiencies resulting from the
22 caps are recovered from customers in the lower cost systems. While no customers below the
23 cap receive a subsidy under the modified stand alone approach, some customers below the cap
24 receive a subsidy under a cap band rate structure.

25

1 **Q. What conclusions can be drawn from the comparisons in Exhibits PBD-2 and PBD-3?**

2 A. The comparisons in Exhibits PBD-2 and PBD-3 are based on bills at 7,000 gallons per
3 month for residential water customers and 6,000 gallons for residential wastewater customers,
4 respectively, consistent with prior Commission orders addressing subsidies (Order No. PSC-
5 09-0385-FOF-WS in Docket No. 080121-WS; and Order Nos. PSC-11-0256-PAA-WS and
6 PSC-12-0102-FOF-WS in Docket No. 100330-WS). Witness Guastella's exhibits relied on the
7 average consumption for each system, rather than a specific price point for all systems.

8 Exhibit PBD-2 reflects a subsidy of \$13.74 per month from the Sanlando water
9 customers, with all other customers receiving a subsidy. In prior rate cases for Sanlando
10 (Order No. PSC-13-0085-PAA-WS, in Docket No. 110257-WS; and Order No. PSC-15-0233-
11 PAA-WS, in Docket No. 140060-WS), the Commission included an allocation of revenue
12 from wastewater to water in order to mitigate the impact of the rate increase to the wastewater
13 customers and to encourage water conservation because of the customers' high average water
14 consumption. This allocation is not included in the utility's calculation of stand alone or
15 consolidated rates.

16 The greatest subsidy shown on Exhibit PBD-3 is \$14.99 per month for the Pennbrooke
17 wastewater system; two other systems, Sanlando and Mid-County, would also pay subsidies of
18 \$12.83 and \$9.14 per month, respectively. These three systems represent about 30 percent of
19 UIF's residential wastewater customers.

20 **Q. Has the Commission taken steps to address rate impacts to customers in prior**
21 **water and wastewater decisions?**

22 A. The Commission has addressed rate impacts such as rate shock and disparate impacts
23 among customers in several past rate cases. In Docket No. 100330-WU, the monthly rates
24 approved by the Commission were capped at bills of \$68.30 for 7,000 gallons of water and
25 \$87.55 at 6,000 gallons for wastewater (Order Nos. PSC-11-0256-PAA-WS and PSC-12-0102-

1 FOF-WS in Docket No. 100330-WU). UIF's proposed consolidated rates result in monthly bills of
2 \$25.33 at 7,000 gallons and \$54.93 at 6,000 gallons for water and wastewater, respectively.

3 **Q. What are primary benefits associated with UIF's request for consolidated rates?**

4 A. The most important benefit of consolidated rates for customers is that the cost of
5 system upgrades can be spread over a larger number of customers, mitigating the impact of
6 those costs on customers. Given the age of many of the UIF systems, the potential costs
7 associated with repairing or replacing aging infrastructure, and the desire of many customers
8 to see improvements in the quality of the water they receive, consolidated or cap band rates
9 would help to minimize rate shock for those systems that would otherwise bear all of those
10 costs. The primary benefit of consolidated rates for UIF is the ease of administration for
11 billing and accounting purposes and mitigation of the associated costs.

12 **Q. What are primary concerns associated with UIF's request for consolidated rates?**

13 A. For customers in lower cost systems, consolidated rates will result in a
14 disproportionate share of the revenue requirements being included in their rates in the short
15 term, although as previously mentioned, this may be offset in the future if significant capital
16 improvements are needed in the lower cost systems.

17 **Additional Rate Design Considerations**

18 **Q. Are there changes you would recommend with respect to the utility's proposed**
19 **inclining block rate structure?**

20 A. Yes. The utility's proposed rates for water service include a base facility charge and a
21 three-tier gallonage charge, or inclining block rate structure. Although the utility's proposed
22 rate structure reflects similarities with those of the various existing individual systems, some
23 of those rates have not been reviewed in more than five years. The utility's MFRs reflect that
24 the average consumption for most of the systems has declined in the past five years. (Schedule
25 Nos. F-9 and F-10 of the MFRs) Given those changes, modifications to several aspects of the

1 | proposed rate design may better reflect the UIF residential customer demographics.

2 | **Q. Please summarize the Commission's past practices with respect to the amount of**
3 | **revenue allocated to the base facility charges for water and wastewater systems.**

4 | A. Revenue stability is the primary ratemaking goal generally considered in developing
5 | the portions of the revenue requirement that are allocated to the base facility charges for water
6 | and wastewater systems. The Commission typically allocates approximately 40 percent of the
7 | revenue requirement of a water system to the base facility charge. This target was developed
8 | as a result of a 1991 Memorandum of Understanding the Commission entered into with the
9 | state's five water management districts to promote water conservation through rate design. In
10 | recognition of the capital intensive nature of wastewater utilities, the allocation of revenue to
11 | the base facility charge is often 50 percent or greater. These allocations are reflected in many
12 | prior Commission orders (Order No. PSC-15-0282-PAA-WS, in Docket No. 140158-WS; and
13 | Order No. PSC-16-0525-PAA-WS, in Docket No. 160030-WS).

14 | The base facility charge revenue generally reflects recovery of fixed operating costs,
15 | including depreciation, property taxes, and operating expenses such as salaries that do not vary
16 | based on customer consumption. Minimizing increases in the base facility charge can help
17 | mitigate the impact of a rate increase on customers using minimal amounts of water. In
18 | addition, the greater the portion of the revenue requirement allocated to the usage or gallonage
19 | charge, the greater the flexibility in developing multiple tiers and significant price differentials
20 | among the tiers in order to promote water conservation. However, if a customer base appears
21 | to be highly seasonal, a higher allocation to the base facility charge can be used to create
22 | greater revenue stability (Order No. PSC-14-0335-PAA-WS, in Docket No. 130243-WS; and
23 | Order No. PSC-15-0282-PAA-WS, in Docket No. 140158-WS). Exhibit PBD-1 identifies the
24 | UIF systems whose customers appear to be seasonal.

25 | UIF's proposed rates would generate approximately 35 percent and 52 percent of the

1 water and wastewater revenues, respectively, from the consolidated base facility charges.
2 These allocations are consistent with those approved in prior cases for both UIF systems, as
3 well as other Florida utilities.

4 **Q. How is a discretionary consumption threshold used in ratemaking?**

5 A. Another ratemaking goal is to minimize, to the extent possible, price increases at lower
6 monthly consumption levels that reflect non-discretionary consumption. A discretionary
7 consumption threshold differentiates the amount of water customers might use for essential or
8 non-discretionary uses, such as cooking, drinking, or washing, as opposed to non-essential or
9 discretionary uses, such as outdoor irrigation. The estimated non-discretionary consumption
10 can be used to determine the first tier of an inclining block rate structure. When the
11 Commission makes a repression adjustment to account for the reduction in consumption
12 resulting from a price increase, only those gallons sold that are above the discretionary
13 consumption threshold are adjusted downwards (Order No. PSC-03-1440-FOF-WS, in Docket
14 No. 020071-WS; and Order Nos. PSC-11-0256-PAA-WS and PSC-12-0102-FOF-WS, in
15 Docket No. 100330-WS).

16 **Q. How is a discretionary consumption threshold for residential customers typically**
17 **determined?**

18 A. Discretionary consumption is estimated based on local demographic characteristics.
19 The number of gallons included in a discretionary consumption threshold for residential
20 customers is typically estimated based on 50 gallons per person per day for each person in the
21 household (Order No. PSC-15-0282-PAA-WS, in Docket No. 140158-WS; and Order No.
22 PSC-16-0256-PAA-WU, in Docket No. 150199-WU). For a household of two, the estimated
23 non-discretionary consumption would be about 3,000 gallons per month (50 x 2 x 30 days).
24 Exhibit PBD-1 reflects the estimated household size and average monthly residential
25 consumption for each of the UIF systems.

1 The discretionary consumption threshold reflected in the final rates should be
2 evaluated to help mitigate the impact of any increase in revenues on non-discretionary
3 consumption. The demographics shown on Exhibit PBD-1 indicate that, based on the
4 household sizes and average consumption of the UIF residential water customers, the
5 discretionary consumption threshold should be approximately 4,000 to 5,000 gallons per
6 month.

7 **Q. How are the number of tiers included in residential water rates and the factors**
8 **associated with each tier typically determined?**

9 A. The number of tiers included in residential water rates reflect the usage characteristics
10 of the customers, although the diversity of the UIF customers presents a challenge. While a
11 single or uniform gallonage charge will provide a greater pricing signal than a flat water rate
12 that does not vary based on consumption, multiple tiers (inclining block rates) provide greater
13 incentives to encourage water conservation.

14 The number of gallons included in each tier can be used to address the varying
15 household sizes and levels of discretionary consumption that those households appear to be
16 using. The factors used to develop the relationship in prices among the tiers can provide
17 pricing signals to customers that are designed to encourage water conservation at higher levels
18 of consumption. A rate structure with three tiers of gallonage charges recognizes non-
19 discretionary consumption, as well as discretionary consumption for which a modest pricing
20 signal can be provided and higher levels of discretionary consumption for which a more
21 significant pricing signal is desired.

22 UIF's current rate structures include residential water rates with a uniform gallonage
23 charge for several systems, as well as systems with three and four tiers, with varying relative
24 factors among the gallonage charges. Whether the final approved rate structure for all UIF
25 residential water customers is based on individual systems, groups of systems, or all systems

1 combined into a single rate structure, the first tier should reflect that system's or group of
2 systems' estimated non-discretionary consumption. The gallonage charge for the first tier can
3 be designed to help mitigate the rate impact on residential, non-discretionary consumption.

4 **Q. How are the gallonage charges typically calculated by the Commission for general**
5 **service water customers?**

6 A. The general service gallonage charge for water systems reflects an average gallonage
7 charge based on total customer consumption, as demonstrated in UIF's current rates. Tiered
8 gallonage charges for general service water customers may not be effective in promoting
9 water conservation because their consumption is typically inelastic.

10 **Q. How is the number of gallons included in the cap on residential wastewater bills**
11 **typically determined by the Commission?**

12 A. The number of gallons included in the cap on residential wastewater bills is typically
13 designed to capture approximately 80 percent of the residential customers' water consumption
14 in order to recognize that not all water consumption is returned to the wastewater system
15 (Order No. PSC-15-0282-PAA-WS, in Docket No. 140158-WS; and Order No. PSC-16-0525-
16 PAA-WS, in Docket No. 160030-WS). The estimated level of non-discretionary water
17 consumption may also be used as an indicator of the amount of water returned to the
18 wastewater system. A higher gallonage cap will result in more gallons included in the
19 calculation of the residential wastewater gallonage charge (and a lower gallonage charge) than
20 a lower gallonage cap.

21 Currently, UIF's wastewater systems have caps on residential wastewater bills at
22 6,000, 8,000, and 10,000 gallons per month, which are typical increments for wastewater
23 systems. The UIF proposed cap for the consolidated wastewater rates is 8,000 gallons per
24 month.

25

1 **Q. How are the gallonage charges calculated for wastewater customers?**

2 A. Wastewater gallonage charges are typically developed by the Commission based on all
3 residential water consumption within the cap and all of the general service water consumption.
4 The general service gallonage charge is typically 20 percent greater than the residential
5 gallonage charge to reflect the higher potential strength of the wastewater typical of some
6 general service customers (Order No. PSC-15-0282-PAA-WS, in Docket No. 140158-WS;
7 and Order No. PSC-16-0525-PAA-WS, in Docket No. 160030-WS).

8 **Q. How should rates be designed for wastewater customers for which water**
9 **consumption data is not available?**

10 A. Commission practice has been to develop a flat rate for wastewater customers for
11 whom water consumption data is not available because the customer either has a private well
12 or receives water from a utility other than the wastewater provider (Order No. PSC-15-0233-
13 PAA-WS, in Docket No. 140060-WS; and Order No. PSC-15-0282-PAA-WS, in Docket No.
14 140158-WS). If water consumption data is available for a portion of the customers, a flat rate
15 is designed to reflect the metered residential wastewater rate and the average number of
16 gallons the metered residential customers use.

17 UIF provides unmetered wastewater service to 600 homes in the Sanlando service
18 territory, approximately 1,500 customers in the Longwood service territory in Seminole
19 County, approximately 900 homes in the Eagle Ridge Cross Creek HOA in Lee County, 1,000
20 customers of Mid-County and Terre Verde in Pinellas County, and a few homes on private
21 wells in the Lake Placid service area in Highland County and the Orangewood service area in
22 Pasco County. The extent to which systems may be consolidated for final rates should be used
23 as the basis to determine whether the final flat rates for those systems should be based on the
24 average consumption for individual systems or a group of systems.

25

1 **Q. Are there other proposed wastewater rates that should be evaluated?**

2 A. Yes. The Lake Placid wastewater system in Highlands County serves a mobile home
3 park which relies on a private well for water service to approximately 71 homes. A base
4 facility charge was designed for that customer in prior Commission orders (Order No. PSC-
5 11-0015-PAA-WS, in Docket No. 090531-WS; and Order No. PSC-14-0335-PAA-WS, in
6 Docket No. 130243-WS) to reflect the estimated demand that customer places on the
7 wastewater system with a discount to reflect cost savings associated with billing the
8 homeowners' association instead of the individual customers. According to the utility's billing
9 data (MFR Schedule E-2), the average demand per homeowner in the mobile home park
10 appears to be similar to the average demand for other residential wastewater customers. In
11 addition, a discounted general service gallonage charge was previously approved to reflect that
12 the customer owns and maintains the lift stations. Therefore, the rates for this customer
13 should be evaluated to determine whether they continue to reflect the criteria approved in the
14 prior orders.

15 **Q. Please summarize the Commission's past practices with respect to repression**
16 **adjustments.**

17 A. The Commission typically estimates the rate at which residential customers will reduce
18 their water consumption in response to an increase in price, elasticity of demand, at four
19 percent of discretionary consumption for every 10 percent increase in price. In some instances,
20 the Commission has used a lower price elasticity assumption or made no repression
21 adjustment when little or no reduction in demand was anticipated. This practice has developed
22 primarily through its application in staff assisted rate cases with small, homogeneous customer
23 bases. In contrast, the UIF customer base is diverse in both demographic and geographic
24 characteristics. Some of the systems provide both water and wastewater service, while other
25 systems provide only one of the services.

1 A repression adjustment is typically not applied to non-discretionary residential
2 consumption in recognition of the relative inelasticity of non-discretionary consumption
3 (Order No. PSC-03-1440-FOF-WS, in Docket 020071-WS; and Order Nos. PSC-11-0256-
4 PAA-WS and PSC-12-0102-FOF-WS, in Docket No. 100330-WS). In addition, a repression
5 adjustment is typically not made for general service customer consumption because there is an
6 expectation that those customers will pass the cost of water service on to their customers
7 rather than reduce water usage in response to a price increase.

8 It is far more difficult to determine whether and to what extent a repression adjustment
9 should be made for wastewater systems. A change in wastewater rates often has far less
10 impact on a customer's reaction to pricing signals than a change in water rates. Some
11 customers may not realize that their wastewater rates are based on water consumption, even if
12 the water and wastewater services are provided by the same company. If the water provider
13 does not also provide the wastewater service, there is even more of a disconnect for customers.

14 Because a repression adjustment results in an increase in the final rates, a lower
15 elasticity of demand assumption would help to mitigate the impact of a rate increase.
16 However, if actual repression is greater than expected, the company may not achieve its
17 authorized revenues.

18 **Service Availability Charges**

19 **Q. Should the utility's existing service availability charges be evaluated?**

20 A. Yes. The utility's existing service availability charges should be evaluated to
21 determine whether the utility's contribution level for each of its systems is consistent with the
22 Commission's guidelines with respect to service availability charges.

23 **Q. What is the purpose of contributions in aid of construction?**

24 A. Contributions in aid of construction (CIAC) provide a mechanism for utilities to
25 recover a portion of their investment as customers connect to the system. The CIAC also

1 reduces the investment on which the utility may earn a return. Rule 25-30.580, F.A.C., is a
2 guideline that provides that, at a minimum, customers should pay for the cost of the utility's
3 distribution and collection systems. Further, the rule provides that the maximum contribution
4 level should not exceed 75 percent of the utility's investment at design capacity.
5 CIAC may be collected in the form of donated property or service availability charges. A
6 main extension charge is a service availability charge designed to reflect the average cost per
7 customer of the utility's distribution or collection systems. A few UIF systems have a
8 customer connection charge, which is designed to recover the cost to connect a customer's
9 property to the utility's distribution or collection system, although for most utilities, that cost
10 is included in the main extension charge. A plant capacity charge represents a portion of the
11 cost of the production, treatment, and disposal systems. In some instances, a system may have
12 a system capacity charge that incorporates the main extension and plant capacity charge.
13 However, in those instances when a developer constructs and donates lines to a utility,
14 collection of a system capacity charge would result in an over collection of CIAC from that
15 developer.

16 **Q. Should the UIF water and wastewater service availability charges be evaluated?**

17 A. While UIF did not request a change in its service availability policy or charges in its
18 MFRs, staff routinely reviews utility contribution levels in rate cases to ensure that the level
19 falls within the range indicated in the Commission's guidelines. According to the utility's
20 MFRs, Schedule A-2, the water systems are approximately 25 percent contributed and the
21 wastewater systems are approximately 22 percent contributed. The utility's distribution and
22 collection systems represent about 47 percent and 30 percent of the water and wastewater
23 systems' investments, respectively.

24 Each UIF water and wastewater system has its own unique service availability charges
25 that were designed over many years. Some of the UIF systems are built out and, in some

1 instances, the distribution and collection lines were fully contributed to the utility when the
2 service area was developed. However, for systems experiencing growth, additional CIAC can
3 help mitigate the utility's investment in that system as new customers connect.

4 Policies regarding service availability should compliment rate structure policies. If the
5 Commission approves stand alone or modified stand alone rates, service availability charges
6 should be evaluated on an individual system basis as well. However, if the Commission moves
7 toward consolidated or cap band rates, the utility's service availability charges could be
8 evaluated system by system or on a consolidated basis. System specific service availability
9 charges would allow the Commission to approve higher charges for high cost systems that are
10 experiencing customer growth, which would, over time, reduce the relative cost per customer
11 for those systems closer to the utility's overall average cost.

12 **Q. What is the purpose of guaranteed revenue charges?**

13 A. Guaranteed revenue charges are service availability charges that are designed to
14 recover the utility's cost of operation, maintenance, depreciation, property taxes, and a return
15 on investment for assets that are not used and useful. The charges, which are paid by a land
16 owner seeking to reserve utility capacity prior to connecting to the utility's water or
17 wastewater system, typically reflect the utility's approved base facility charge for residential
18 customers (Order No. PSC-99-2114-PAA-SU, in Docket No. 981221-SU).

19 **Q. Should the utility's guaranteed revenue charge for the Sandalhaven system be**
20 **revised?**

21 A. The utility's guaranteed revenue charge for the Sandalhaven wastewater system was
22 approved in Docket No. 130053-SU, following Charlotte County transferring jurisdiction over
23 privately owned water and wastewater utilities to the Commission (Order No. PSC-13-0178-
24 SU, in Docket No. 130053-SU); the charge was revised in a subsequent rate case (Order No.
25 PSC-16-0013-PAA-SU, in Docket No. 150102-SU). However, while the approved guaranteed

1 revenue charge is similar to the approved base facility charge, it is not the same charge.
2 Therefore, consistent with prior Commission practice, a final guaranteed revenue charge
3 should be consistent with the final approved based facility charge for the Sandalhaven
4 residential customers.

5 **Q. What is the purpose of allowance for funds prudently invested charges?**

6 A. An allowance for funds prudently invested (AFPI) charge is a service availability
7 charge that allows a utility to recover costs associated with utility assets that have been
8 constructed, but are not included in the utility's approved revenue requirement and, therefore,
9 are not passed on to the general body of ratepayers. The charges are typically allowed to
10 accrue for five years from the date they are approved. While the costs are capped at the end of
11 the five year accrual period, Rule 25-30.434(6), F.A.C., provides that the utility can continue
12 to collect the constant charge from future connections until all connections projected in the
13 calculation have been added.

14 **Q. Should the utility's AFPI charges be revised?**

15 A. No, but they should be clarified. The utility's current tariff contains AFPI charges for
16 water service for LUSI and for wastewater service for Longwood, LUSI, and Sandalhaven
17 (Order No. 20779, in Docket No. 871059-SU; Order No. 24283 in Docket No. 900957-WS;
18 Order Nos. PSC-97-0531-FOF-WU and PSC-99-0635-FOF-WU, in Docket 960444-WU; and
19 Order No. PSC-13-0178-FOF-SU, in Docket No. 130053-SU). While the charges should not
20 be changed, some of the tariffs should be clarified as to the number of future connections to
21 which the charges apply.

22 **Reuse Rates**

23 **Q. Please summarize the Commission's past practices with respect to pricing**
24 **reclaimed water.**

25 A. In prior Commission orders, rates for reclaimed wastewater or reuse have reflected the

1 utility's options for disposal. If the cost of effluent disposal is prohibitive, typically as a result
2 of limited access to affordable land, providing reclaimed water for irrigation often provides a
3 cost effective disposal alternative. UIF provides reclaimed water to golf courses and other
4 bulk customers in several of its wastewater service areas at no charge or at a nominal charge
5 (Order No. PSC-03-0647-PAA-WS, in Docket No. 020407-WS; and Order No. PSC-15-0233-
6 PAA-WS, in Docket No. 140060-WS). In addition, UIF provides reuse to approximately 600
7 residential customers in its LUSI service area and approximately 100 residential customers in
8 its Sanlando service territory. The current residential reuse rates were approved in Docket
9 Nos. 100426-WS and 140060-WS (Order No. PSC-11-0514-PAA-WS, in Docket No. 100426-
10 WS; and Order No. PSC-15-0233-PAA-WS, in Docket No. 140060-WS). The utility also has
11 an approved reuse rate for its Pennbrooke wastewater system, but no reuse revenues were
12 generated for that system during the test year.

13 The utility proposed a uniform reuse rate for the residential customers in the LUSI and
14 Sanlando service areas that receive that service. However, in prior Commission decisions,
15 reuse has been priced in recognition of the rates charged by other reuse providers in the area.
16 In Docket No. 991643-SU, the Commission identified the Department of Environmental
17 Protection's Reuse Inventory Report (<http://www.dep.state.fl.us/water/reuse/inventory.htm>) as
18 the source for rates charged by reuse providers in the Aloha area (Order No. PSC-01-0326-
19 FOF-SU, in Docket 991643-SU). Reuse is also priced substantially lower than potable water
20 to encourage the use of reclaimed water instead of potable water for irrigation. If the
21 Commission does not approve the utility's proposed rates for reclaimed water, the 2015
22 Department of Environmental Protection Reuse Inventory Report could be used to identify the
23 rates for reclaimed water provided near those systems.

24
25

1 **Conclusion**

2 **Q. Do you have any concluding remarks?**

3 A. Yes. The utility's proposed consolidated water and wastewater rates provide some
4 benefits to both the utility and its customers. Both consolidated rates, as proposed by the
5 utility, and cap band rates can mitigate the impact of cost increases associated with additional
6 utility investment in response to aging infrastructure repair or replacement or other quality of
7 service issues. However, the long-term advantages of any consolidation must be balanced
8 against the resulting subsidies that customers would share. Ultimately, the final revenue
9 requirements for the individual UIF water and wastewater systems should reflect the prudent
10 costs of providing those services, and the extent to which systems may be grouped should
11 address potential subsidies. Whether the final rates are based on stand alone, consolidated, or
12 some other grouping of systems, the diversity of the UIF customer base should influence the
13 ways in which revenue stability and pricing signals are developed. This concludes my
14 testimony.

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1 BY MS. JANJIC

2 Q Would you please give the Commission a brief
3 summary of your direct testimony?

4 A Yes. Commissioners, the purpose of my
5 testimony is to describe the Commission's rules and
6 practices with respect to rate design and service
7 availability policies for water and wastewater
8 utilities. My testimony addresses various aspects of
9 rate design that help to ensure revenue stability for
10 the Utility and mechanisms to mitigate the impact of any
11 rate increase for customers regardless of whether some
12 or all of the UIF's system's rates are consolidated.

13 UIF currently has twelve residential rate
14 schedules for its water customers with base facility
15 charges that range from \$4.49 to \$15.94. Some of those
16 systems have a uniform gallonage charge and others have
17 tiered or claim block rates with various consumption
18 levels included within tiers.

19 The Utility's 15 wastewater systems have 13
20 residential rate schedules based on water demand and
21 seven flat-rate schedules for those customers for which
22 wastewater -- for which water demand information is not
23 available.

24 While the Utility's proposed consolidated rate
25 design reflects characteristics of some of the existing

1 rate schedules, the Commission should also consider the
2 customers' current usage characteristics in designing
3 final rates. Exhibit PBD-1 provides a summary of
4 customer demographics for the Utility's residential
5 water and wastewater customers.

6 Whether some, none, or all of the water
7 systems are consolidated, the final rate design should
8 reflect the corresponding customer groups' estimated
9 nondiscretionary residential consumption and the
10 discretionary consumption for which a significant
11 pricing signal is desired.

12 The estimated nondiscretionary residential
13 consumption can be priced to minimize any rate increase
14 while rates for discretionary consumption at higher
15 levels can be set to encourage water conservation.

16 The Utility's proposed repression adjustment
17 is significantly less than that typically used by the
18 Commission which is to the customer's advantage because
19 it results in lower gallonage charges than those that
20 would result from a larger repression adjustment.

21 Regardless of the degree of consolidation, the
22 final rate design for the Utility's wastewater systems
23 should reflect each customer group's estimated demand on
24 those systems. Carefully designed service availability
25 charges can also help mitigate future rate increases

1 because they reduce the amount of investment on which a
2 Utility may earn a return.

3 Rule 2530.580 of the Florida Administrative
4 Code provides that at a minimum new customers should pay
5 for the costs of the lines. Comparing the Utility's
6 current contribution levels with their investment in the
7 distribution and collection lines indicates that the
8 current service availability charges may not be
9 adequate.

10 At a minimum all of the UIF's system should
11 have a main extension charge or a policy that allows the
12 Utility to recover the cost of each new customer's
13 pro rata share of the lines. In some of the systems
14 that have a system capacity charge, those charges should
15 be revised to reflect a main extension charge and, if
16 appropriate, a plant capacity charge.

17 While in the short-term the Utility's proposal
18 to consolidate rates for water and wastewater systems
19 would result in customers of low-cost systems
20 subsidizing the customers of high-cost systems, all
21 customers could benefit over time because the impact of
22 cost increases would be spread over a greater number of
23 customers. Exhibits PBD-2 and PBD-3 show the impact on
24 customers of fully consolidated rates based on the
25 Utility's requested revenue requirement and rate design.

1 Any changes to either the requested revenue requirement
2 or rate design will have varying effects on the
3 resulting levels of subsidization. In addition,
4 grouping portions of the water or wastewater systems
5 instead of consolidating all of the systems will also
6 affect the amount of subsidization of other systems.

7 That concludes my summary.

8 MS. JANJIC: Thank you, Ms. Daniel.

9 Madam Chairman, I tender this witness for
10 cross-examination.

11 CHAIRMAN BROWN: Thank you.

12 All right. Public counsel. Ms. Ponder.

13 MS. PONDER: Thank you.

14 EXAMINATION

15 BY MS. PONDER

16 Q Good evening, Ms. Daniel.

17 A Good evening.

18 Q Would you please turn to Page 12, Lines 23
19 through 24 of your direct testimony? Here you state
20 that the Utility has proposed a wastewater cap of 8,000
21 gallons per month. If the rates are consolidated, what
22 is your opinion as to the reasonableness of an 8,000
23 gallon cap as opposed to a 6,000 or 10,000?

24 A Right. The Utility's current residential
25 rates for wastewater include caps. Some of the systems

1 have caps at 8,000 gallons. Some have 6,000 gallon caps
2 and others have 10,000 gallon caps. If the cap were
3 left at 8,000 gallons, that just mitigates the swing
4 that will happen when the number of gallons are used to
5 calculate the wastewater gallonage charge.

6 **Q If rates are not consolidated, what then is**
7 **your opinion of UIF's proposed gallonage cap?**

8 A If the systems are left on stand-alone rates,
9 then we would want to look at the usage level for those
10 customers of a particular system. If the systems are
11 grouped in some way, we would want to look at that
12 group's demand on the system.

13 **Q Okay. When setting residential wastewater**
14 **rates, you would agree that the rates for flat-rate**
15 **customers should be approximately equal to the rates of**
16 **the average consumption-based customer meaning the flat**
17 **rate should be equal to the base facility charge plus**
18 **average gallonage for consumption-based rates?**

19 A Correct.

20 **Q Would you please turn to Page 15, Lines 14 to**
21 **15 of your direct where you discuss the Commission's**
22 **repression policy?**

23 A Yes.

24 **Q Here you state on Line 16, "If actual**
25 **repression is greater than expected, the Company may not**

1 achieve its authorized revenues."

2 You would agree that if repression is less
3 than expected the Company may achieve more than its
4 authorized revenues?

5 A It is possible.

6 Q You would agree that means the customers are
7 paying more in their rates than is necessary for the
8 Utility to achieve its authorized revenues?

9 A I'm sorry. Could you say that again?

10 Q You'd agree that that means that the customers
11 are then paying more in their rates than is necessary
12 for the Utility to achieve its authorized revenues?

13 A It is possible. It is not necessarily true.

14 Q Okay. You would agree that if actual
15 repression is greater than expected and UIF is earning
16 below its authorized return that UIF could request a
17 revenue neutral rate design adjustment to address this
18 potential problem?

19 A Yes.

20 Q From the customer's perspective, you'd agree
21 that making no repression adjustment is better than
22 making the wrong repression adjustment?

23 A I don't know that that's necessarily true.

24 No.

25 Q Okay. So is it your testimony that customers

1 don't mind paying more in their rates than necessary?

2 A No, ma'am. That is not my testimony.

3 Q Okay. Moving on. During your time here with
4 PSC, you were charged with evaluating rates for
5 utilities for proforma projects; correct?

6 A There was a time when I did supervise some
7 engineering staff, and there were occasions, yes, when
8 we did look at proforma projects. Yes.

9 Q Okay. And in your capacity of supervising
10 engineers, was it the Commission policy to send
11 engineers to inspect the proforma projects? Was that
12 the policy?

13 MS. JANJIC: Objection. Outside the scope of
14 the testimony.

15 MS. PONDER: This witness is a staff expert
16 and has a broad-based experience with --

17 COMMISSIONER GRAHAM: Can you show me where
18 it's in her testimony?

19 MS. PONDER: Those are our last questions.

20 COMMISSIONER GRAHAM: Okay. Thank you.
21 Summertree?

22 MR. ARMSTRONG: Thank you. I have eight
23 questions once again.

24 COMMISSIONER GRAHAM: Sure.
25

1 EXAMINATION

2 BY MR. ARMSTRONG

3 Q Hi, Ms. Daniel. How are you?

4 A Good evening.

5 Q Good evening.

6 The rule you cite in your testimony,
7 Rule 25-30.580, that Rule doesn't apply to natural gas
8 utilities; correct?

9 A That's correct. Rule 25-30 is for water and
10 wastewater utilities.

11 Q Okay. Thank you.

12 How about AFPI charges? Those don't apply to
13 gas utilities either; correct?

14 A That's correct.

15 Q Natural gas utilities don't collect guaranteed
16 revenue charges either; correct?

17 A That's correct. Guaranteed revenue charges
18 are reflected for nonuse and useful plant, and gas
19 companies don't have nonuse and useful plants.

20 Q That's right. Thank you.

21 The more revenue required the Utility is
22 allowed to collect in their base facility charge that
23 reduces the risk to the Utility of collecting their
24 total revenue requirement; correct?

25 A Yes.

1 Q Okay. And you testified that -- or
2 acknowledged that in this case the Utility is asking for
3 a repression adjustment?

4 A Correct.

5 Q The repression adjustment means that, if we
6 raise rates, what they're anticipating is a reduced
7 level of consumption; correct?

8 A To some degree, yes.

9 Q Okay. UIF has not presented evidence to show
10 how its customers have reacted in the past to rate
11 increases; correct?

12 A I don't recall any specific testimony. There
13 is evidence in the record of what has happened over the
14 last five years with respect to repression.

15 Q Okay. But specific testimony or specific
16 evidence that would show we did a 50 percent rate
17 increase to this system in the past and the consumption
18 dropped by X, there's nothing like that?

19 A There is no specific testimony with respect to
20 the expected declines.

21 Q Okay. Thank you. One more question.

22 In your summary you mentioned that current
23 service availability charges may not be -- may not be
24 high enough; correct?

25 A Correct.

1 Q So, in other words, the Utility is not in
2 compliance with the rule you cited, 25-30.580?

3 A That rule is a guideline. So the Commission
4 uses that rule as a benchmark, if you will, for setting
5 service availability charges. The Utility does charge
6 the charges that have been approved by the Commission;
7 so I can't say that they are out of compliance.

8 Q But that rule just -- last question and this
9 is quick.

10 The rule is 25 -- I call it the 25/75 rule.
11 It requires that 25 percent of the investment be paid
12 through service availability charges; correct?

13 A Not exactly. No, sir.

14 Q No? Okay.

15 Thank you for your testimony. Appreciate it.

16 CHAIRMAN BROWN: Thank you, Commissioner
17 Graham, and thank you, Mr. Armstrong.

18 So we're at a juncture right now. The time is
19 9:35. I think a lot of us would like to be fresh
20 in the morning. We've covered a lot.

21 Seminole?

22 MR. BILENKY: Madam Chairman, it would be
23 helpful to me I think to have -- I saw Ms. Daniel
24 had her summary of her testimony written. Rather
25 than have her reread it tomorrow, if we could get a

1 copy of it tonight, I would like to go through it
2 because some of the things she said are issues that
3 will eliminate some of my questions because I think
4 I can agree with her if I could read it.

5 CHAIRMAN BROWN: Well, now you're talking.

6 Do you have a copy, Ms. Daniel?

7 Staff, do you have an objection?

8 MS. JANJIC: No objection.

9 CHAIRMAN BROWN: Any of the parties have an
10 objection?

11 All right. We will accommodate that request.

12 MR. BILENKY: Thank you.

13 CHAIRMAN BROWN: And so it's 9:35. We've had
14 a long day. We've gotten a lot accomplished today.

15 Folks, we want to start at 9 a.m. tomorrow?

16 All right. We'll see you -- we are in recess.

17 We'll see you at 9 a.m. Thank you.

18 (Whereupon, the proceedings stood in recess
19 until 9:00 a.m., May 10, 2017.)

20 (Transcript continues in sequence in
21 Volume VI.)

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CERTIFICATE OF REPORTER


STATE OF FLORIDA)
COUNTY OF LEON)

I, JANYCE BOOTH, Court Reporter, do hereby
certify that the foregoing proceeding was heard at the
time and place herein stated.

IT IS FURTHER CERTIFIED that I
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and that this transcript constitutes a true
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I FURTHER CERTIFY that I am not a relative,
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DATED this 12th day of May, 2017.



JANYCE W. BOOTH
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