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## I N D E X

## WITNESSES

NAME:

PAGE NO.

DEBORAH SWAIN

Examination by Mr. Friedman	758
Prefiled rebuttal testimony inserted	760
Examination by Mr. Sayler	797
Examination by Mr. Wright	834
Examination by Ms. Crawford	850
Examination by Mr. Friedman	870

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## EXHIBITS

NUMBER:	ID	ADMITTED
54 through 60 - (as identified on the Comprehensive Exhibit List)		873
132 - Excerpt from "Principles of Public Utility Rates" by James Bonbright	799	
133 - Trial Balance Excel File	850	877
134 - Escrow Agreement	850	877
135 - Staff's Interrogatory No. 83	850	877

1 P R O C E E D I N G S

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

4 COMMISSIONER POLMANN: Okay. I have on my  
5 list to bring back in rebuttal, Ms. Swain.

6 MR. SMITH: That is correct.

7 COMMISSIONER POLMANN: Okay.

8 EXAMINATION

9 BY MR. FRIEDMAN:

10 Q Ms. Swain, would you please state your name.

11 A Yes, Deborah Swain, vice president of Milian,  
12 Swain & Associates, Miami.

13 Q Ms. Swain, did you cause to be prepared  
14 rebuttal testimony and exhibits in this proceeding?

15 A Yes, I did.

16 Q And do you have any changes to your testimony  
17 or exhibits?

18 A I do have a couple changes to my exhibits, a  
19 couple of corrections. I don't have revised exhibits.  
20 I just have a couple of corrections. Do you want me to  
21 go through those now?

22 Q Yes, please.

23 A Okay. So, the first is -- in my testimony,  
24 Pages 9 through 12, I go through a very-detailed  
25 explanation of an adjustment that needs to be made to

1 accumulated depreciation and depreciation expense.

2 And in my Exhibit DDS-2, I incorporated all of  
3 my adjustments. And this was for informational  
4 purposes, but I realized, subsequently, that I neglected  
5 to include the adjustments I referred to on Pages 9 to  
6 12 in my rebuttal testimony.

7 And the -- there's one other -- I just  
8 discovered it last night. It's just a title on my  
9 Exhibit DDS-8. It's got the wrong title on it. It  
10 says, "Stipulated audit finding one and COA adjustment  
11 booked by the utility," and that's not what it is at  
12 all. It should say "List of rebuttal adjustments." And  
13 that pertains to both Pages 1 and 2 of DDS-8.

14 **Q And other than the corrections you just**  
15 **mentioned, if I asked you the questions in your prefiled**  
16 **rebuttal testimony, would your responses be the same?**

17 A Yes.

18 MR. FRIEDMAN: Thank you. I would ask that  
19 Ms. Swain's rebuttal testimony be inserted into the  
20 record as though read.

21 COMMISSIONER POLMANN: At this time, we'll  
22 enter into the record Ms. Swain's prefiled rebuttal  
23 testimony, with the corrections noted.

24 (Prefiled rebuttal testimony entered into the  
25 record as though read.)

1 **Q. Please state your, name profession and address.**

2 A. My name is Deborah D. Swain. I am Vice President of Milian, Swain & Associates, Inc.  
3 and head up the firm's finance, accounting and management team. My business address is  
4 2015 SW 32<sup>nd</sup> Ave., Suite 110, Miami, Florida 33145.

5 **Q. Have you presented direct testimony in this case.**

6 A. Yes, I have.

7 **Q. What is the purpose of your rebuttal testimony?**

8 A. The purpose of my rebuttal testimony is to present information to refute some of the issues  
9 and arguments presented by Florida Public Service Commission witness Marisa Glover,  
10 Office of Public Counsel witnesses Helmuth Schultz and Andrew Woodcock, and Monroe  
11 County witnesses Terry Deason and Jeffrey Small.

12 **Q. Are you sponsoring any exhibits?**

13 A. Yes, I am sponsoring the following exhibits: Exhibit DDS-2, select updated schedules from  
14 MFR Volume I; Exhibit DDS-3. Stipulated Audit Finding 1 and COA booked by the  
15 Utility; Exhibit DDS-4, Table 1-1 from the 2014 Audit Report; Exhibit DDS-5, 2017 asset  
16 detail for pumping equipment; Exhibit DDS-6, current prime rate as published by the Wall  
17 Street Journal; DDS-7, Interest Paid on FPSC Escrow Account; and DDS-8, a list of my  
18 adjustments.

19 **Q. Were these Exhibits prepared by you and your staff?**

20 A. Yes they were, using information provided by KWRU staff or consultants.

21 **Q. What issues will you be addressing in your testimony?**

22 A. I address each witness one at a time, and cover the following issues:

23 FPSC Witness Marisa Glover

24 • Audit Report

25 OPC Witness Schultz

- 1           • Working Capital
- 2           • Accumulated Depreciation and Depreciation Expense
- 3           • Plant Retirements
- 4           • New Office Cost
- 5           • Five-Year Average for Certain Expenses
- 6           • Proforma Benefits
- 7           • Hurricane Irma Costs
- 8           • Extraordinary Event Costs
- 9           • Capital Structure

10           OPC Witness Woodcock

- 11           • Adjustment to Proforma Plant

12           County Witness Small

- 13           • The appropriateness of projected test year billing units
- 14           • The calculation of projected test year billing units

15           County Witness Deason

- 16           • Matching Principle

17

18           AUDIT FINDINGS

19   **Q.    Do you agree with the findings in the Audit Report prepared by FPSC Witness Marisa  
20           Glover?**

21   A.    I agree with Audit Finding 4 and Audit Finding 5, but disagree with Findings 1, 2 and 3.

22

23   FPSC AUDIT FINDING 1

24   **Q.    Please explain why you are not in agreement with Finding 1.**

25   A.    Audit Finding 1 makes additional adjustments to plant, accumulated depreciation and

1 depreciation expense for commission ordered adjustment allegedly not made by KWRU  
2 from the prior case.

3 Audit Finding 1 in the prior case, Docket No. 150071-SU, found numerous corrections to  
4 entries recorded to utility plant accounts. KWRU filed a response to that finding on  
5 November 19, 2015. In the Order No PSC-16-0123-PAA-SU, the Commission agreed with  
6 the utility's objections, stating "In response to Audit Finding No. 1, the Utility disagreed  
7 with the removal of \$160,823 from plant and provided explanations and support for the  
8 inclusion of multiple transactions that occurred during 2007, 2008, and 2009. We agree  
9 with the Utility's explanations and the appropriate corresponding adjustments to increase  
10 plant and accumulated depreciation by \$160,823 and \$45,676 respectively shall be made."

11 Although the PAA was protested, the Final Order reflects that all parties stipulated to  
12 adjusted Finding No. 1, and included a table identical to the table in the PAA order that  
13 reflects the agreed to amounts as they pertained to rate base (with the exception of  
14 working capital). The stipulation was \$817,240.

15 Table 1-1: 13-Month Average Adjustment

16 Although the level of detail regarding the calculations behind the stipulated amounts are not  
17 contained in the final order, it is appropriate to refer to the PAA Order to find those details.

18 The pertinent issue is that the utility objected to adjustments included in the associated audit  
19 report in the amount of \$160,823, and the resulting amount was incorporated into the final  
20 order.

21 It appears that not all of the individual items included in that total of \$160,823 were  
22 considered in the audit report in this case. For example, the first line item detailed on page  
23 6, Account 361 Collection Sewers, indicates that the utility should have made an adjustment  
24 of \$140,054 but only made an adjustment of \$124,296. My Exhibit DDS-3 shows the  
25 detail of the adjustments argued by KWRU in Docket 15071-SU, the resulting



1 stipulated Finding 1, the adjustment booked by the utility. It then shows the 2017  
2 Finding 1 amount Witness Glover said was booked compared to what she claimed was  
3 actually booked. By reviewing my Exhibit, it is apparent that not all of the amounts and  
4 adjustments in that 2017 Audit Report are correct. It is also apparent that although  
5 KWRU booked all of the adjustments, the adjustments were not necessarily to the  
6 account determined in the audit for the last case. In some cases it is because the  
7 adjustment made by KWRU was to the account where the error actually resided, but in  
8 some cases, the entry was to the incorrect account. Exhibit DDS-4 is Table 1-1 which  
9 provides the detail extracted from the 2014 Audit Report for Audit Finding 1.

10 **Q. What adjustments, if any, should be made to Finding 1?**

11 A. Finding 1 should be reversed in its entirety.

12  
13 FPSC AUDIT FINDING 2

14 **Q. Please explain why you are not in agreement with Finding 2.**

15 A. Audit Finding 2 states that "Typically interest bearing accounts, such as these, are excluded  
16 from working capital unless the associated interest income is also included above the line in  
17 Revenues. The Utility did not include any interest income in revenues for this rate case.  
18 Therefore, average working capital should be decreased by \$20,160."  
19 However, the utility did include the income from deposits paid during the test year, as  
20 interest paid is a credit on the invoice for service from the provider. KWRU recorded only  
21 the net amount of the invoice as an expense on its books, having the same net effect as  
22 recording the interest as income.

23  
24 FPSC AUDIT FINDING 3

25 **Q. Please explain why you are not in agreement with Finding 3.**

1 A. Audit Finding 3 recommends an increase of \$20,789 in test year revenues based upon a  
2 review of billing registers and billing history reports. Of that total adjustment, \$9,982 is due  
3 to a difference between the miscellaneous revenues in the MFRs and the amount reported  
4 on the utility's RAF report. However, \$9,623 of that is MCDC revenues that were incurred  
5 in the prior period (June 2016), and on the company books in June 2016, but inadvertently  
6 omitted from the RAF report as of June 30, 2016. This amount was included in the  
7 December 31, 2016 return. This amount, \$9,623 should not be an adjustment to test year  
8 revenues. Next, after reviewing the audit workpapers, I do not agree with the adjustment of  
9 \$10,807 for measured residential (522.1) and commercial revenues (522.2) as it appears that  
10 no adjustments and/or credits to customer bills were considered.

11

12 WORKING CAPITAL

13 **Q. Do you agree with OPC Witness Schultz' adjustment to cash in the calculation of**  
14 **Working Capital included in Rate Base?**

15 A. No. I do not agree with him that the utility has accumulated a significant amount of cash  
16 that is not readily needed to operate the Company on a daily basis. During the test year the  
17 utility was unable to meet its financial obligations on two occasions during the months of  
18 July and August 2016. In July 2016, the utility was unable to cover the costs of construction  
19 requiring a loan transfer in the amount of \$681,780 into its capital account. Additionally  
20 during the month of August 2016 the utility had to rely on capital contributions in the  
21 amount of \$530,000 to cover construction costs. The utility relied on capital contributions  
22 and draws from long term debt to cover its normal operating costs and construction costs  
23 during the test year.

24 Furthermore, in the last rate case, OPC claimed that the \$877,289 of cash included in  
25 KWRU's requested working capital was excessive, and in Order No. PSC-16-0123-PAA-

1 SU, Commission reduced the amount allowed in working capital by \$559,311. However, it  
 2 is obvious that this assertion was inaccurate, the amount was not excessive, and in fact has  
 3 continued and even slightly increased through the current test period.

4 KWRU has continued to struggle to obtain the cash needed for their operations and the  
 5 sizable capital program they have in place. It is unfair to arbitrarily reduce cash because it  
 6 is "not needed" when this is just not the case. The appropriate amount includable in working  
 7 capital so that the utility can meet its financial obligations is \$911,826.

8 **Q. Do you agree with OPC Witness Schultz' that the 13-month average for deferred rate  
 9 case expense for the last rate case is overstated?**

10 A. Yes, I agree with him that the 13-month average for deferred rate case expense for the last  
 11 rate case on Schedule A-18 Page 2 of 2 is overstated and that the correct 13-month average  
 12 less amortization should be \$408,931. I do not agree with the calculation of his  
 13 recommended adjustment that working capital should be decreased by \$29,055. Omitted  
 14 from Witness Schultz calculation is the Utility's adjustment on Schedule A-3 Page 2 of 2  
 15 Line 14 adjusting working capital for 6 months amortization in the amount of \$(53,853). As  
 16 agreed, the 13-month average for deferred rate case expense as presented in Witness  
 17 Schultz' testimony should only be adjusted for two months amortization, therefore working  
 18 capital should be increased by \$24,798, as calculated below.

19	2015 Deferred Rate Case Expense OPC Balance - 13-month Average	\$ 408,946
20	2015 Deferred Rate Case Expense MFR Schedule A-18 - 13-month Average	\$ 438,001
21	Schedule A-3 Page 2 of 2 Line 14 Working Capital Adjustment for Unamortized	
22	rate case expense	<u>\$ ( 53,853)</u>
23	Deferred Rate Case Expense included in Working Capital	<u>\$ 384,148</u>
24	Working Capital Adjustment (additional)	<u>\$ 24,798</u>

25 **Q. Do you agree with Witness Schultz that Working Capital should exclude the "FPSC  
 26 Escrow Funds"?**

27 A. No, I do not agree that working capital should be decreased by the 13-month average

1 balance of \$282,123 in the FPSC Escrow Account. Funds in this account represented  
2 43.94% of all utility revenues collected per Order No. PSC-16-0123-PAA-SU deposited  
3 into an interest bearing trust account as required. These funds were earned by KWRU and  
4 were not refunded. As such, they are properly attributable to working capital. The  
5 approximately .5% annual interest is nominal and the utility is willing to include the \$1,689  
6 of interest paid on the account in utility income, and include the FPSC Escrow Account in  
7 working capital. It should be noted that the utility paid more interest than the amount  
8 earned in refunds to customers. I have provided the report of interest paid on the FPSC  
9 Escrow Account in DDS-7.

10  
11 PROFORMA PLANT

12 **Q. Do you agree with Witness Schultz that the actual cost of the service truck with the**  
13 **crane should be used instead of the original estimated cost?**

14 A. Yes, I do. As KWRU Witness Johnson testifies, the actual cost is different than the original  
15 estimate, and the \$65,105 actual cost should be used instead.

16 **Q. Do you agree with Witness Schultz that the actual cost of the sand-sifter should be**  
17 **used instead of the original estimated cost?**

18 A. Yes, I do. The \$43,110 actual cost should be used instead.

19 **Q. Do you agree with Witness Schultz that the cost of the new office building should be**  
20 **excluded?**

21 A. No. Although he has no objection to KWRU's request for a new office building, he  
22 recommends that no cost be allowed.

23 **Q. What is Witness Schultz' objection?**

24 A. First, he objects to the cost of the new office, stating that it is too high. He explained that he  
25 did an online review of construction costs, comparing the requested cost of KWRUs office

1 to prices he found in Broward, Miami and West Palm Beach. As the utility has explained  
2 consistently, the cost of virtually everything in the Keys is higher than elsewhere. Materials,  
3 supplies and labor all must be brought in from the mainland. It does not take much to  
4 speculate that the cost after the hurricane is even higher. Resources are scarce, and  
5 comparisons in other areas of the state or the country are irrelevant.

6 **Q. To what else does Witness Schultz object with respect to the new office?**

7 A. He objects to the lack of competitive bids, however Witness Johnson explains that this is  
8 incorrect.

9 **Q. What is your recommendation about the cost and inclusion of a new office?**

10 A. The cost which is supported by Chris Johnson and Robert Pabian should be included, and  
11 consideration for the difficulty in negotiating and securing a contractor for the work should  
12 be recognized.

13 **Q. Do you agree with Witness Schultz that the actual cost of other proforma plant**  
14 **additions that he notes from OPC Witness Woodcock's testimony should be used**  
15 **instead of the original estimated cost?**

16 A. Yes, I do. As Witness Johnson testifies, where the actual cost is different than the original  
17 estimate, the actual cost should be used instead. However, it should be noted that Witness  
18 Johnson supports different actual costs than Witness Woodcock. I recommend adjustments  
19 to the MFRs to the extent that Witness Johnson has supported.

20

21 ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE

22 **Q. Do you agree that any adjustments to the proforma capital costs should include**  
23 **adjustments to the associated accumulated depreciation and depreciation expense?**

24 A. Yes. The calculation of proforma accumulated depreciation and depreciation expense  
25 should be based on the final allowed proforma capital costs.

1 **Q. Is Witness Schultz correct that the worksheet provided by KWRU titled "Plant**  
2 **Additions" does not match the trial balance?**

3 A. He is correct, which is why the utility corrected the MFRs, showing the adjustment on MFR  
4 Schedule A-3, page 1 of 2. He then goes on to describe how this discrepancy was not  
5 properly considered when KWRU annualized depreciation for this plant. Again he is  
6 correct. However, his adjustment is inaccurate.

7 **Q. Please explain the adjustments you would make.**

8 A. I would make the following adjustments:

9 (1) KWRU made an annualization adjustment to Accumulated Depreciation for one-half  
10 year, as if no depreciation had been recorded. Upon review, I have found that this is  
11 incorrect. KWRU had recorded accumulated depreciation on all plant added after January  
12 2017 for six months, and this is what is included in the MFRs. No annualization adjustment  
13 to accumulated depreciation should have been made.

14 (2) When KWRU made the entry in March 2017 to record the completion of the AWT  
15 plant, the entire amount was recorded to 354.4 Structures and Improvements, which has a  
16 30-year life. Of that amount recorded, \$1,769,864 should not have been recorded to that  
17 account. This balance should have been charged to the accounts below. This correction  
18 should result in an adjustment to accumulated depreciation.

19 The correction to plant, as shown in the MFRs on Schedule A-3, page 1 of 2, lines 4-6 and  
20 lines 20-22, is as below:

21	354.4 Structures and Improvements	(1,769,868)	(30-year life)
22	364.2 Flow Measuring Devices	78,652	(5-year life)
23	380.4 Treatment & Disposal Equipment	1,591,112	(18-year life)
24	381.4 Plant Sewers	100,100	(35-year life)

25 The accumulated depreciation impact of these corrections to plant additions is as below,

1 with a one-half year convention.

2	354.4 Structures and improvements	(29,498)
3	364.2 Flow Measuring Devices	7,865
4	380.4 Treatment & Disposal Equipment	44,198
5	381.4 Plant Sewers	<u>1,430</u>
6	Total (additional accumulated depreciation required)	23,995

7

8 (3) The adjustment made by KWRU on the MFRs to annualize depreciation expense was  
 9 incorrect. The adjustment assumed that expense commenced the month after the plant was  
 10 added. However, in fact, depreciation started in January. The adjustment to increase  
 11 depreciation by \$185,311 should have only been \$125,074, per the "Plant Additions"  
 12 worksheet.

13 (4) The correction to the plant accounts described above requires an adjustment to  
 14 depreciation expense as it did to accumulated depreciation. This correction is as follows,  
 15 using a full year of depreciation expense

16	354.4 Structures and improvements	(58,996)
17	364.2 Flow Measuring Devices	15,730
18	380.4 Treatment & Disposal Equipment	88,396
19	381.4 Plant Sewers	<u>2,860</u>
20	Total	47,990

21 **Q. Please summarize these four adjustments.**

22 A. I would summarize as follows:

23		<u>Accumulated Depreciation</u>		<u>Depreciation Expense</u>	
24	Correction reference	(1)	(2)	(3)	(4)
25	354.4 Structures & Improvements	(63,736)	(29,498)	(31,868)	(58,996)
26	360.2 Collection Sewer Force	(3,839)		(640)	

1	364.2 Flow Measuring Devices	(7,865)	7,865	(3,933)	15,730
2	371.3 Pumping Equipment	(764)		(284)	
3	375.6 Reuse Trans/Dist	(2,358)		(393)	
4	380.4 Treatment & Disposal Equipment	(44,951)	44,198	(22,405)	88,396
5	381.4 Plant Sewers	(1,430)	1,430	(715)	2,860
6	390.7 Office Furniture	<u>(132)</u>		<u>1</u>	
7		<u>(125,074)</u>	<u>23,995</u>	<u>(60,237)</u>	<u>47,990</u>

8 Total additional adjustment

9 Accumulated Depreciation:  $(\$125,074) + 23,995 = \underline{\underline{(\$101,079)}}$

10 Depreciation Expense:  $(\$60,237) + 47,990 = \underline{\underline{(\$12,247)}}$

11

12 RETIREMENTS

13 **Q. Do you agree with OPC Witness Schultz' adjustments to retire several assets,**  
 14 **including the chlorine contact chamber, lift station, generator, and the office?**

15 A. I agree that the chlorine contact chamber and the lift station should be retired, since we have  
 16 included proforma plant to replace those items.

17 **Q. Do you agree with the retirement entries he recommends?**

18 A. Since the chlorine contact chamber and the lift station were constructed many years ago, we  
 19 are unable to find the original cost of those specific assets. In that case, it is consistent with  
 20 Commission policy to assume an original value of 75% of the replacement cost without  
 21 better or more reliable information. However, in looking at the adjustments he recommends,  
 22 and the balance in the specific accounts, I do not agree with the adjustments he makes.

23 **Q. With what do you disagree?**

24 A. Lift stations: His adjustment to retire lift stations is a reduction to account 354.3 of \$92,715.  
 25 However the balance in that account before the proforma adjustment is only \$875, the cost  
 26 of a fence installed in 2003. KWRU estimates that the lift station was installed in the mid-



1 1980s. The account with additions in the 1980s is account 3713 Pumping Equipment, with a  
2 total addition of \$163,052 in 1984. The next addition to that account was not until 2003, so  
3 this lift station is most likely included in that 1984 line item. The only other assets added in  
4 the 1980s were 3534 Land (1985), 3544 Structures (1985), 3602 Force Mains (1986), 3612  
5 Gravity Lines (1986), 3804 "Oxidation Lagoon" (1986), 3894 Misc Equipment (1984), and  
6 3937 Tools (1984).

7 **Q. Why is this significant?**

8 A. Most importantly, account number 3713 only has a 18-year life and that particular line item  
9 is no longer being depreciated. With the exception of account 3612 Gravity Mains (45 year  
10 life), all assets added in those categories in the 1980s are also fully depreciated, and the  
11 company is no longer depreciating them.

12 **Q. What is your recommendation pertaining to lift stations?**

13 A. Based on my review of the asset schedules, I believe that Lift Station 2A was included in  
14 the account 3713 Pumping Equipment. Since we cannot trace the original cost of the lift  
15 station, the utility should follow Commission policy and retire 75% of the replacement cost.  
16 This is \$109,795 (\$146,393 x 75%), reducing account 3713 and accumulated depreciation  
17 by that amount. However, no adjustment to depreciation expense is needed as the asset is  
18 fully depreciated, and has not been depreciated since June 2002. The asset details to which I  
19 am referring were provided in response to OPC 1st Request for POD #12 and attached to  
20 my rebuttal testimony as Exhibit DDS-5.

21 **Q. Do you agree with the retirement of the chlorine contact chamber?**

22 Although KWRU estimates that the two original chlorine contact chambers were  
23 constructed in 1994 and 1996, a review of that same asset detail shows that the only  
24 additions to plant in that year were to accounts 3602 Force Mains, and 3804 Treatment and  
25 Disposal Equipment. In 1997 there was also an addition to 3804 Treatment and Disposal

1 Equipment. It would be consistent with the records to presume that the two contact  
2 chambers are included in the balance for account 3804. However, the depreciation life of  
3 3804 is 15 years. The additions to 3804 from 1997 and earlier were fully depreciated, and  
4 there is no depreciation expense in the MFRs for those assets. The next addition to that  
5 account is not until the year 2000 for the installation of a pond liner. As is consistent with  
6 Commission policy, it would be appropriate to reduce account 3804 and accumulated  
7 depreciation by \$832,470 ( $\$1,109,960 \times 75\%$ ) but no adjustment to depreciation expense is  
8 appropriate.

9 **Q. Do you agree with Witness Schultz that the office which is being replaced should be**  
10 **retired?**

11 A. Yes, I do. Although Witness Schultz did not propose an adjustment, it was because he was  
12 not including the new office. A review of the asset detail indicates that the current office  
13 was purchased in 2002, is included in the account 3544 Structures and Improvements, the  
14 cost was \$44,450, and is being depreciated over 30 years. In addition, in that same account,  
15 there was a charge for relocating the office trailer \$20,064, and for office trailer electrical of  
16 \$4,461 in 2003. The appropriate adjustment is to reduce account 3544 Structures and  
17 Improvements, and accumulated depreciation by \$68,975 ( $\$44,450 + 20,064 + 4,461$ ). It is  
18 also appropriate to remove the associated depreciation expense included in the MFRs by  
19 \$2,299, which is \$68,975 divided by 30 years.

20 **Q. Do you agree that the generator which is being replaced should be retired?**

21 A. Yes, I do. However, the amount and account he used for the retirement adjustments is  
22 incorrect. Per the asset detail schedule, the Kohler Generator was purchased in December  
23 2005 at a cost of \$75,682, plus various installation costs totaling \$34,541, and additions in  
24 2012 of \$18,034, all recorded in account 3554 Power Generated Equipment, which has a 20  
25 year life for depreciation. The correct retirement adjustment would be a reduction to 3554

1 Power Generated Equipment and accumulated depreciation for the total including  
2 installation of \$128,257, and a reduction to annual depreciation expense of \$6,413 which is  
3 \$128,257 divided by 20 years.

4  
5 PHONE SYSTEM

6 **Q. Do you agree that a redundant phone system should be excluded from rates?**

7 A. No. Apparently it is not possible for Mr. Schultz to contemplate the enormous impact on  
8 customers when a telephone system fails after a catastrophic event. Like millions of  
9 customers in all of south Florida, KWRU was completely without telephone service for  
10 days. KWRU provides vital service to its customers, and cannot fail to provide that service.  
11 What Mr. Johnson has stated in his testimony is that the SCADA system is controlled over  
12 the internet. KWRUs internet service was through its telephone service provider. It is not  
13 surprising that Mr. Johnson is installing a redundant system to this vital service to ensure  
14 that the wastewater system is operational as quickly as possible in after a hurricane.

15 **Q. Is a redundant phone system only needed in event of a hurricane?**

16 A. No. The failure of the telephone and internet systems as a result of the hurricane simply  
17 highlighted the fragility of these systems. Redundancy is in place for the electrical system  
18 and now KWRU will put in place redundancy for the communication systems. The Florida  
19 Keys suffer a particular vulnerability due to their geography. The communication system  
20 infrastructure serving the keys are installed adjacent to the length of US Highway 1. Any  
21 disruption of service along that span results in service disruption. The utility's SCADA  
22 system relies on the communication system to provide the information, including alerting  
23 on-call personnel in event of a system failure. Without an operational communication  
24 system, the Utility will not receive an alert for an emergency condition, and the  
25 consequences can be catastrophic, as testified by Witness Johnson. In my own experience

1 communicating with KWRU in this rate case, KWRU staff has had to field calls using  
2 cellular phones, as KWRU's lines were down, on multiple occasions.

3  
4 PENSION PLAN

5 **Q. Do you agree with Witness Schultz' testimony regarding the pension expense?**

6 A. I do not agree with his adjustment to pension expense. KWRU has implemented a  
7 traditional pension plan in response to difficulties with retaining employees. He even  
8 characterized this traditional pension plan as "gold-plated".

9 First, as supported by Witness Johnson's rebuttal testimony, KWRU found that the pension  
10 plan was a key factor in its ability to retain staff. This is primarily because the previous  
11 plan, a 401k, allowed employees to take 100% of the funds paid in by the Company at the  
12 time the employee left through a rollover to an IRA, in other words, vesting immediately.  
13 The traditional pension plan builds in a vesting schedule that encourages employees to  
14 remain with the company in order to vest.

15 Second, as Witness Johnson testifies, and as KWRU has explained, employees have left for  
16 other employment due, in part, to the pension plan. Considering that other employers are  
17 offering traditional pension plans, this would dispel the claim that this pension plan is  
18 somehow excessive.

19 And finally, several years ago, my own company added a traditional pension plan to our  
20 benefits package in addition to a 401k. We did this for the same reason as KWRU – to  
21 establish a competitive benefit package and retain employees – in our case, professional  
22 engineers. The advantage is that it encourages employees to stay with the company, or they  
23 will not vest in the plan, unlike with payments by the company to the 401k plan which are  
24 vested immediately.

25 **Q. Can you explain how you calculated the pension expense?**

1 A. Yes. I want to first point out that I have revised the original incremental cost of the new  
 2 pension plan. In the MFRs I made an adjustment of \$10,141 to add 1% of salary as the  
 3 additional cost of the pension plan. However, in response to discovery requests, we  
 4 determined that this number did not incorporate the full incremental additional cost.  
 5 As explained by KWRU in its Response #123 to OPC's 5th set of Interrogatories, and  
 6 further explained by Witness Johnson, the total incremental cost of implementing a  
 7 traditional pension plan included within the test year will be higher than the \$10,141  
 8 included in the original pro forma adjustment. The amount that should be included is  
 9 \$35,768, calculated as 5% of annualized November salaries plus an expectation of  
 10 overtime, administration and setup costs, minus \$18,001 included in the test year.

11	Salaries and wages, adjusted as described above	\$ 971,380
12	Company contribution of 5%	\$48,569
13	Administration & setup costs	5,200
14	Less test year amount paid	<u>(\$18,001)</u>
15	Estimated incremental pension expense	\$35,768

16 I have incorporated this number into my revised MFR Schedules included in Exhibit  
 17 DDS-2.

18

19 BAD DEBT EXPENSE

20 **Q. Do you agree that KWRU's bad debt expense for an unpaid employee loan should be**  
 21 **disallowed?**

22 A. While I understand Witness Schultz' arguments for removing that cost, I disagree with his  
 23 conclusion. The expense incurred should have more correctly been charged to employee  
 24 costs rather than bad debt expense. Schultz' first argument is that because KWRU did not  
 25 pursue collection of the sum owed, it should not become a burden to the ratepayer. He is not

1 arguing that the loan should not have been made. In his analysis, he should have considered  
2 the cost of pursuing collection through a law firm and collection company as an offset to the  
3 potential payment. He also claims that this is a non-recurring cost, however there is no  
4 indication that this is non-recurring, or that if it is, that some similar cost won't be incurred  
5 in the company's continuous effort to attract and maintain its employees.

6  
7 HURRICANE IRMA COSTS

8 **Q. Witness Schultz identifies certain hurricane costs that were duplicated in KWRU's**  
9 **filing. Can you please go over them, and tell us what you found?**

10 A. Yes. Witness Shultz found two charges to Information Technology Solutions for \$142.50  
11 and \$1,722.50 that appear to be duplicated. After reviewing the information provided, I  
12 agree that the two charges from Information Technology Solutions in the amounts of  
13 \$142.50 and \$1,722.50 are duplicates and should be removed.

14 He also identified a charge of \$2,899 to Nearshore Electric to set up the electrical in the  
15 temporary office trailer, in addition to \$6,000 for utility installation costs. I agree that the  
16 charge from Nearshore Electric in the amount of \$2,899 should be removed.

17 There is also a charge from Sunbelt Rentals for \$1,940.41 in addition to six months of rental  
18 expense for the tow behind generator, finding that this one charge was a duplicate.

19 However, I do not agree that the \$1,940.41 charge from Sunbelt Rentals should be removed.

20 So far the Utility has paid a total of \$13,582.87 for seven months rental expense. Rental of  
21 the tow behind generator is expected to continue for an additional 4 months until the  
22 purchased unit will be delivered. I have also updated the cost associated with the rental of  
23 the large generator for a total of \$147,419 as it will also continue for 11 months.

24 Therefore, our requested hurricane costs should be increased by an additional \$57,095,  
25 amortized over 4 years for an increase of \$14,274 to O&M costs. Finally, Witness Schultz

1 finds that 6 charges labeled Paychex Overtime totaling \$7,440.27 are a duplicate of a  
2 separate line item on Schedule B-3 to amortize the hurricane overtime. However, there is  
3 only one adjustment included on the B-3 for costs associated with Hurricane Irma, and this  
4 is not a duplicate, Furthermore, these costs were incurred as a direct result of the hurricane,  
5 which took place after the test year, and is therefore not otherwise included in the MFRs.

6 **Q. Do you agree with Witness Schultz' contention that any insurance proceeds paid to**  
7 **compensate for damage caused by Hurricane Irma should be used to reduce the**  
8 **amount requested by KWRU?**

9 A. Yes, I do. In February 2018, KWRU received a payment of \$ \$19,393 as compensation for  
10 damages sustained from the hurricane. That payment should be used to reduce the deferred  
11 hurricane expense amount we are including in working capital, and amortizing over four  
12 years.

13 **Q. Do you agree that the cost associated with Hurricane Irma should be amortized over**  
14 **five years, not four?**

15 A. No, as testified to by Witness Chris Johnson, hurricane cost should be amortized over four  
16 years, not five. KWRU has determined that the anticipated average occurrence of impact  
17 from a hurricane is four years.

18  
19 ADVERTISING EXPENSE

20 **Q. Do you agree with Witness Schultz' recommendation that the most appropriate**  
21 **method for estimating advertising expense is a five-year average?**

22 A, No, I do not agree with his recommendation that the most appropriate method for  
23 estimating advertising expense is a five-year average. Considering the newly  
24 constructed plant, and the resulting change in operations, including virtually all

1 operating and maintenance conditions, it is inappropriate to do look-back to analyze  
2 current conditions for most expenses.

3 Rule 25-30.437 F.A.C. states that the includable operations and maintenance cost in an  
4 application for rate increase is the total test year expense. Rule 25-30.433(8), F.A.C.  
5 states that non-recurring expenses shall be amortized over a five-year period.  
6 Advertising expenses, as indicated in Witness Schultz testimony, is an annual expense  
7 incurred by the Utility. It is not a non-recurring expense and therefore the includable  
8 amount is the total test year actual expense.

9 **Q. Do you agree with the use of the Annual Reports to calculate a 5-year average?**

10 A. No. I do not agree with Witness Schultz' calculating the 5-year average based on  
11 information from the Annual Reports. Information found in the Utility's Annual  
12 Reports are compiled on a December 31 basis while the test year is June 30, 2017. The  
13 period for any calculated average should be from July through June. By using this  
14 method, he is excluding six months of the test year in his average. This is particularly  
15 pertinent in the case of advertising expense, where \$0 was incurred between January -  
16 June 2016, and the entire \$1,376 in 2016 was incurred from July - December 2016.  
17 Another \$4,256 was incurred in the period January - June 2017, and the total for the test  
18 year was \$5,803. The results of an average were significantly skewed since the amount  
19 used by Witness Schultz for the fifth year of his 5-year average was the \$1,376 incurred  
20 in late 2016.

21  
22 MATERIALS AND SUPPLIES

23 **Q. Do you agree with Witness Schultz' recommendation that the most appropriate**  
24 **method for estimating materials and supplies expense is a five-year average?**



1 A, No, I do not agree with his recommendation that the most appropriate method  
2 for estimating materials and supplies expenses is a five-year average. Considering the  
3 newly constructed .350 MGD plant, and the resulting change in operations, including  
4 virtually all operating and maintenance conditions, it is inappropriate to do look-back to  
5 analyze current conditions for most expenses, and particularly for materials and  
6 supplies.

7 Rule 25-30.437 F.A.C. states that the includable operations and maintenance cost in an  
8 application for rate increase is the total test year expense. Rule 25-30.433(8), F.A.C.  
9 states that non-recurring expenses shall be amortized over a five-year period. Materials  
10 and supplies, as indicated in Witness Schultz testimony, is an annual expense incurred  
11 by the Utility. It is not a non-recurring expense, and therefore the includable amount is  
12 the total test year actual expense. Averaging expense completely fails to recognize  
13 increasing trends as conditions change.

14 **Q. Do you agree with the use of the Annual Reports to calculate a 5-year average?**

15 No. I do not agree with Witness Schultz' calculating the 5-year average based on  
16 information from the Annual Reports. Information found in the Utility's Annual  
17 Reports are compiled on a December 31 basis while the test year is June 30, 2017. The  
18 period for any calculated average should be from July through June.

19 Finally, KWRUs detailed general ledger accounts are in much greater detail than the  
20 summary accounts listed in the annual reports and in the MFRs. While reviewing the  
21 amounts recorded in materials and supplies based upon the testimony of Witness  
22 Schultz, I discovered that the accounts included in materials and supplies in the MFRs  
23 is not consistent with the accounts used in the Annual Reports nor the prior MFRs. For  
24 that reason, an adjustment must be made to categorize the detailed accounts correctly

1 and consistently with all prior years. The details of the individual accounts totaled for  
 2 materials and supplies in the MFRs was provided in OPC's 1st request for production of  
 3 documents, number 12, in this docket, as subsequently revised on 2/21/2018 as  
 4 document # 0165-2018, and attached hereto as Exhibit DDS-2.

5 Below are the individual detailed accounts included in materials and supplies in the  
 6 MFRs, and the account that should have been used:

		<u>MFRs</u>	recommended
			Account
9	7180510 Supplies	22,518.99	720
10	7200510 Equipment & Supplies	9,497.08	720
11	7200820 Office Supplies	10,734.70	720
12	7360110 Emergency Repairs	684.40	736
13	7360200 Vacuum Stn Repairs & Maint	10,180.64	736
14	7360330 Vacuum Collection System	2,429.94	736
15	7360410 Lift Stations-Cleaning	2,263.89	736
16	7360420 Lift Station Repair & Maint	5,076.27	736
17	7360430 Pumps & Panels Repairs & Maint	2,749.08	736
18	7360520 Equipment Repair & Maint	3,997.53	736
19	7360530 Filter Beds	26.86	736
20	7360540 Generator Maintenance	3,815.84	736
21	7360600 Grounds and Office Maint	2,849.24	736
22	7360610 Plant Repair or Maintenance	<u>9,216.11</u>	736
23	Total	86,040.57	

24 This would result in a reduction of \$43,290 to account 720 Materials and Supplies and  
 25 an increase in the same amount to Account 736 Contractual Services Other. The  
 26 resulting total would be as below:

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	<u>per MFRs</u>	<u>adjustment</u>	<u>adjusted total</u>	<u>Schultz average</u>
Account 720	\$86,041	(\$43,290)	\$42,751	\$37,566
Account 736	\$0	\$43,290	\$43,290	N/A

It is pertinent to point out here that Witness Schultz did not perform a historical analysis on account 736 which went from \$45,054 allowed in the 2014 test year rate case to \$0 in our 2017 MFRs.

To make the impact of the re-assignment of the detailed accounts above, I have included revised MFR schedules B-6 and B-8 as Exhibits DDS-2

#### CONTRACTUAL SERVICES - ENGINEERING

**Q. Do you agree with Witness Schultz' recommendation that the most appropriate method for estimating contractual services-engineering expense is a five-year average?**

No. I do not agree with his recommendation that the most appropriate method for estimating contractual services - engineering expenses is a five-year average. Considering the newly constructed .350 MGD plant and the resulting change in operations, including virtually all operating and maintenance conditions, it is inappropriate to do look-back to analyze current conditions for most expenses, including engineering services. Rule 25-30.437 F.A.C. states that the includable operations and maintenance cost in an application for rate increase is the total test year expense. Rule 25-30.433(8), F.A.C. states that non-recurring expenses shall be amortized over a five-year period. Contractual services - engineering, as indicated in Witness Schultz' testimony, is an annual expense incurred by the Utility. It is not a non-

1 recurring expense and therefore the includable amount is the total test year actual  
2 expense.

3 **Q. Do you agree with the use of the Annual Reports to calculate a 5-year average?**

4 A. No. I do not agree with Witness Schultz' calculating the 5-year average based on  
5 information from the Annual Reports. Information found in the Utility's Annual  
6 Reports are compiled on a December 31 basis while the test year is June 30, 2017. The  
7 period for any calculated average should be from July through June.

8 **Q. Do you agree that the cost included in Contractual Services - Engineering to renew the  
9 DEP permit should be amortized over 5-years?**

10 A. Yes, the cost of obtaining or renewing a permit should be amortized over the life of the  
11 permit. However, the unamortized balance should be included in working capital.

12 **Q. Do you agree that the cost included in Contractual Services - Engineering associated  
13 with plant projects should be capitalized?**

14 A. Yes, the cost of engineering associated with plant projects should have been capitalized  
15 to those plant projects.

16

17 WORKERS' COMPENSATION INSURANCE

18 **Q. Do you agree that only the test year amount workers' compensation should the  
19 allowed?**

20 A. No. The cost of those employees for workers' compensation is 4.4% as KWRU provided in  
21 its response to Citizens' Interrogatory No. 61. Witness Schultz does not present an  
22 argument against the calculation. He asserts that since the number of employees has not  
23 increased, the cost should not increase. However, as I have discussed, the number of  
24 employees has increased, as KWRU had projected in its proforma expense adjustment, and  
25 therefore the expense should increase.

1           EQUIPMENT RENTAL EXPENSE

2       **Q.    Do you agree with Witness Schultz' recommendation that the most appropriate**  
3           **method for estimating equipment rental expense is a five-year average?**

4       A.    No. I do not agree with Witness Schultz' recommendation that the most appropriate  
5           method for estimating rental of equipment expense is a five-year average.    Rule 25-  
6           30.437 F.A.C. states that the includable operations and maintenance cost in an  
7           application for rate increase is the total test year expense.    Rule 25-30.433(8), F.A.C.  
8           states that non-recurring expenses shall be amortized over a five-year period.  
9           Equipment rental expense, as indicated in Witness Schultz testimony is not a non-  
10          recurring expense and therefore the includable amount is the total test year actual  
11          expense.

12       **Q.    Do you agree with Witness Schultz' recommendation that the entire test year**  
13           **expense should be removed?**

14       A.    No. In his testimony Witness Schultz calculated a 5-year average expense of \$656 for  
15           rental of equipment then recommended removing the entire test year expense of \$1,479.  
16           I do not agree with the recommended adjustment to remove the entire test year expense  
17           of \$1,479 as it is unreasonable to assume that there will be no future equipment rental  
18           expense since the Utility has purchased a service truck with crane.    On the contrary,  
19           there will continue to be other ongoing equipment rental needs.    The utility's equipment  
20           rental expense is certainly not limited to the crane truck, and there are certain projects  
21           which will require a crane apparatus with capabilities beyond the service truck with  
22           crane, as testified to by Chris Johnson.

23       **Q.    Do you agree with the use of the Annual Reports to calculate a 5-year average?**

1 A. No. I do not agree with Witness Schultz' calculating the 5-year average based on  
2 information from the Annual Reports. Information found in the Utility's Annual  
3 Reports are compiled on a December 31 basis while the test year is June 30, 2017. The  
4 period for any calculated average should from July through June.

5

6 EMPLOYEE TRAINING

7 **Q. Do you agree with Witness Schultz' recommendation that the most appropriate**  
8 **method for estimating employee training expense is a four-year average?**

9 A. No. I do not agree with Witness Schultz' recommendation that the most appropriate  
10 method for estimating employee training expense is a four-year average. Rule 25-  
11 30.437 F.A.C. states that the includable operations and maintenance cost in an  
12 application for rate increase is the total test year expense. Rule 25-30.433(8), F.A.C.  
13 states that non-recurring expenses shall be amortized over a five-year period. Employee  
14 training expense, as indicated in Witness Schultz' testimony is not a non-recurring  
15 expense and therefore the includable amount is the total test year actual expense.  
16 Furthermore, Witness Schultz uses a historical calendar years for his analysis, which  
17 exclude one-half of the entire test year. He performs no analysis to determine the cause  
18 for an increase in training over time, and ignores that the test year amount is actually  
19 lower than the 2016 calendar year amount.

20

21 BENEFIT EXPENSES AND PAYROLL TAXES

22 **Q. Do you agree that an adjustment to employee benefits and payroll taxes is warranted**  
23 **if salaries and wages are adjusted?**

24 A. Yes. Since employee benefits and payroll taxes are a function of salaries and wages, it is

1 appropriate to adjust them proportionately, whether salaries and wages are increased or  
2 reduced. Since I do not support a reduction in salaries and wages, I of course do not support  
3 a reduction in benefits and payroll taxes.

4  
5 RATE CASE EXPENSE

6 **Q. Have you reviewed Witness Schultz' testimony regarding rate case expense?**

7 A. Yes, I have. He observes that the Utility has not provided updated actual and estimated cost  
8 information for completion of the case. We have provided that several times, most recently  
9 in response to #63 of Staff's Third Interrogatories. I have included the updated rate case  
10 expense in Schedule B-10 of my Exhibit DDS-2 consistent with the information provided in  
11 that response. As is customary, KWRU will continue to provide copies of actual invoices  
12 and estimates for completion as appropriate during the duration of the rate case.

13 It's worthwhile also pointing out that Witness Schultz notes that Smith Hawks and  
14 Friedman and Friedman's hourly rates are very high, and "significantly higher in this case  
15 than in KWRU's last rate case in Docket No. 20150071-SU." However, Friedman and  
16 Friedman's hourly rate is \$370 per hour, compared to \$360 three years ago in that prior  
17 Docket. Smith Hawks was \$350 per hour three years ago, compared to \$347.50 average rate  
18 charged in this case. As of the date of this testimony, over 87% of the attorney hours billed  
19 by Smith Hawks were billed by Nick Batty at a rate of \$275.00 per hour. KWRU has tasked  
20 the lowest cost attorney on its legal team to respond to the voluminous discovery  
21 propounded in this docket, which represents the bulk of the time expended. The Smith  
22 Hawks average attorney rate to date is less than \$300.00

23  
24 CAPITAL STRUCTURE / COST OF CAPITAL

25 **Q. Do you agree with Witness Schultz' testimony regarding the appropriate capital**

1           **structure and the cost of the various components?**

2    A.    I do not agree with his assessment of Common Equity, where he expresses concern about a  
3           difference in Common Equity between a workpapers provided, and Schedules A-19 and D-  
4           2 of the MFRs. There are a couple of reasons. The first reason is a common accounting  
5           practice, whereby current earnings are closed to retained earnings once a year at the  
6           company's fiscal year end. As the company closes it books on December 31, and the test  
7           year end is June 30, the company's balance sheet does not include a closing of the current  
8           earnings against retained earnings except for the month December 31, 2016. "BS\_Trial  
9           Balance" includes no current earnings on the schedule showing total equity. On "BalSheet  
10          Acct\_PerAR" we included a line called "Net Income" in the calculation of common equity.

11

12           PRO FORMA PLANT ADDITIONS

13    **Q.    Do you have any specific observations about the adjustments recommended by OPC**  
14           **Witness Andrew Woodcock?**

15    A.    Yes, although the specifics regarding individual proforma projects are addresses by Witness  
16           Johnson, I did note that in his testimony, Witness Woodcock stated, "It is my opinion that,  
17           of the \$129,763.75 included in Mr. Johnson's testimony, \$122,557.50 is associated with the  
18           rehabilitation of the WWTP and should be included in rate base. The remaining \$7,205.75  
19           should not be included." These costs he seeks to exclude were incurred in November 2016  
20           and June 2017, which is during the test year, and if not capitalized, he should have added it  
21           to Contractual Services - Engineering.

22

23           ADDITIONAL REVENUES AND CIAC FOR POST-TEST YEAR CUSTOMERS

24    **Q.    Have you reviewed the testimony of Monroe County Witness J. Terry Deason?**

25    A.    Yes, I have.    Witness Deason's testimony proposes including additional revenues from



1 future possible customers as an adjustment to test year revenues, thereby reducing the  
2 overall increase required by the Utility. He also proposed including contributions in aid of  
3 construction (CIAC) from those future customers as a reduction to rate base. He explains  
4 the Commission's authorization to do so, cites prior case justifying the use of a projected  
5 test year (PSC-01-2511-PAA-WS), explains the "matching principle" as it applies to rate  
6 cases, and argues that the conditions in this case warrant such treatment.

7 **Q. Do you agree with his proposal?**

8 A. No, I do not. I will address each of his points separately.

9 Commission Policy on Selection of a Test Year

10 Witness Deason first quotes Rule 25-30.430(1), FAC, which establishes the Commission  
11 authority to approve the test year requested by the water or sewer utility prior to an  
12 application for a general rate case.

13 **Q. What is the significance of this Rule?**

14 A. The significance to me of this Rule is that pursuant to the Rule, the Utility requested a  
15 historical test year of twelve months ended June 30, 2017, and the Commission accepted  
16 that test year. The utility relied on the Commission's acceptance of the proposed test year  
17 when it then prepared its application for a rate increase.

18 **Q. Does Witness Deason agree that the historical test year accepted by the Commission is  
19 appropriate?**

20 A. No, Witness Deason looks to a Commission Order from 1986 for Martin Downs Utilities,  
21 Inc., where the Commission found that a projected test year was appropriate. However, as  
22 he quoted from that order, "...Based upon historical data we anticipate Martin Downs will  
23 continue to experience a rapid growth of demand for its services. Therefore, we believe a  
24 projected test year is appropriate in this case."

25 **Q. Are the conditions in the case consistent with the Martin Downs case?**

1 A. No, not at all. In that case the Commission stated that the reason a projected test year was  
2 appropriate was that they anticipated continued rapid growth. However, there is nothing in  
3 KWRU's filing that would conclude that the Utility anticipates experiencing rapid growth.  
4 On the contrary, the Utility has filed its case using the same non-used and useful percentage  
5 approved by the Commission in its final order, Order No. PSC-17-0091-FOF-SU.

6 **Q. Does Witness Deason present any other justification for the use of a projected test**  
7 **year?**

8 A. When asked, "Does the Commission have a preference for projected versus historic test  
9 years", he answered that the Commission primarily relies on projected test years for electric  
10 utilities. He then quoted a Supreme Court Case pertaining to a telephone company from  
11 1983, which states, among other things, that projected test years may be effective in  
12 minimizing regulatory lag.

13 **Q. Do you agree that the treatment by the Commission in electric and telephone cases**  
14 **should be consistent with respect to the use of projected test years?**

15 A. It would only be appropriate if other issues were also treated consistently between electric  
16 and telephone, and water and sewer. Without arguing the appropriateness of consistent  
17 treatment among a number of issues, the bottom line is that few water and wastewater cases  
18 brought before the Commission use projected test years.

19 **Q. Do you agree, however, that a projected test year may be effective in minimizing**  
20 **regulatory lag?**

21 A. Whether a projected test year may be effective is irrelevant in this case, because the filing is  
22 based on a historic test year. And regardless of whether a case is filed using a projected or  
23 historic test year, there are some causes of regulatory lag that neither addresses. In any rate  
24 application, the historical period is reflected. Inevitably, it shows that in the past year the  
25 utility has not achieved its authorized return on equity and in most cases has experienced a

1 loss. This loss will never be recovered, no matter what the test year is. Projecting is not  
2 going to solve this type of regulatory lag. In most of the cases I have filed, the rate  
3 application is filed approximately six months after completion of the historical period.  
4 During that time, the loss which precipitated the need for a rate increase has continued. The  
5 best the utility can hope for is to have interim rates approved quickly, but the incurred  
6 losses are never recovered for that period of time. No projection is going to ever make that  
7 utility whole. Furthermore, a projected test year incorporates projected billing units, which  
8 alone will result in a lower per unit rate, reducing even further the opportunity to fully  
9 recover.

10 **Q. Does Witness Deason cite any other water and sewer cases that use a projected test**  
11 **year?**

12 A. Yes, he describes that in a staff assisted rate case from 2001, Burkim Enterprises, Inc.,  
13 Commission Order No. PSC-01-2511-PAA-WS, stated that a projected test year was used  
14 "Because the utility is growing at an exceptionally high rate (29 connections per year), rates  
15 based on historical data alone will be significantly different than rates based on current or  
16 even future conditions..."

17 **Q. Does Witness Deason correlate the "rapid growth" or "exceptionally high rate" of**  
18 **growth to the conditions at KWRU?**

19 A. No, he doesn't. What he says is that the inclusion of proforma plant and expense (alone)  
20 necessitate the inclusion of revenues from future customers.

21 **Q. Is he recommending the use of a projected test year?**

22 A. No, not at all. On the contrary he states that the County has no objection to the selected test  
23 year, "per se". Rather, the only projection he recommends is to revenues and CIAC.

24 **Q. What other argument does Witness Deason present to justify the inclusion of revenues**  
25 **from future customers?**

1 A. He provides an accounting definition of the matching principle, and states that this principle  
2 in the regulatory arena, "...requires that the utility's rates be set using the utility's costs,  
3 investments, revenues, and sales units from the same time period, and that they be  
4 representative of the time period in which the new rates will be in effect." Witness Deason  
5 then goes on to say that whenever investment is made "to serve a growing customer base or  
6 growing customer demands for service, or both..." that additional revenues from future  
7 customers should be used.

8 **Q. What do you find wrong with this argument?**

9 A. First, when asked in his testimony, "If there is credible evidence that the gallonage of  
10 wastewater treated and billed by KWRU is likely to be greater during the time that rates  
11 will be in effect, should the Commission take that evidence into account when setting  
12 KWRU's rates in this case," he answers, "If the amount of wastewater treated and billed by  
13 KWRU is to be higher during this extended period, the rates should be based on such  
14 greater usage." He presents no evidence, nor claim, that the amount of wastewater treated  
15 and billed will be higher.

16 **Q. Do you agree that the conditions in this case are similar to the prior KWRU case, test**  
17 **year December 31, 2014?**

18 A. No. Witness Deason uses that case to show that the basis of the adjustments made by the  
19 Commission to address the passage of time was the use of the matching principle.

20 **Q. What conditions were different between this case and that case?**

21 A. First, in that case, the Final Order was more than two years after the end of the test year. As  
22 time went on, more and more actual data was available from which to evaluate for possible  
23 adjustments. This case will have a final order within 14 months of the end of the test year.  
24 Second, the proforma plant and expense adjustments proposed by KWRU in that case were  
25 in a large part due to customer growth which is not true in the instant case.

1 **Q. What final arguments do you have to Witness Deason's testimony?**

2 A. I will summarize point by point:

3 1. Water and Sewer utilities are not treated consistently with electric and telephone  
4 utilities as it applies to the use of projected versus historical test years.

5 2. In the two water/sewer cases cited, Martin Downs and Burkim, the rationale for the use  
6 of a projected test year was continued rapid growth and extraordinarily high growth,  
7 neither of which apply in this case.

8 3. Even if the two cases above did apply, Witness Deason is not proposing the use of a  
9 projected test year, and is only proposing the inclusion of revenues and CIAC from  
10 future customers.

11 4. His claim that proforma plant and proforma expenses are related to customer growth is  
12 inaccurate. I reviewed KWRU Witness Johnson's testimony and found that none of the  
13 proforma adjustment - neither expenses nor capital costs, is related to growth.

14 5. It is inappropriate to use the matching principle as justification for the addition of  
15 revenues and CIAC from future customers, giving no consideration to the impact those  
16 customers have on other components included in the MFRs.

17 **Q. Have you reviewed the testimony of Monroe County Witness Jeffrey Small?**

18 A. Yes, I have.

19 **Q. Can you describe the issues raised by Witness Small and address each?**

20 A. First, he calculates the revenues that may be derived from future customer using the  
21 projected billing determinants identified in the testimony provided by Monroe County Witness  
22 Kevin G. Wilson, P.E. However, he also goes on to claim that future billing determinants must be  
23 used so that resulting rates are fair, and this is consistent with the "matching principle".

24 **Q. Do you agree with Witness Small argument regarding the appropriateness of using**  
25 **revenues from future customers?**

1 A. No, as I stated in my argument with County Witness Deason's testimony, this is not the  
2 appropriate use of the matching principle in that it only incorporates two factors, it is not  
3 the appropriate conditions to apply the matching principle in that the proforma adjustments  
4 are unrelated to future growth.

5 **Q. Do you have any further arguments to the inclusion of revenues from future**  
6 **customers?**

7 A. Yes. If for some reason the Commission decides it is appropriate to include future revenues,  
8 they need to consider and include all of the additional costs associated with providing  
9 service to those additional customers. This is particularly critical since KWRU's MFRs do  
10 not include any future cost of providing service to future customers. As testified by  
11 Witness Johnson, the EDU calculations performed by Witness Kevin Wilson which  
12 underlie the reductions proposed by Witness Small are unsupported, just as his projections  
13 in the prior rate case were proven incorrect in actuality. KWRU has consistently  
14 underestimated costs, and there is no basis to accept the calculations prepared by Kevin  
15 Wilson.

16 **Q. Are there any adjustments to the MFRs you would make to recognize future**  
17 **conditions in this case?**

18 A. Yes, of course. First I would revise any of the proforma adjustments made in the case to  
19 reflect additional information that has come to light. This is commonly done, and  
20 appropriate. I have identified some in my testimony, and Witness Johnson has provided  
21 several as well. These adjustments should be made whether they are increases or decreases.  
22 Additionally, changes come to light after filing the rate case that should be incorporated  
23 into the MFRs, One such example is the increase in debt cost as a result of the increase in  
24 the Fed prime rate to 4.75% on March 22, 2018. Exhibit DDS-6 shows the current prime  
25 rate and effective date published by the Wall Street Journal. Since KWRU's long term debt

1 is tied to the prime rate, the cost of long debt should be adjusted. Although there is  
 2 expectation that there will be additional adjustments to the prime rate this year, I am  
 3 recommending an adjustment for only the increase effective last month. The impact is to  
 4 increase KWRU's long term debt interest rate from 4.75% to 5.25%, and increases the  
 5 overall rate of return to 7.7%.

6 **Q. What is the impact of the adjustments you have made to the MFRs?**

7 A. I have provided the impact of this and all of the other adjustments I have made in my  
 8 Exhibit DDS-2, which includes revisions to MFR Schedules A-2, A-3, B-2, B-3, B-6, B-10,  
 9 B-14, D-1, D-6 and E-1, and DDS-8, which lists the adjustments contained in those  
 10 schedules.

11 **Q. The Utility provided revised schedules after the MFRs were complete. Can you  
 12 explain the revisions?**

13 A. An adjustment was made to increase personal property taxes. The Utility adjusted property  
 14 taxes to account for pro forma plant additions net of accumulation depreciation but did not  
 15 make an adjustment for net plant of \$2,297,429 added during January through June 2017  
 16 that was not included in the payment of property tax in November 2016. At a millage rate of  
 17 9.4797 the MFRs were revised to reflect an increase of \$21,779 to property tax expense.

18 The Utility revised the B-6 and B-8 to correct a data entry error. During discovery, the  
 19 Utility realized that in the month of February, the monthly amounts from the GL were  
 20 uploaded onto the wrong rows on the B-6 which then flowed to the B-8. While the total  
 21 O&M expenses for the test year was correct, the annual amounts for the following accounts  
 22 were incorrect:

23 711 Sludge Removal Expense

24 715 Purchased Power

25 718 Chemicals

1                   720 Materials and Supplies

2                   735 Contractual Services - Testing

3                   742 Rental of Equipment

4                   770 Bad Debt Expense

5                   775 Miscellaneous Expense

6                   The corrected amounts were provided in a series of Interrogatories, and the B-6 and B-8  
7                   were revised to reflect the correct annual amounts.

8                   The Utility also revised the B-10 schedule to include unamortized rate case expenses from  
9                   the prior rate case.

10       **Q.     Does that conclude your rebuttal testimony?**

11       A.     Yes, it does.



1 BY MR. FRIEDMAN:

2 Q Ms. Swain, could you give us a brief summary  
3 of your rebuttal testimony, please.

4 A Sure. First of all, the purpose of my  
5 rebuttal testimony is primarily to respond to the  
6 testimony of Staff Witness Glover, OPC Witnesses Schultz  
7 and Woodcock, and County Witness Deason.

8 First, I explain that audit finding one in the  
9 audit was inaccurate. The company did make all the  
10 Commission-ordered adjustments as required. We agreed  
11 that several of the adjustments may have been made to  
12 incorrect accounts, but in total, they were all made.

13 With respect to OPC Witness Schultz, I  
14 disagree with his characterization of cash included a  
15 working capital as excessive. KWRU struggles to obtain  
16 cash to meet its complications.

17 I also disagree with his determination that  
18 the utility refund escrow account should be excluded  
19 from working capital. It was a cash non-investment  
20 account, earning nominal interest. And it was  
21 ultimately predominantly allowed to be kept by the  
22 utility.

23 Witness Schultz identifies pro forma projects,  
24 which would result in retirements. I agree that the  
25 retirements are appropriate and provide correct

1 retirement amounts in my testimony and exhibits.

2 In response to Witness Schultz's  
3 characterization of KWRU's pension plan as gold-plated,  
4 I disagree and explain my own personal experience with  
5 my company where we now both have -- we have both a  
6 401(k) and what we call a traditional or cash-balance  
7 pension plan to help retain employees in a very  
8 competitive market.

9 Finally, I've objected to his use of a five-  
10 year average for several expense categories, which don't  
11 even include the full test year as averaging.

12 Furthermore, by averaging, he disregards changes in  
13 circumstances and conditions that caused the test-year  
14 revenues to be higher. In response to the -- and  
15 expenses to be higher. Excuse me.

16 In response to County Witness Deason, I object  
17 to the selective inclusion of post-test-year CIAC and  
18 revenues. First, there is no basis to go outside the  
19 test year, particularly since the pro forma adjustments  
20 to the test year are unrelated to growth. We did not  
21 request any adjustments to an expenses -- any expenses  
22 or rate base related to any potential growth.

23 So, including only potential increases of  
24 revenues and CIAC without including increases to  
25 expenses is not a true application of the so-called

1 matching theory.

2 To be appropriate pro forma adjustment to a  
3 historical test year, the adjustments must be known and  
4 measurable. The County witness' testimony does not meet  
5 the -- that standard.

6 Finally, I provide exhibits which include  
7 corrections in known-and- -- and-measurable changes to  
8 pro forma adjustments that I described in my rebuttal  
9 testimony consistent Mr. Johnson's rebuttal testimony,  
10 which you'll hear shortly, including the updated costs  
11 of debt to finance the pro forma projects.

12 MR. FRIEDMAN: Thank you.

13 Mr. Polmann, I tender the witness for  
14 examination.

15 COMMISSIONER POLMANN: Public Counsel, are you  
16 up first?

17 MR. SAYLER: Yes, sir. Yes -- yes, sir. Can  
18 you hear me?

19 COMMISSIONER POLMANN: I can hear you.

20 MR. SAYLER: All right.

21 EXAMINATION

22 BY MR. SAYLER:

23 Q Good afternoon, and -- evening. Welcome back.

24 Would you turn to Page 9 of your direct  
25 testimony.

1 A My -- my direct testimony?

2 Q Rebuttal testimony. I apologize. Long couple  
3 of days.

4 A Okay.

5 Q You made -- you made a correction to your --  
6 this page of your testimony; is that right?

7 A No, I -- I didn't correct the page. What I  
8 did was I -- I said that I -- I go through all of these  
9 corrections, which are correct, but I didn't incorporate  
10 them into my DDS-2. I inadvertently omitted them.

11 Q Okay. Do you see where it says, on Lines 12  
12 and 13, "No annualization adjustment to accumulated  
13 depreciation should have been made"? Do you see that?

14 A Yes.

15 Q And would you agree that it would be  
16 consistent -- if you do that, you agree that it would be  
17 consistent to annualize accumulated depreciation for the  
18 full year?

19 A I'm sorry. Say that again?

20 Q I'm sorry. Let me -- let me --

21 A I didn't follow that.

22 Q You would agree that the utility has  
23 annualized plant and depreciation expense for a full  
24 year, correct?

25 A Yes.

1           Q     All right.  And you would agree that it should  
2     also annualize accumulated depreciation for a full year,  
3     correct?

4           A     Correct.  My -- and my testimony is just that  
5     I -- I did that so no adjustment was necessary.

6           Q     Okay.  Please turn to Page 5 your rebuttal  
7     testimony.

8           A     Okay.

9           Q     Would you agree that working capital is a  
10    measurement of cash required to fund day-to-day  
11    operations?

12          A     Yes.

13               MR. SAYLER:  Okay.  And would you please refer  
14    to the exhibit that I passed out -- Commissioner  
15    Polmann, we would like to have it marked as  
16    Exhibit 132, excerpt, "Principles of Public Utility  
17    Rates," by Bonbright.

18               COMMISSIONER POLMANN:  We will mark as  
19    Exhibit 132 an excerpt from "Principles of Public  
20    Utility Rates" by James Bonbright.  There is a  
21    cover page -- well, within the document, there's --  
22    appears to be cover page.  It looks like a book and  
23    one attached page from what appears to be a book.

24               (Whereupon, Exhibit No. 132 marked for  
25    identification.)

1 BY MR. SAYLER:

2 Q Would you take a moment and familiarize  
3 yourself with this exhibit, Ms. Swain?

4 A What did you just ask me? I'm sorry.

5 Q Would you please take a look at --

6 A Oh.

7 Q Working on the internal page, starting at  
8 Page 242 over to 243 -- would you look at the section  
9 titled "Working Capital," and just skim that over?

10 A Okay. (Examining document.) Okay.

11 Q All right. And on the right-hand page, under  
12 "Methods of Computation," the first sentence says:  
13 Utility companies, just as other businesses, have day-  
14 to-day expenses, which have to be met and as -- as a  
15 result, they are required to have a source of funds,  
16 working capital, in order to pay those obligations.

17 Do you see that?

18 A Yes, I do.

19 Q And you agree with that definition of "working  
20 capital."

21 A Yes.

22 Q All right. And the next sentence says,  
23 "Working capital for regulating utilities, supplied by  
24 investors, ratepayers, and other resources" -- is that  
25 correct?

1 A Correct.

2 Q And the portion of working capital provided by  
3 the investors -- the utility earns a return upon that  
4 portion that's in working capital, correct?

5 A That's right.

6 Q And that's because working capital is a  
7 component of rate base, correct?

8 A Correct.

9 Q So, the larger the working capital and rate  
10 base, the more of a return the utility could earn on --

11 A Yes.

12 Q Okay. Now, isn't it true that you believe a  
13 customer deposit should be included in working capital?

14 A The cash in the bank that was paid by  
15 customers for their deposits should be included in  
16 working capital. It's just a cash account.

17 Q Okay. And those customer deposits should be  
18 part of the capital structure, correct?

19 A The -- right. The debit is the cash account;  
20 the credit is the -- is the customer's deposit that's in  
21 the capital structure.

22 Q All right. And why are customer deposits  
23 included in the capital structure?

24 A They are a source of -- they're considered a  
25 debt of the utility that had -- that carries a cost and,

1 as such, is -- rather than being a reduction of working  
2 capital, it's a component of debt in the capital  
3 structure.

4 Q Okay. And you would agree that debt included  
5 in the capital structure is one of the sources of funds  
6 used for operations in capital expenditures, correct?

7 A It's -- yes.

8 Q And you would agree that debt is not included  
9 in the working-capital calculation, correct?

10 A That's right.

11 Q Now, when it comes to the amortization of the  
12 Hurricane Irma expenses this utility is seeking to  
13 recover from the customers, you argue it should be over  
14 four years; Mr. Schultz over five years.

15 Where does that amortization show up? Is it  
16 part of working capital?

17 A No, it's a -- well, yes, it is. It's a -- now  
18 that I say that, the amortization, itself, is an  
19 expense.

20 Q Uh-huh.

21 A The unamortized portion -- give me a moment.  
22 The unamortized portion is included in work -- is in  
23 addition to working capital because it's a deferred  
24 debit. I just wanted to check that I actually included  
25 it there.



1           Q     Now, as an amor- -- when you amortize the  
2     Hurricane Irma expense -- say, hypothetically, it's a  
3     hundred thousand. If you amortize it over five years,  
4     the utility would receive 20,000 a year as an expense,  
5     correct?

6           A     Right.

7           Q     And amortized over four years, it would be a  
8     \$25,000 a year as an expense, correct?

9           A     Yeah. Yes.

10          Q     And that would be -- either expense, whether  
11     four or five years, is recovered from the customers.

12          A     Correct.

13          Q     All right. Would you please turn to Page 6 of  
14     your rebuttal where you agree with Mr. Schultz on  
15     deferred rate-case expense.

16          A     Okay.

17          Q     And do you agree with Mr. Schultz that  
18     deferred rate-case expense should be held to the full  
19     amount of previous- -- previously-allowed expense with  
20     some further adjustments?

21          A     It should be held to the previous -- the  
22     previously-allowed amount.

23          Q     Okay. And are you aware that it is the  
24     Commission's practice to limit deferred rate-case  
25     expense included in working capital to one-half of the

1 utility's total rate-case expense associated with its  
2 prior rate case?

3 A Yes, I am.

4 Q And you believe the Commission should follow  
5 that in this case?

6 A I'm -- I'm proposing that they not. And I  
7 don't expect that they will change their practice.

8 (Laughter.)

9 Q Sounds like we have a stipulation maybe.  
10 Would you please turn to Page 33 and 34 in  
11 your rebuttal testimony.

12 A Okay.

13 Q And here, you discuss recognizing future  
14 conditions in this case. When you say "future  
15 conditions," you mean things that occurred after the  
16 test year, correct?

17 A Yes. Known-and-measurable changes that are --  
18 become known during the rate case.

19 Q And you would agree that things that the  
20 utility says are known and measurable are sometimes in  
21 dispute; meaning, it's a matter of opinion whether it's  
22 actually known and measurable or the amount, correct?

23 A Yes, of course.

24 Q And based upon your testimony here, is it your  
25 testimony that it is okay for a utility to continue

1 updating this rate case with new information all along  
2 the process?

3 A It's the Commission practice. And this one, I  
4 strongly support to incorporate known-and-measurable  
5 changes that take place after the test year. And my  
6 testimony pertains to a change in the debt rate.

7 Nearly half of the rate base is financed by  
8 debt, and that debt is tied with prime. So, I explain  
9 here that when the prime rate increased a half a  
10 percent, the debt ratio increased because that's known  
11 and measurable. There's documentation that that exists.

12 Q Certainly. And we will get to some questions  
13 about that --

14 A Okay.

15 Q -- in a little bit.

16 You would agree that a proposed agency-action  
17 rate case -- you participated in those in the past,  
18 correct?

19 A Yes.

20 Q And there are no testimony or exhibits filed  
21 in those types of cases, correct?

22 A Correct.

23 Q And you would agree that it's common for the  
24 utility, through staff data request, to provide new  
25 information up until a certain point, and that's -- that

1 that incorporated into the staff's recommendation,  
2 correct?

3 A Yes.

4 Q And do you participate, ever, in staff-  
5 assisted rate cases?

6 A I have, yes.

7 Q And same -- same line of question there. It's  
8 common for information to be updated all the way up  
9 until the staff's recommendation is final, correct?

10 A Yes.

11 Q And you're familiar with the difference  
12 between a proposed agency-action rate case, staff-  
13 assisted rate case -- those two types of proceedings --  
14 you're -- you're familiar with how they're different  
15 from the one we're in here today, correct?

16 A Oh, yeah. Yes.

17 Q This one is much-more formal, you would agree,  
18 correct?

19 A Yes, and not very common in the water and  
20 sewer industry.

21 Q Right. And in this, you've prefiled sworn  
22 testimony to support those MFRs, correct?

23 A Yes, I did.

24 Q So, would it be your testimony that it's okay  
25 for a utility to continue updating new information all

1 along the process, even at the eve of or during the  
2 hearing in a formal rate case, like the one we're having  
3 here today?

4 A I think the door is open. And a great example  
5 of that is rate-case expense. That's commonly done.  
6 The door is open for providing that information. It's  
7 to the benefit of all parties that that be as accurate  
8 as possible. So, yes, I -- I think so. And you see it  
9 particularly in a pro forma case.

10 Q And you would agree that rate-case expense has  
11 its own statutory provision that requires that it be  
12 amortized over a certain term of years and that would  
13 lead to the rates, correct?

14 A Yes, but that doesn't -- doesn't establish a  
15 different rule with respect to gathering information, I  
16 don't believe.

17 Q You would agree that, when a utility files its  
18 case, it is in control about what it includes or  
19 excludes from its MFRs, correct? For the most part.

20 A The -- that we control it? No, I think it's  
21 pretty well-prescribed -- when we prepare MFRs, it's  
22 straight from what the requirements are, pulling things  
23 from the company's books. So, I'm not sure if you're  
24 talking about something specific that might be within  
25 our control.

1           Q     Certainly. Let me rephrase my question. When  
2     you prepare your MFRs, you have an idea of what your  
3     expenses are for the test year, as well as what your pro  
4     forma expenses are in the case, correct?

5           A     Yes, we would -- we would have those prepared  
6     by the -- before we filed a rate case.

7           Q     And same thing for the pro forma plant  
8     additions, correct?

9           A     Correct.

10          Q     All right. So, that's your first shot at your  
11     case, correct?

12          A     Yes.

13          Q     And that information is within your or the  
14     utility's control, right?

15          A     Yes, from the -- from the best information  
16     that we have on that day. And it's -- it's tough with  
17     pro forma because you use the best information you have.  
18     And as time goes on, your bidding, entering into  
19     contracts, construction started, that type of thing --  
20     it -- it changes.

21          Q     Certainly.

22                     Question for you: When it comes to rate-case  
23     expense, that is largely outside the control of the  
24     utility; you would agree, correct? Meaning, the utility  
25     does not know how many discovery questions staff and

1     **intervenor**s will serve upon it, correct?

2           A     Right.  So, are you asking me if it's out of  
3     the control or within the control?

4           Q     **Let me rephrase.  The utility estimates rate-**  
5     **case expense in its MFRs, correct?**

6           A     Correct.

7           Q     **And you testified earlier that it's common**  
8     **that the Commission allow updating your rate-case**  
9     **expense all throughout the process, correct?**

10          A     That's correct.

11          Q     **And you would agree that the utility has no**  
12     **idea how many questions any intervenor or staff will ask**  
13     **it, correct?**

14          A     That's right.

15          Q     **And rate-case expense is often largely driven**  
16     **by the amount of questions that staff or intervenors or**  
17     **combined ask the utility, correct?**

18          A     Yes.  We have a general idea, just from our  
19     experience.  Most of the rate-case expense is all  
20     consultants and outside legal services.  And we have a  
21     fairly-good idea of what's going to go into it, but --  
22     but you're right, there's always the possibility it's  
23     going to be something quite a bit different.

24                    I think in the last case I did, UIF, we ended  
25     up coming in less in total than what we originally

1 estimated.

2 Q Okay. And just to be absolutely crystal clear  
3 for the record -- so, when it comes to preparing  
4 everything in this rate case, with the exception of the  
5 rate-case expense, the utility -- it's pretty much  
6 within the utility's control when they prefiled their  
7 testimony and exhibits --

8 A I don't see any distinction between the  
9 estimating of rate-case expense and the preparation of  
10 pro forma estimates. Both are -- are based upon the  
11 best available information, the experience of the  
12 persons putting the estimates together.

13 And as time goes on, it actually -- we get --  
14 now, enter into the actual realm. And we're not any  
15 longer just estimating. So, we update with actual  
16 information, known-and-measurable information. I don't  
17 see a distinction.

18 Q Okay. So, in this case, did KW update its  
19 revenues with new customers or any new flows that the  
20 utility has found out about since the filing of its rate  
21 case?

22 A What -- what's the question?

23 Q Sorry. Let me strike that.

24 If any additional revenues from new -- from  
25 customers were provided or received by the utility, was



1 the utility's MFRs updated to account for those  
2 additional revenues? Yes or no.

3 A If -- I'm sorry. I'm not following your  
4 question.

5 Q Have you reflected additional revenues for new  
6 customers?

7 A No.

8 Q Or new flows?

9 A No.

10 Q Okay. Thank you.

11 But you revised your MFRs schedules to reflect  
12 changes in expenses both upwards and downwards, correct?

13 A Yes, but I didn't make any changes associated  
14 with customer growth, none -- none of the changes are  
15 related to customer growth.

16 Q Would you agree that updating pro forma -- or  
17 costs, expenses, pro forma costs, pro forma plant,  
18 without reflecting added revenues from new customers or  
19 additional customer flows -- would you agree that is  
20 one-sided and does not reflect how things have changed  
21 since the test year? Yes or no.

22 A No, absolutely not.

23 Q All right. So, let me ask you a hypothetical.  
24 We've established that you believe it's okay for a  
25 utility to add new evidence or new cost information

1 outside the test year that increases the revenue  
2 requirement, even if it's on or during the hearing,  
3 correct?

4 A Correct.

5 Q So, if it's -- continuing on with a  
6 hypothetical. So, if it's fair for the utility to do  
7 that, wouldn't it also be fair for the intervenors to  
8 introduce new information at the same time that would  
9 reduce the revenue requirement?

10 A If -- if they were somehow related to each  
11 other, and in this case, they're not. None of the  
12 expenses are associated with those future customers;  
13 none of the pro forma is associated with those future  
14 customers.

15 So, it's a very-one-sided -- it's the  
16 converse. It's very-one-sided to go outside the test  
17 year, now include the revenues from future customers,  
18 when what we're presenting doesn't included any costs  
19 associated with those future customers.

20 Q But you would say that those potential future  
21 customers are measurable, correct?

22 A To the extent that they've taken place by now,  
23 they are measurable.

24 Q And in your deposition on this topic -- and  
25 I'm not asking for any type of legal opinion -- you -- I

1 believe you testified you didn't know if such updating  
2 at the eve of or during a hearing, either by the utility  
3 or the intervenors, would be permitted; is that correct?  
4 Legally speaking.

5 A Where -- where do I say that?

6 Q It was on Page 77 of your deposition, if you  
7 happen to have that.

8 A Oh, my deposition.

9 Q Yes.

10 A I'm sorry.

11 Q Sorry. Do you recall that line of questioning  
12 from your deposition? If not, I'll move on.

13 A No. No, I -- I don't.

14 Q Okay.

15 A I have my deposition, I think -- no, I don't  
16 have it.

17 Q Okay. I will move on.

18 Please turn to Page 16 of your rebuttal where  
19 you discuss pension expense.

20 A Okay.

21 Q And in your rebuttal, you make the calculation  
22 based on 5 percent of salaries and wages; is that  
23 correct?

24 A Yes.

25 Q All right. And were you here yesterday when

1 Mr. Johnson was cross-examined with the profit-sharing  
2 plan of the utility?

3 A Yes.

4 Q All right. And you heard the extensive  
5 discussion on that, correct?

6 A I did.

7 Q All right. Now, did you take into any  
8 consideration that that 5-percent contribution was  
9 voluntary, not mandatory?

10 A It -- I know the plan documents say that the  
11 utility can -- or the -- the pension holder can  
12 terminate --

13 Q Uh-huh.

14 A -- but IRS is not going to allow it. It is  
15 not -- it is not, in the true sense of the word,  
16 voluntary. There is an obligation by the utility to  
17 continue to meet the -- all these documents are filed  
18 with the IRS. So, they have to go ahead and do that.

19 Q All right. Now -- but you would agree that  
20 the IRS rules allow for a company to terminate the  
21 pension as long as you comply with both the IRS rules  
22 and the pension agreement, correct?

23 A And the --

24 Q Yes --

25 A Yes.

1 Q Okay.

2 A But the risk is that the -- the tax deduction  
3 that the company has taken all prior years is -- is  
4 reversed.

5 Q Okay. Would you turn to Page 16 of your  
6 rebuttal.

7 A Okay.

8 Q Here, it's related to bad-debt expense.

9 A Okay.

10 Q Is the cost that is being included in the  
11 company's request the cost of writing off a loan made to  
12 a former employee who left the company?

13 A That is included in the expense and the MFRs.

14 Q Okay. Do you know if that is a common,  
15 everyday occurrence for a utility?

16 A No, I -- I -- I don't think it's a common,  
17 everyday occurrence. Just looking at the circumstances  
18 in this case, I felt it's a bad-debt expense, a  
19 legitimate bad-debt expense.

20 Q All right. Now, is it reasonable to assume  
21 that KW will make another loan to an employee and that  
22 employee will also leave without paying off the loan?

23 A I think that the utility will probably  
24 reconsider making a loan of that magnitude, but I  
25 haven't talked to them about it.

1           **Q     Okay.  So, you don't think it's reasonable**  
2           **that they will do that again; make the same mistake**  
3           **twice?**

4           A     I think -- well, I wouldn't call it a mistake.  
5           I think that, considering the circumstances, they were  
6           desperately trying to hire employees.  They were  
7           offering up-front payment to entice them to actually  
8           take the job.  It didn't work out that way.  The guy  
9           left.  They were left holding the bag.

10                   I don't know, in the future, if they're in a  
11           similar situation, if that's going to be required to  
12           entice an employee and -- but perhaps, they put more-  
13           restrictive wording in the agreement, et cetera, to make  
14           it a little easier for them.  So, I don't know.

15           **Q     Okay.  To your knowledge, the other utilities**  
16           **you work with -- when they have a bad debt, do they turn**  
17           **it over to a collection agency?**

18           A     Not generally.  The -- and most bad debt, of  
19           course, we're talking about customer payments.  And most  
20           are not turned over to a collection agency.  There is an  
21           attempt to collect and they're written off.

22           **Q     And when they're written off, that's paid for**  
23           **by the rest of the general body of the ratepayers,**  
24           **right?**

25           A     Yes, that's right.  It's included in bad-debt

1 expense.

2 Q But if they did submit it to a collection  
3 agency and the collection agency were to collect,  
4 where -- would those revenues be reported as an offset  
5 due to that bad-debt expense or somewhere else?

6 A The -- then, only the portion that's not  
7 collected would be written off, but it's not a general  
8 practice to turn over customer accounts in collection  
9 agencies unless it's, you know, a really-sizeable amount  
10 or a significant customer.

11 Q All right. Let's move to your DDS-8. I'm  
12 going to have some questions about this -- excuse me,  
13 not DDS-8, DDS-6.

14 A Okay.

15 Q All right. And when it comes to your  
16 testimony -- and you already discussed how prime rate  
17 has increased, correct?

18 A Yes.

19 Q And the only thing in your testimony showing  
20 the -- that prime rate had increased is this DDS-6; is  
21 that correct?

22 A Yes, that's right.

23 Q And this is a -- what is this exhibit? It's a  
24 screenshot from a website?

25 A Yeah, it is. It's a screenshot from the Wall

1 Street Journal to show what the current prime rate was  
2 on that day.

3 **Q Did you find the screenshot or was it given to**  
4 **you by somebody else?**

5 A No, that -- I did.

6 **Q You did?**

7 A Yes, I did.

8 **Q How do you know -- how -- how do you**  
9 **authenticate this document?**

10 A It's got the -- it's got the web URL on the  
11 top of it --

12 **Q Okay.**

13 A -- so you can see where I got it from.

14 I -- it's not the only place that I -- that I  
15 looked. As a matter of fact, actually, there's a couple  
16 of pages. One is the Wall Street Journal and the other  
17 one is a site called fedprimerate.com. And that has the  
18 history.

19 **Q Where do you have -- where are you**  
20 **referencing -- is this your testimony?**

21 A Unless I have the wrong -- the wrong document,  
22 my -- what I have in my book is -- hold on a second.  
23 Let me see.

24 **Q I have a one-page document, screenshot from**  
25 **the Wall Street Journal, that discusses what's supposed**



1 to be --

2 A Okay. So, the second page I'm referring to --  
3 I'm sorry. I didn't -- it's not part of my exhibit.  
4 It's just additional information that I had pulled. It  
5 was consistent with the Wall Street Journal document.

6 Q All right. And would you look at DDS-2,  
7 Page 12 of 13?

8 A Which -- which schedule is that?

9 Q Your DDS-2.

10 A Right.

11 Q Oh, the MFR schedule is your Schedule D6  
12 revised?

13 A B6?

14 Q Delta Six.

15 A D- -- (examining document). Okay.

16 Q Okay. And Line 1 and 2 references something  
17 called BB&T prime plus 0.5 percent. Do you see that?

18 A Yes, .5 percent.

19 Q And this is related to debt that's been  
20 reflected in the capital structure, correct?

21 A Yes.

22 Q All right. So, you have your testimony. You  
23 have this DDS-2 and you have this screenshot from DDS-6,  
24 correct?

25 A Yes.

1           **Q     All right. Do you have any documents from the**  
2 **bank that show that the rate has, in fact, increased?**

3           **A     No. I've reviewed the terms of the loan,**  
4 **which are the .5 percent. That's why I put that on that**  
5 **schedule, but I -- I haven't seen payments that the**  
6 **company has made as a result of that increase.**

7           **Q     So, you don't know if the payments have**  
8 **increased; is that correct? You assume it has, but you**  
9 **don't know.**

10          **A     Right, I have not -- I haven't seen the actual**  
11 **payment.**

12          **Q     All right. So, you have not provided any**  
13 **proof from BB&T, the lender, that the interest rate and**  
14 **loan payments have increased; is that correct?**

15          **A     I haven't -- I haven't provided any proof that**  
16 **it has increased, other than --**

17          **Q     Your testimony --**

18          **A     Other than my testimony that that's what the**  
19 **terms are and this is what the rate is.**

20          **Q     All right. And you did not attach the two**  
21 **loans agreements to either your direct or rebuttal**  
22 **testimony, is that correct, reflecting that prime plus**  
23 **.5 percent?**

24          **A     That's correct. And this is the same debt**  
25 **that was in effect in the last rate case. This is not a**

1 different debt document.

2           **Q**     But to your knowledge, are those loan  
3 agreements in the record of this case? I've reviewed  
4 all the discovery responses and I haven't seen them,  
5 myself.

6           A     I -- I don't know. I didn't provide them.  
7 I'm under the impression that there was a request for  
8 production and that it was provided. I think, in my  
9 direct testimony, when I was being cross-examined, I was  
10 being provided something and asked if I was the one that  
11 provided it and I said, no, I think Mr. Johnson must  
12 have. So, I think that was the loan document.

13           **Q**     You think, but you do not know.

14           A     I'm -- I'm really stretching my memory here.  
15 It was just yesterday. It just seems like it was last  
16 week, but --

17           COMMISSIONER POLMANN: Ms. Swain, that was a  
18 yes-or-no question.

19           THE WITNESS: That was a -- I'm not positive,  
20 but I believe so.

21 BY MR. SAYLER:

22           **Q**     Okay. Backing up a moment to the pension --  
23 or excuse me -- profit-sharing plan. Do you know what  
24 the IRS requires as proof of contribution for a profit-  
25 sharing plan, which is what the utility has instituted?

1 A You mean in the -- in the way of reporting?

2 Q Do you know what the IRS regulation is, what  
3 it requires? Can you identify that IRS regulation or  
4 are you --

5 A No. No, not --

6 Q Are you speculating that the IRS has something  
7 about profit-sharing plans?

8 A No, I -- I am -- as I mentioned in my  
9 testimony, my own company has a -- has a similar plan.

10 Q Not the same plan.

11 A Correct, but it's still under the same  
12 guidelines. It's a cash-balance plan, defined benefit  
13 plan. And I'm not the administrator. We hire, at -- at  
14 a pretty penny, you know, an administrator to administer  
15 it, but I am the person from the company that deals with  
16 the administrator and ensures that the -- that the  
17 reporting requirements for the IRS are met by my  
18 company, provided to them. So, I have a business  
19 knowledge of it.

20 Q All right. Let's go back to your DDS- -- your  
21 rebuttal Exhibit DDS-2. Just -- we'll start off with  
22 Page 1 of 13, which is a normal page.

23 Let's turn to Page 2 of your exhibit. Are you  
24 there?

25 A Yes.

1           Q     What is the yellow highlighting? Is that a  
2     signal that this is where that MFR has been revised?

3           A     Yes. Because there's so many numbers on these  
4     schedules, I highlighted the numbers that changed.

5           Q     And did you highlight all the numbers that  
6     changed?

7           A     I -- it was my intention to. I -- I believe  
8     that this represents all the numbers that changed.

9           Q     And you believe these are the changes that you  
10    think this Commission should consider for this utility  
11    when setting --

12          A     Yes.

13          Q     -- rates.

14          A     Yes, correct.

15          Q     And in your direct, I asked you about the  
16    process of generating MFRs. How is that different from  
17    generating revised MFR schedules?

18          A     I started with the extensive spreadsheet that  
19    I used for the original MFRs, and then went to the input  
20    locations on each -- on each page and did whatever  
21    calculations needed to be done and put it in there.

22          Q     Would it be fair to say you added the new  
23    number to those various fields and it updated throughout  
24    the schedule?

25          A     Yes, it's not as easy as pushing a button or

1 putting in a number, but yes.

2 Q So, after inputting those -- it made changes  
3 and then you went through and tried to highlight those  
4 changes, correct?

5 A Correct.

6 Q And you would agree that some of these revised  
7 MFR pages were provided in February, before the  
8 intervenors filed testimony, correct?

9 A You're referring to my DDS-2?

10 Q Let me -- a factual question. You would agree  
11 that the utility filed with the Commission revised MFR  
12 page -- pages sometime in February.

13 A Yes. Yes, you're right.

14 Q And that was filed with a motion asking this  
15 Commission to approve those changes, correct?

16 A Yes, to allow those pages to be inserted.

17 Q Do you know if the motion was filed in your  
18 rebuttal to allow the approval of these changes?

19 A No, but as I mentioned in my summary, these  
20 are really provided for informational purposes so that  
21 one can follow along with the impact of what I'm  
22 including in my rebuttal testimony.

23 Q Okay. And other than the changes that you  
24 previously -- or your counsel previously provided, you  
25 would agree that most of the changes that you're

1 reflecting here in DDS-2 took place after the  
2 intervenors filed their testimony, correct?

3 A Yes.

4 Q And you would agree that the changes in your  
5 rebuttal testimony and MFR has affected the revenue  
6 requirement, correct?

7 A I -- I -- yes, it re- -- it affected the  
8 calculation of the revenue requirement, but not -- to  
9 the extent that it was higher than the original request,  
10 it didn't change what the utility was requesting for  
11 revenues.

12 Q Okay. Would you turn to revised Schedule B2  
13 on Page 5 of 13. Are you there?

14 A Okay.

15 Q All right. And I do -- do you happen to have  
16 a copy of the pre-hearing order? If not, I have one --

17 A I don't.

18 Q I have one that's nicely tabbed.

19 A Okay.

20 Q All right. Would you turn to the first tab,  
21 which is Page 5 of the pre-hearing order. Are you  
22 there?

23 A Yes, I'm there.

24 Q By the way, do you happen to have a copy of  
25 your direct testimony as well?

1 A Yes, I do.

2 Q Keep your finger with your revised B2 and your  
3 original -- turn to your original B2, if you don't mind.  
4 I apologize for the gym- -- finger gymnastics.

5 A Somehow or other, I went right to the spot.  
6 Okay.

7 Q All right. You would agree that the utility,  
8 in its basic position, says, "KWRU is entitled to annual  
9 revenues in the amount of \$3,682,216, including  
10 amortization of current rate-case expense." Do you see  
11 that?

12 A Yes.

13 Q And would you please look at Footnote 2.  
14 Would you read that for me?

15 A Yes. It says, "While KWRU contends it is  
16 entitled to revenue in the amount of 3,761,710, it has  
17 agreed it is limited to 3,682,216, as requested in the  
18 initial MFRs."

19 Q All right. Would you please look at your  
20 initial direct testimony, B2 schedule, and tell me what  
21 the revenue requirement is from your direct testimony?

22 A 3,682,216.

23 Q All right. And those match, correct?

24 A Yes, they do.

25 Q And would you look at you rebuttal revised



1 **Schedule B2?**

2 A Okay.

3 **Q What is your revised revenue requirement?**

4 A My B2 is 3,773,783.

5 **Q Excuse me. Would you read that --**  
6 **3-million- -- what?**

7 A Am I looking at the wrong schedule? Yeah.  
8 I -- I have 3,773,783.

9 **Q I -- the copy I have from your direct or --**  
10 **rebuttal testimony says 3,761,000- --**

11 A Great. I'm looking at the wrong thing.  
12 Sorry.

13 **Q \$3,761,710. Are you there on that schedule?**

14 A I'm going to get there right now. I'm sorry.  
15 I'll -- I'll look at the electronic version.

16 (Examining document.) Yes, you're right.  
17 My -- I'm looking at the wrong thing. The correct  
18 number in my DDS-2, on Schedule B2 revised, is  
19 3,761,710.

20 **Q So, you would agree that KWRU knew that its**  
21 **changes in rebuttal increased its overall revenue**  
22 **requirement, correct?**

23 A Yes.

24 **Q Would you please turn to the next pink tab on**  
25 **Page 21 of the pre-hearing order, Issue 34?**

1           A     Okay.

2           **Q     Issue 34 says, "What is the appropriate**  
3 **revenue requirement." And would you please read KWRU's**  
4 **position?**

5           A     The position in the pre-hearing is 3,761,710,  
6 which matches the DDS-2. That's the calculated --  
7 recalculated revenue requirement, but was not intended  
8 to represent what the utility is requesting.

9           **Q     You would agree it says, "What is the**  
10 **appropriate revenue requirement," correct?**

11          A     Yes, and -- and the answer is in error.

12          **Q     Is in where?**

13          A     In error.

14          **Q     Oh, in -- which answer is in error?**

15          A     The 3,761,710 should have said -- I mean, to  
16 make it abundantly clear that it's requesting what we're  
17 asking, should have said 3,682,216.

18          **Q     But you would agree it doesn't say that,**  
19 **correct?**

20          A     Yes.

21          **Q     All right. Would you please turn to the E1**  
22 **schedule on your revised MFRs and also find your direct**  
23 **testimony in the E1 schedule?**

24                   MR. FRIEDMAN: Commissioner Polmann, we've  
25                   already stipulated that the company is going to

1 limit its revenues to those that it sought in its  
2 original MFRs, which means the E schedule rates  
3 would be the same as those in the MFRs.

4 I don't think this line of questioning has any  
5 probative value, in light of that stipulation.

6 COMMISSIONER POLMANN: Mr. Sayler, do you  
7 intend to continue --

8 MR. SAYLER: I just have a couple more  
9 questions.

10 COMMISSIONER POLMANN: -- examining the  
11 3,761,710?

12 MR. SAYLER: No, actually, I'm not, so -- may  
13 I proceed?

14 COMMISSIONER POLMANN: Yes, I'm -- I'm noting  
15 Mr. Friedman's objection.

16 MR. SAYLER: Certainly.

17 BY MR. SAYLER:

18 **Q When you compare your E1 from your direct to**  
19 **your E1 in revised, do you see that there's a**  
20 **difference?**

21 A Yes.

22 **Q And earlier, you said that you tried to**  
23 **highlight all the changes in your DDS-2 with yellow**  
24 **highlighter; is that correct?**

25 A Yes, that's right.

1           Q     And in Column 4, did you do any highlighting  
2     there to show the changes?

3           A     No, I didn't, but every number changed.

4           Q     Okay. Would you, in the pre-hearing order,  
5     turn to the next page.

6                    COMMISSIONER POLMANN: Could you identify the  
7     page number, please?

8           MR. SAYLER: Page 22, Issue 36: What are the  
9     appropriate rates -- rate structure and rates for  
10    wastewater service.

11           MR. FRIEDMAN: Commissioner Polmann, this is  
12    the same line of questioning we just talked about.  
13    We've already stipulated we're not seeking any  
14    difference in revenue or rates than were in the  
15    original MFRs. And he's just pulling up things  
16    that we have already agreed we weren't asking for.

17                    If the -- if the pre-hearing order is  
18    erroneous, then -- they're errors, they're errors.  
19    We've corrected it a dozen times in the last two  
20    days we've been here. They don't seem to get it.

21           MR. SAYLER: This is the first time I've asked  
22    questions about the pre-hearing order. And this is  
23    the position of the company that was not revised at  
24    the pre-hearing conference three weeks ago.

25                    MR. FRIEDMAN: It was certainly revised at

1           this hearing, at the beginning of the hearing, when  
2           he raised the same issue. We made it abundantly  
3           clear, during the direct examination of Ms. Swain,  
4           that we were not requesting any revenues in excess  
5           of what the original application had, nor rates in  
6           excess of what was in the original application.

7           MR. SAYLER: I would object to that  
8           characterization.

9           COMMISSIONER POLMANN: I -- I understand that  
10          point.

11          Mr. Sayler, I'm -- I'm trying to understand  
12          your purpose proceeding that is distinctly  
13          different from his objection, and I'll allow you to  
14          proceed --

15          MR. SAYLER: Well, I --

16          COMMISSIONER POLMANN: -- noting  
17          Mr. Friedman's objection, but let's see if you can  
18          go someplace that he's not going to object to,  
19          other than identifying -- continuing to turn pages  
20          and looking for yellow highlights.

21          BY MR. SAYLER:

22           **Q       So, maybe the -- maybe the question is for**  
23           **Mr. Friedman. Sorry. Well -- so, Ms. Swain, you've**  
24           **heard your Counsel speak that Issue 36 is not the**  
25           **correct position?**

1           A     Yes.

2           Q     So, it should be your E1 from your direct  
3 testimony?

4           A     Correct.

5           Q     So, from what you understand, KWR does not  
6 believe this is the appropriate structure in rate base  
7 for the proposed revenue requirement?

8           MR. FRIEDMAN: Asked and answered.

9           MR. SAYLER: I did not ask that question.

10          COMMISSIONER POLMANN: Proceed, Mr. Sayler.

11          THE WITNESS: Would you ask that again,  
12 please?

13          COMMISSIONER POLMANN: Yeah, you -- you didn't  
14 get an answer. Try to ask it in a yes-no fashion,  
15 and she can elaborate.

16 BY MR. SAYLER:

17          Q     You would agree, after what Mr. Friedman has  
18 said, that the appropriate rate structure in rates  
19 should be based upon your direct testimony, correct?

20          A     Yes.

21          MR. SAYLER: I do have a question for  
22 Ms. Swain on the KWRU profit-sharing plan and trust  
23 document. I will provide her a full copy. It was  
24 put into the record previously under Mr. Johnson's  
25 direct testimony. I'm trying to get the exhibit

1 number. It was Exhibit No. 117.

2 COMMISSIONER POLMANN: That's what I have.

3 BY MR. SAYLER:

4 Q All right. Where in the profit-sharing plan  
5 of KWRU does it state that it is a defined benefit plan?

6 A The --

7 Q If you can, point me to a page.

8 A I don't -- I don't know. I've not looked at  
9 this document. I don't know that it -- that it uses  
10 that term out- -- terminology on the plan.

11 Q But you would agree that defined benefit  
12 plan -- that terminology is -- has a very specific  
13 meaning, correct?

14 A Yes.

15 MR. SAYLER: All right. No further questions.

16 COMMISSIONER POLMANN: Thank you, Mr. Sayler.  
17 Monroe County.

18 MR. WRIGHT: Thank you, Commissioner. I -- I  
19 would like to ask for a few minutes. I need to  
20 tend to something personal, and I need to get my --  
21 my potential cross-exhibits organized and delivered  
22 to the staff.

23 COMMISSIONER POLMANN: Okay. We had  
24 Mr. Sayler here for 50 minutes. We can take a  
25 five-minute break, but -- you're going -- you're

1 going to need to be five minutes.

2 MR. WRIGHT: I strive for efficiency. Thank  
3 you.

4 COMMISSIONER POLMANN: Five minutes. We're in  
5 recess five minutes to help Mr. Wright.

6 (Brief recess.)

7 COMMISSIONER POLMANN: Mr. Wright, you're up.

8 MR. WRIGHT: Thank you, Commissioner.

9 Just to be clear, and so that you will know  
10 what I'm up to here, I do have a number of  
11 remaining cross-examination exhibits. Some of them  
12 may be relevant to Ms. Swain's cross or, depending  
13 on her answers to predicate questions, they may not  
14 be.

15 If not, they will be offered in my cross-  
16 examination of Mr. Johnson. That is why we haven't  
17 handed any of them out because it may be that I  
18 don't have any further cross exhibits for  
19 Ms. Swain. Okay?

20 COMMISSIONER POLMANN: (Nodding head  
21 affirmatively.)

22 MR. WRIGHT: Thank you.

23 EXAMINATION

24 BY MR. WRIGHT:

25 Q I fear that it is evening, now, Ms. Swain.



1 Good evening, to you.

2 A Good evening.

3 Q I have a few questions that come out of other  
4 things, so I'll start with those and then go through my  
5 prepared questions.

6 My first question relates to your updated  
7 Schedule A3 in -- MFR Schedule A3 in DDS-2. It's your  
8 pro forma plant table.

9 A Okay.

10 Q Are you aware of the document that came in on  
11 cross-examination of Mr. Johnson, called "Additional  
12 Work Agreement"? It's a contract between the County and  
13 KWRU for the installation of about \$600,000 worth of  
14 connections to the vacuum system on --

15 A No.

16 Q -- Stock Island.

17 A I -- I was here, but no, I'm not familiar with  
18 that.

19 Q Okay. Are you -- are you familiar with any of  
20 that work that's -- that's contemplated by that  
21 agreement?

22 A No, other than just I've heard a little bit,  
23 but no.

24 Q Is any of -- is any of the plant cost  
25 associated with that work included in your A3?

1 A No.

2 Q If the County does pay -- pay for it -- I  
3 think the number is \$566,000 or something like that --  
4 would you expect that that would be booked as CIAC at  
5 the time?

6 A Yes, I would.

7 Q Thank you.

8 I'm not sure if this was in your summary or if  
9 it was in your response to questions by Mr. Sayler, but  
10 I understood you to make a statement very early in your  
11 time on the stand that -- that you argued that expenses  
12 in usage not related to growth shouldn't be included  
13 in -- in setting rates. Did you say something like  
14 that?

15 A What I said is that we did not include any  
16 expenses associated with growth outside the test year in  
17 our pro forma expenses.

18 Q But you included a whole lot of expenses  
19 outside the test year in --

20 A Yeah.

21 Q In your revenue requirement, correct?

22 A Yes, but they weren't related to growth.

23 Q Well, I understand that's your testimony.

24 Isn't it true that all of the company's costs  
25 that are incurred in the time the new rates are going to

1 be in effect will serve whatever usage there is during  
2 that time?

3 A No. No. The -- the -- the expenses may  
4 increase in 2018, associated with customers that might  
5 have been added in 2018.

6 Q Isn't it true that the company's costs, all  
7 the company's expenditures in 2018 or 2019, will serve  
8 the customers using the company's service during 2018 or  
9 2019?

10 A Yes. Yes, that's correct.

11 Q When do you expect new rates to go into  
12 effect, coming out of this case?

13 A Late summer, I think --

14 Q Yeah.

15 A This year.

16 Q It's not -- it's not a critical point, but can  
17 we agree, just for -- for subject of conversation, that  
18 it will apply to bills that customers will receive on or  
19 after September 1st of this year?

20 A Probably so.

21 Q Do you believe that the usage in the period  
22 September 2018 until August of 2019 will be the same as  
23 it was in the period July 2016 to June of 2017?

24 A It would be remarkable if it were the same  
25 number.

1 Q And same question: Will you agree that the  
2 actual costs in the period September '18 through  
3 August '19 will likely be different than the costs in  
4 the period July '16 through June '17?

5 A Most likely, sure.

6 Q Thank you.

7 We had -- we had a nice conversation yesterday  
8 about your changes to your MFRs. I have a few  
9 follow-ups relative to the -- your MFRs in your rebuttal  
10 testimony.

11 On Page 8 of your rebuttal testimony, Line 10,  
12 you make the statement: The cost, which is supported by  
13 Chris Johnson and Robert Pabian should be included the  
14 company's allowable costs, correct?

15 A Correct.

16 Q Was the total cost -- and that's the cost for  
17 the new office building, correct?

18 A That's right.

19 Q And was the total cost for the new office  
20 building included in your direct testimony?

21 A I believe it was.

22 Q And I'll add to that, or in your original  
23 MFRs, and you can answer it that way.

24 A I -- yes, I believe it was.

25 Q Your rebuttal testimony added some hurricane

1 costs that were not included in your original testimony,  
2 correct?

3 A Yes, that's right.

4 Q Would including those additional hurricane  
5 costs result in changes to any of KWRU's MFRs?

6 A Yes.

7 Q The -- some of the B schedules?

8 A Yes, they would. They were -- it would affect  
9 the miscellaneous expenses, and it would also affect the  
10 working capital.

11 Q If you can recall right now, were those --  
12 specifically, the hurricane costs -- increases reflected  
13 in your revised B schedules submitted as D- -- as part  
14 of DDS-2?

15 A Yes.

16 Q Did you include the updated fed prime rate in  
17 the updated MFRs?

18 A Yes, I did.

19 Q Do I -- I think I have it right that in your  
20 Exhibit DDS-2 it includes ten updated MFR schedules,  
21 correct?

22 A I believe that's right.

23 Q Thank you.

24 Other than all the changes that we discussed  
25 yesterday, are there any other adjustments or

1 corrections recommended in your rebuttal testimony that  
2 would result in changes to your MFR schedules that are  
3 not reflected in either DDS-1 or DDS-2?

4 A I -- yes, the -- the correction that I  
5 indicated at the start of my rebuttal testimony, related  
6 to the -- my testimony on Pages 9 through 12 where I go  
7 into great detail on annualization of accumulated  
8 depreciation and depreciation expense, and I just  
9 neglected to include those in the DDS-2 schedules.

10 Q Didn't we talk about those yesterday?

11 A Yes. So, in addition, no, no others --

12 Q Okay. Yeah. I tried to preface my question  
13 by asking: Other than the changes that we discussed  
14 yesterday to all the schedules that we went through  
15 yesterday --

16 A Okay.

17 Q -- are there any others affected by your  
18 rebuttal testimony?

19 A Not that I'm aware of, no.

20 Q Thank you.

21 Starting on Page 14 of your rebuttal  
22 testimony, continuing on to Page 15, you talk about  
23 KWRU's data system, correct?

24 A Yes.

25 Q And this is in relation to the -- the phone

1 **system for which the company seeks a cost allowance?**

2 A Yes.

3 Q **Isn't it true that, at your deposition, you**  
4 **didn't know what the acronym SCADA stands for?**

5 A I'm not good with acronyms, that's correct.

6 Q **Do you know what it stands for, this evening?**

7 A I heard Mr. Schultz say it, and I still don't  
8 remember what it is. I know what it is. I don't know  
9 what the acronym --

10 Q **You don't consider yourself an expert in SCADA**  
11 **systems, do you?**

12 A No -- no, I don't. I have some familiarity,  
13 but I'm not -- I'm not an expert.

14 Q **You don't know which treatment or collection**  
15 **facilities at KWRU the KWRU's SCADA system controls or**  
16 **collects data from, do you?**

17 A That's right, I don't know the extent of it  
18 and its usage.

19 Q **Okay. Have you reviewed KWRU's current FDEP**  
20 **permit to operate the wastewater treatment plant?**

21 A Not recently.

22 Q **Do you --**

23 A I have seen it. I -- I just haven't seen it  
24 recently.

25 Q **Do you know whether that permit requires a**

1     **redundant phone system to support the SCADA system?**

2           A     I would say, without looking at it, that it's  
3     unlikely that it would require a redundant phone system.

4           Q     **I did phrase my question: Do you know whether**  
5     **it does. Is the answer to that question, "I don't**  
6     **know," with the explanation you just gave?**

7           A     Yes, I don't know, followed by explanation.

8           Q     **Thank you very much.**

9                    **Do you know whether the applicable FDEP rules**  
10    **require a redundant phone system for the SCADA systems**  
11    **at wastewater treatment plants?**

12          A     I don't know for certain, but I don't believe  
13    they do.

14          Q     **Thank you.**

15                    **This is a follow-up question you had in**  
16    **discussion with Mr. Saylor regarding the profit-sharing**  
17    **plan.**

18                    **Did you testify that the profit-sharing**  
19    **plan -- did you testify that IRS regulations applicable**  
20    **to profit-sharing plans of the species utilized by KWRU**  
21    **require contributions by the company?**

22          A     No. What -- what, I believe, I said -- what I  
23    intended is that, in addition to any stated requirements  
24    in the plan, that IRS has its other set of reporting  
25    requirements that aren't necessarily included in the



1 plan documents. And those -- those reporting  
2 requirements also -- there's also established  
3 regulations that deal with determination of the plan  
4 above and beyond what the plan documents say.

5 **Q But those reporting requirements do not relate**  
6 **to mandatory employer contributions, do they?**

7 A No. The reporting requirements don't, but the  
8 IRS regulations do deal with very strict requirements if  
9 there's going to be changes to the original plan  
10 documents or a suspension of the plan or a termination  
11 of the plan.

12 **Q Do any of those requirements require that an**  
13 **employer make a contribution to the profit-sharing plan**  
14 **of the species that we're talking about here?**

15 A Yes, the company would be required to make  
16 those contributions, unless the plan has changed and  
17 approval for IRS is obtained. And that approval is not  
18 a given. It's difficult when there is a price tag  
19 associated with it.

20 **Q Does the -- does the company's profit-sharing**  
21 **plan require it to make contributions in a manner that**  
22 **is enforceable by the IRS or any other agency?**

23 A Yes, it has to meet IRS guidelines.

24 **Q I don't believe that quite answered the**  
25 **question that I asked or I didn't ask the question I**

1    **meant to. The question I attempted to ask is: Does the**  
2    **company's profit-sharing plan require the employer,**  
3    **KWRU, to make contributions. Let's go -- let's stop at**  
4    **that point, Question 1.**

5           A     Okay. I haven't read it, but I heard the  
6    testimony yesterday that -- that there is a termination  
7    clause in the plan documents that allows the company to  
8    terminate the plan. And I don't know if there's any  
9    mandatory payment requirements. I didn't -- haven't  
10   reviewed that.

11           Q     Thank you.

12                    I -- I may or may not be able to ask  
13   **Mr. Johnson these questions, so I want to ask her in**  
14   **case he says, oh, you should have asked Ms. Swain. If**  
15   **KWRU does recover additional insurance payments for the**  
16   **damage to the build- -- office building, how -- how**  
17   **would you propose that those payments would be treated,**  
18   **for accounting purposes?**

19           A     The -- the cost, currently, to the extent that  
20    there's new construction or rehabilitation that's  
21    capitalizable taking place -- that would offset that.  
22    To the extent that it's an item that we've included in  
23    the deferred hurricane expense, it -- it would -- it  
24    would reduce that deferred debit.

25           Q     **Is there anything wrong, from an accounting or**

1 GAAP-requirements perspective, with treating the  
2 additional \$55,000 sought by the company as a  
3 receivable?

4 A Yes. You would not record a receivable for  
5 something that you are not expecting that you're going  
6 to be able to collect. There has to be some high level  
7 of certainty.

8 Q Thank you.

9 Continuing on Hurricane Irma, briefly, at  
10 Page 18 of your testimony, you made the statement, "KWRU  
11 has determined that the anticipated average occurrence  
12 of impact from a hurricane is four years," correct?

13 A Yes.

14 Q Did you play any role in making that  
15 determination?

16 A I had a number of conversations where this was  
17 told to me. And it seemed reasonable to me since I also  
18 live in South Florida, but I did not play a role in --  
19 in making that determination.

20 Q Did you do any personal analysis of hurricane  
21 frequency in the Keys or South Florida to come up with  
22 the four-year value?

23 A No, I did not.

24 Q Have you ever supported a projected test year  
25 in a water or wastewater utility rate case?

1           A     Yes.

2           Q     **More than once?**

3           A     Once, under the Public Service Commission, and  
4 numerous under county jurisdictions.

5           Q     **Thank you.**

6                   Do you agree that rates paid by customers of  
7 any utility should reflect the costs incurred to serve  
8 them during the time that the rates are in effect?

9           A     Yes, and to elaborate on that, that is the  
10 purpose of a -- of establishing a test period.

11           Q     **This is a very similar, but slightly different**  
12 **question: Do you agree that the rates paid by customers**  
13 **of any utility should be based on the costs incurred and**  
14 **units of sales made by the utility during the time that**  
15 **the rates are in effect?**

16           A     Yes, and the same -- same elaboration on that  
17 is that, as established by the test period.

18           Q     **I think that, like myself, you've been here**  
19 **for this whole proceeding, correct?**

20           A     Yes, I have.

21           Q     **Do you -- I bet you recall the exchanges I had**  
22 **with Mr. Johnson yesterday afternoon about a \$17-million**  
23 **difference in consumption and -- and meter closed**  
24 **that -- actually an adjustment of \$17 million that he**  
25 **made based on his understanding of the difference**

1 between closed during the test year and closed starting  
2 May of last year?

3 A You're talking about Stock Island Apartments?

4 Q What -- what he calls Stock Island Apartments,  
5 yes.

6 A Yes, I -- I remember that.

7 Q Thanks.

8 And you -- do you believe that it's  
9 appropriate for him to remove the 17 million gallons  
10 from the test-year consumption as being not  
11 representative of the time period that rates will be in  
12 effect?

13 A I -- yes, we -- we had the information and --  
14 and feel that, since it was a permanent change, that  
15 that should be reflected.

16 Q Isn't it also, then, appropriate to include  
17 additional gallonage of usage or wastewater treatment  
18 service from new users?

19 A No. No, not -- it's not the same thing. One  
20 is a -- a complete change in existing customers' usage  
21 pattern and the other is future customers unrelated to  
22 expenses that we've got included in the rate case.

23 Q Won't the Public Service Commission make the  
24 determination as to what -- what usage is appropriate  
25 for use in setting rates?

1           A     Yes, and they'll listen to all the testimony  
2     and look at all the exhibits and make that  
3     determination.

4           **Q     Page 33 of your testimony, you provided**  
5     **limited rebuttal, I think, of Mr. Wilson's testimony.**  
6     **You made the statement, "As testified by Witness**  
7     **Johnson, the EDU calculations performed by Witness Kevin**  
8     **Wilson, which underlie the reductions proposed by**  
9     **Witness Small, are unsupported, just as his projections**  
10    **in the prior rate case were proven incorrect, in**  
11    **actuality." Are you with me?**

12          A     Yes.

13          **Q     Exactly what projections in the prior rate**  
14    **case were proven incorrect, in actuality?**

15          A     The -- in the last rate case, the billing  
16    determinants were projected and that, in all class of  
17    customer and reuse, in particular, and when compared,  
18    they did not match what took place, in actuality.

19          **Q     Well, the fact that they were different than**  
20    **what took place in actuality shouldn't surprise anyone,**  
21    **should it?**

22          A     No, it shouldn't. And I -- therein lies the  
23    problem with projections.

24          **Q     Did you independently analyze any of the**  
25    **specific projections that Mr. Wilson made as compared to**

1 what happened in actuality for any of the specific  
2 developments discussed in his -- in his 2016 testimony?

3 A I didn't look at the specifics. I looked at  
4 the totals.

5 Q Thanks.

6 Were the company's projections off as well?

7 A No, actually --

8 Q Would -- was --

9 A Pretty darn close. The -- unfortunately.

10 MR. WRIGHT: One -- one moment, please.

11 Commissioner Polmann and Ms. Swain, you will  
12 be happy to know that that concludes my cross-  
13 examination.

14 COMMISSIONER POLMANN: Hard to make me happy,  
15 but thanks for trying.

16 Staff?

17 MS. CRAWFORD: Staff does have some limited  
18 cross. We're going to be distributing three  
19 exhibits. I don't anticipate it will take more  
20 than 15 minutes, depending on how extensive the  
21 answers are -- 15, not 50, one-five.

22 COMMISSIONER POLMANN: Whatever time you need,  
23 as long as it's not too much.

24 MS. CRAWFORD: And if we could go ahead and  
25 have the exhibits marked, the first has a

1 description for "Trial Balance Excel File."

2 COMMISSIONER POLMANN: I have No. 133.

3 MS. CRAWFORD: For the second, it's got a  
4 short title, "Escrow Agreement."

5 COMMISSIONER POLMANN: 134, escrow agreement.

6 MS. CRAWFORD: And for the third, Staff's  
7 Interrogatory No. 83, please.

8 COMMISSIONER POLMANN: 135.

9 MS. CRAWFORD: Thank you.

10 (Whereupon, Exhibit Nos. 133, 134 and 135 were  
11 marked for identification.)

12 EXAMINATION

13 BY MS. CRAWFORD:

14 Q Good evening, Ms. Swain. How are you?

15 A Good.

16 Q There's been a lot of discussion and -- and  
17 you just acknowledged to Mr. Wright in -- as part of his  
18 questioning, that you've been in there throughout pretty  
19 much the whole hearing, correct?

20 A Yes.

21 Q And so, you've heard a lot of discussion about  
22 growth and what growth is appropriate to be taken into  
23 account in this rate proceeding --

24 A Yes.

25 Q -- correct?



1           And to the extent that growth is going to be  
2           considered outside of the test-year period, basically  
3           that would involve revenues associated with growth --  
4           growth essentially needing to be projected or imputed,  
5           correct?

6           A     Yes.

7           Q     Okay.  Would you also agree, in that case,  
8           that the associated expenses should be imputed as well?

9           A     Are you asking me if I think that we should go  
10          outside the test year and impute expenses and revenues  
11          or just the --

12          Q     Not at all.  Just as a hypothetical, should  
13          growth be imputed in the stock and should the expenses  
14          associated with that also be imputed?

15          A     Yes.

16          Q     Okay.  You're familiar with the reports that  
17          are required of water and wastewater utilities, required  
18          by the Florida Public Service Commission, correct?

19          A     Yes, that's correct.

20          Q     And is it correct that those are generally  
21          used as a surveillance mechanism?

22          A     Yes.

23          Q     And -- and that would help identify, for staff  
24          as well as for the utility, if the utility is over-  
25          earning or under-earning?

1 A Yes, that's right.

2 Q So, if, as a result of the rates that are  
3 approved for a utility at a given time, if they are  
4 over- or under-earning, one would reasonably expect that  
5 could be monitored through the earnings-surveillance-  
6 report function of the annual reports.

7 A Yes, that's right.

8 Q Okay. If I could have you look at exhibit  
9 that's been identified as 133, please, the trial balance  
10 Excel file.

11 A Okay.

12 Q And I believe this document will look familiar  
13 to you. I think it was provided to you in your  
14 deposition?

15 A I don't recall --

16 Q Okay.

17 A -- seeing it, but --

18 Q Would you accept, subject to check, that this  
19 is a response to the discovery provided by Mr. Johnson  
20 in this docket? You see that it's labeled as trial  
21 balance?

22 A Yes, it looks familiar to me.

23 Q Okay.

24 A Let me -- from a standpoint of interrogatory  
25 responses.

1           Q     I will just say, subject to check, that this  
2     is an item you were referred to in your deposition and  
3     you were asked some questions on.

4           A     All right.

5           Q     Some are going to be the same.

6           A     Okay.

7           Q     So, you didn't prepare this exhibit, correct?

8           A     This is a -- this is actually a -- a work  
9     paper that I use and -- in the development of the MFRs.  
10    So, I would have been the one that provided this.

11          Q     Oh, okay. Okay.

12                   And help me understand how this exhibit would  
13    relate to the various schedules in your MFRs?

14          A     The -- the A- -- 18 and A19 schedules would --  
15    which are the detail balance schedules by account, would  
16    have been pulled from -- from the monthly trial balance.

17                   So, the balance-sheet items would have --  
18    would have gone over to that A17 and A19 and, then,  
19    ultimately A- -- or A18 and A19, which would have, then,  
20    gone to A17, which was the working capital, and  
21    ultimately to A3 and A1, which are the rate-base  
22    schedules.

23          Q     Okay. If I could refer you, on this exhibit,  
24    to Line 6. And you'll see it's listed as BB&T operating  
25    account?

1           A     Right.

2           **Q     Can you explain the primary function of that**  
3 **account to me, please?**

4           A     This is the main checking account for the  
5 utility.

6           **Q     And is this used in day-to-day operations or**  
7 **for some other purpose?**

8           A     It's -- it's used for everything. Generally,  
9 the funds in the other cash accounts are put into that  
10 account to -- to cover -- like, there's a separate  
11 account called a capital account. The money would be  
12 sent over to the -- to the operating account to write  
13 checks. So, it -- it is the main checking account.  
14 Money is coming from other places to fund it.

15          **Q     And would it be correct to say that it is**  
16 **primarily used for expenditures related to day-to-day**  
17 **operations?**

18          A     Yeah, and everything else.

19          **Q     Okay.**

20          A     Capital as well.

21          **Q     All right. If I can refer you next, please,**  
22 **to Line 11.**

23          A     Okay.

24          **Q     And you'll see BB&T PSC escrow account.**

25          A     Yes.

1           Q     Can you tell me the purpose of that account,  
2     please.

3           A     That was the account the utility set up to --  
4     to -- to hold the -- the portion of the rate increase in  
5     the last case that was subject to refund.

6           Q     Okay. And just for clarity, is it correct  
7     that that account reflects the PAA rates that were  
8     implemented by the utility after the protest?

9           A     Yes.

10          Q     Okay. And that refund took place, correct?

11          A     Yes, it did.

12          Q     Those were refunded pursuant to the  
13     Commission's order?

14          A     Yes.

15          Q     And do you know when that refund was complete?

16          A     I think that the -- the final checks were  
17     still being written pretty close to the end of the test  
18     year to customers that had left the service area. So, I  
19     would say May or June, but I'm not sure. Mr. Johnson  
20     could tell you the exact date.

21          Q     I'm sorry. You said Mr. Johnson?

22          A     Yeah.

23          Q     Okay. Thank you.

24                     If I could next refer you -- put that one  
25     aside for now. And if you could, just take a quick look

1 at Exhibit 134 for me, please.

2 A Okay.

3 Q You'll see it's a multipage docket. And, in  
4 particular, I would like to refer you to the second  
5 page. The top of that page, you see the -- the title,  
6 "Escrow agreement."

7 A Okay.

8 Q And does this document look familiar to you?  
9 Is this the escrow account that you -- is this the  
10 agreement that relates to the escrow account you were  
11 just referring to?

12 A Yes. I haven't seen this before, but yes,  
13 that's -- this would be what this is. Yeah.

14 Q Could I trouble you to read the very last  
15 line, full sentence, on that page, please?

16 A The -- the No. 4?

17 Q Yes, the last full sentence in No. 4.

18 A Okay. "No withdrawals of function occur  
19 without the prior approval of the Commission through the  
20 Office of Commission clerk."

21 Q So, based on the language there, and based on  
22 your understanding and experience with the escrow  
23 account, is it correct that the utility could not access  
24 the funds in the account without the prior approval of  
25 the Commission?

1           A     That's correct.

2           Q     Okay.  And I'm going to refer you back to the  
3     **first exhibit, 133, please.**

4           A     Okay.

5           Q     Specifically, Line 10, you'll see there that  
6     **it's captioned "BB&T Capital Account"?**

7           A     Right.

8           Q     Uh-huh.  What is this account used for,  
9     **please?**

10          A     The -- the company set up a separate account,  
11     separate cash account, to, in particular, set aside  
12     money for the capital expenditures.

13          Q     Is the main purpose of this account to fund --  
14     **okay.  So, the main purpose of the account is to fund**  
15     **ongoing capital projects, correct?**

16          A     Correct.  That's right.

17          Q     Okay.  So, it's not typically used for day-to-  
18     **day operations?**

19          A     That's right.  To the extent -- just to  
20     clarify -- that in KWRU's case, because of the volume of  
21     capital projects they have, that is day-to-day  
22     operations.

23          Q     **For money that was transferred to this account**  
24     **during the test year -- that was accomplished through**  
25     **equity infusions and long-term debt?**

1 A Predominantly, yes. Yes.

2 Q Is it correct that the -- I'm sorry. Let  
3 me -- let me walk back just a minute and refer you to  
4 Exhibit 135, please. And just for clarity --

5 MR. WRIGHT: Commissioner, this is -- we  
6 object to this exhibit. It's part of the discovery  
7 responses that were served late, out of time.  
8 That's all I need to say. Just preserving the  
9 objection for the record. Thank you.

10 COMMISSIONER POLMANN: Objection noted.

11 MS. CRAWFORD: Thank you.

12 BY MS. CRAWFORD:

13 Q And this was a response provided by the  
14 utility responding to staff's Interrogatory No. 83.  
15 Have you seen this item before? Are you familiar with  
16 it?

17 A Yes.

18 Q Did you sponsor it?

19 A I -- it was a collaborative response. I don't  
20 believe I'm a sponsor. I'm not sure.

21 Q Okay. But you are familiar with it.

22 A Yes.

23 Q And you -- you agree with the response that's  
24 reflected there, currently?

25 A Yes.



1 Q Okay. And so, it is correct that the pro  
2 forma additions that are discussed there and that relate  
3 to the MFR Schedule A3 have been funded by equity  
4 capital?

5 A The pro forma additions that -- that have been  
6 expended already were funded by equity capital.

7 Q And those equity infusions are reflected in  
8 the equity balance, included in the utility's capital  
9 structure, correct?

10 A Yes.

11 Q Okay. How would you quantify the expenses,  
12 outside of the test year, associated with growth, going  
13 back to that first couple of questions I asked you? In  
14 other words, Monroe County -- you've heard their  
15 witnesses suggest that that might be appropriate.

16 A Yes.

17 Q If that were to be ordered by Commission, in  
18 your mind, what would be the appropriate way to quantify  
19 those expenses that are outside of the test year,  
20 associated with growth?

21 A It really would require a very-detailed  
22 analysis of each and every expenditure, considering --  
23 and each expense line item, and consider a whole host of  
24 factors, including what the actual expenditures are to  
25 date and, using that information, try to do a

1 determination basis for a projection for the -- for  
2 whatever period of time.

3 And I'll -- and I -- I know I was asked this  
4 question in the last rate case and I cautioned because  
5 everybody just wanted to take the numbers and annualize  
6 them, but that is a real disservice to the utility,  
7 potentially, or to the customers, potentially, to simply  
8 do an annualization.

9 The utility operations are -- and activity is  
10 very cyclical. It's not what's taken place since --  
11 from July 1st to today is not necessary -- necessarily  
12 reflective of what's going to happen in the next three  
13 months.

14 So, there's not a simple answer to that. It  
15 requires a real in-depth analysis of each line item.

16 MS. CRAWFORD: Thank you. I have no more  
17 questions.

18 COMMISSIONER POLMANN: Thank you,  
19 Ms. Crawford.

20 Commissioners?

21 Commissioner Fay.

22 COMMISSIONER FAY: Thank you, Mr. Chairman.

23 Thank you, Ms. Swain, for being here late. It  
24 seems like we're about to lose power. So,  
25 hopefully we'll get through this.

1           You just commented that the potential  
2           annualization of the expenses could be a disservice  
3           to the utility or the customers. Can you explain  
4           how it would be a disservice to the customers?

5           THE WITNESS: Well, we could annualize -- the  
6           expenses for the rest of the year could be lower  
7           than just a simple -- you know, than what -- it  
8           could go either way, is what -- is my point. We  
9           could overestimate or we could underestimate. So,  
10          someone could be harmed by -- by a simple  
11          annualization.

12          What we want to do is come up with the  
13          closest, best information we could. And it would  
14          require quite a -- quite an effort.

15          COMMISSIONER FAY: And I don't -- I don't  
16          know -- intentionally, I don't look at a lot of  
17          spreadsheets, but is that likely to happen? Is  
18          that -- is that a possible scenario?

19          THE WITNESS: That the customers would --

20          COMMISSIONER FAY: That it would be lower,  
21          yeah.

22          THE WITNESS: That it would be lower? I don't  
23          know the circumstances. So -- so, there is parts  
24          of the year where the costs are lower and parts  
25          when it's higher. So, it could be that the next

1 three months are actually lower than the first nine  
2 months. So, I -- I don't know. I'm saying it  
3 could -- it could go either way.

4 COMMISSIONER FAY: Okay. Great.

5 And one question -- so, I think this was  
6 Exhibit 133. Yeah. Do you mind turning to that  
7 real quick? You mentioned Line 6 was the main  
8 operating account for the utility, correct?

9 THE WITNESS: Yes.

10 COMMISSIONER FAY: Is there anything in  
11 particular, as it relates to February 2017 to  
12 March 2017, that would create a \$200,000 difference  
13 in that account?

14 THE WITNESS: Between --

15 COMMISSIONER FAY: So, "J" and "K."

16 THE WITNESS: Yeah.

17 COMMISSIONER FAY: "J" and "K."

18 THE WITNESS: It's really hard when you're  
19 looking at just the last month of each month -- I  
20 mean, the last day of each month. I went back  
21 and -- back and looked and, in all the cash  
22 accounts, there is a million dollars, on average, a  
23 month going in and out of these accounts.

24 So, you're getting a picture on the very last  
25 day. It could be anything. It could be that they

1 had another equity infusion five days earlier and  
2 they spent some of it. So, it's -- it -- it could  
3 absolutely be anything.

4 The one real predictable thing was when the --  
5 when the last rate case was finalized and the  
6 utility could start taking funds out of the -- out  
7 of the escrow account. And that took place -- if  
8 you look at it, that also took place in March.

9 So, if you look at Line 11, the balance went  
10 down from 678,000 down to 130 in the escrow  
11 account. So, I would guess that that's where some  
12 of it went, was -- that's part of the reason why  
13 that balance went up in the cash account.

14 COMMISSIONER FAY: I appreciate that. I also  
15 appreciate when you expect my next question. So,  
16 thank you for that answer.

17 That's all I have, Mr. Chairman.

18 COMMISSIONER POLMANN: Thank you,  
19 Commissioner, Fay.

20 Ms. Swain, based on your understanding --  
21 well, first of all, I understand that you've been  
22 involved in a variety of discussions and so forth  
23 across a pretty-broad spectrum with the utility.

24 So, based on the understanding you've gathered  
25 from that variety of discussions, does the utility

1 believe that inflow wastewater flows, incoming  
2 wastewater flows to the treatment plant will  
3 increase in the future?

4 THE WITNESS: Yes. Yes, and that will  
5 increase costs.

6 COMMISSIONER POLMANN: So, to your  
7 understanding, what explanation does the utility  
8 put forth for those expected increases? What's the  
9 reason that the future inflow to the treatment  
10 plant is going to increase?

11 THE WITNESS: Well, I -- I just heard about a  
12 \$600,000 project that's -- that's planned sometime  
13 in the future. I don't know when it is --

14 COMMISSIONER POLMANN: Okay. But I'm -- I'm  
15 asking: Do you have an understanding of what the  
16 utility's reason for the anticipated increase was?

17 THE WITNESS: There's a lot of factors. It's  
18 not a simple answer, but in the last rate case, the  
19 pro forma adjustment we requested was a substantial  
20 increase in the size of the plant to handle  
21 additional flows. And so, from that, I would say  
22 that they have information that there will be --  
23 there will be growth because that additional plant  
24 was needed.

25 COMMISSIONER POLMANN: So, the fundamental

1 reason for anticipating increase in flow, as to  
2 your understanding, is related to growth; is that  
3 your testimony?

4 THE WITNESS: Yes, I mean, there's other  
5 factors, I&I, but we don't have a I&I problem,  
6 really. So, it would be -- it would most likely be  
7 growth.

8 COMMISSIONER POLMANN: Okay. In your  
9 testimony, as -- as I've heard it, both in -- in  
10 direct and rebuttal, you've repeatedly referred to  
11 the concept of known-and-measurable.

12 THE WITNESS: Right.

13 COMMISSIONER POLMANN: And that that's an  
14 important, if not critical, issue.

15 And can you please explain to us that concept,  
16 known-and-measurable, as it relates to historical  
17 versus contemporary and prospective in the future?  
18 I'm trying to understand --

19 THE WITNESS: Okay.

20 COMMISSIONER POLMANN: -- that known-and-  
21 measurable -- I can see it in historical data.  
22 I'm -- I'm struggling a little bit with the  
23 contemporary circumstance. And I don't understand  
24 that in the future.

25 THE WITNESS: Okay. In -- and -- and great

1 question. Known-and-measurable is what's happened  
2 today and -- or up until today, the day that we're  
3 talking. So, in the regulatory context,  
4 particularly for water and sewer, known-and-  
5 measurable is a -- is a policy the Commission has  
6 adopted for determining whether expenditures should  
7 be included that are outside of the test year. And  
8 that -- and that has been the -- the goal and --  
9 and the -- the way that they've implemented that  
10 concept.

11 So, for example, if the utility came with a  
12 new expense today and said, this is changed  
13 significantly, the order will state, we're going to  
14 go ahead and allow it because it's known and  
15 measurable.

16 And I don't mean every expense in the world,  
17 but if the company had projected that the electric  
18 expense was going to increase \$1200 and, now, we  
19 found out that it was \$1259 because we've got the  
20 bill, then the Commission would allow that and say,  
21 because it's known and measurable.

22 In the future, no, it's not known and  
23 measurable. And that's the problem with the --  
24 with the projections. There's not -- there's not a  
25 mechanism and it's not a Commission practice to



1 look at -- look and do future projections that are  
2 not known and measurable.

3 It puts us in this position with the pro forma  
4 adjustments that we've made that's exactly why  
5 we're trying to get it more and more tied down as  
6 we sign contracts, as expenses are incurred. Now,  
7 it's known and measurable. When we filed, it  
8 wasn't. It was a pro forma, an estimate.

9 COMMISSIONER POLMANN: Is it your  
10 understanding, when you're -- when you're building  
11 or expanding a wastewater treatment facility, that  
12 you don't build it to meet today's needs?

13 THE WITNESS: That's right. And -- and that's  
14 what happened with the expansion the utility had  
15 already completed. They --

16 COMMISSIONER POLMANN: So --

17 THE WITNESS: Yes.

18 COMMISSIONER POLMANN: So, what would be an  
19 appropriate way -- what size do you build for?

20 THE WITNESS: The -- and I'm --

21 COMMISSIONER POLMANN: In -- in terms of  
22 trying --

23 THE WITNESS: -- not an engineer.

24 COMMISSIONER POLMANN: -- to estimate the  
25 costs and so forth.

1 THE WITNESS: Right.

2 COMMISSIONER POLMANN: I mean, that's the  
3 point of -- of speaking -- asking you the  
4 question --

5 THE WITNESS: Yes.

6 COMMISSIONER POLMANN: -- is it comes back to  
7 the costs.

8 THE WITNESS: The costs. There's a -- there's  
9 a lot -- again, a lot of factors. And I -- I see  
10 it differently among different utilities. The  
11 bottom line is, when you --

12 COMMISSIONER POLMANN: This one.

13 THE WITNESS: Yes. When a utility reaches  
14 80-percent capacity, they are required to start  
15 planning for an expansion. What size? It needs to  
16 be a consideration of the -- the cost of  
17 different options.

18 So, when -- in a package plant -- maybe they  
19 only need a hundred thousand gallons, but it only  
20 cost another 25 percent to put in 300,000 gallons.  
21 So, they'll go ahead and make a decision, based on  
22 economic factors as well as what their foreseeable  
23 needs are, and go ahead and expand to what looks  
24 like the best, most-efficient, and yet economical,  
25 sizing.

1           COMMISSIONER POLMANN: So, the point is that  
2           there's an obligation to plan for the next  
3           expansion. And that relates to growth and future  
4           need, but I think your testimony is that there's no  
5           way to know that. So, the known-and-measurable  
6           aspect of that decision and process does not apply;  
7           is that correct?

8           THE WITNESS: It's not known and measurable  
9           because it hasn't happened. The -- the utility, at  
10          the time that they planned the expansion -- they  
11          had knowledge of development plans and talked to  
12          Monroe County, talked to the developers to see and  
13          they -- and where additional sewers were being  
14          added throughout the -- throughout the area that  
15          they were going to be providing service to. So,  
16          they looked at all those when they sized it.

17          But those are all projections. And some have  
18          happened and some have not happened, but it's  
19          certainly not known and measurable if it hasn't  
20          happened. And by hasn't happened, sometimes it's a  
21          contract signed or shell on the ground or a request  
22          for service and a commitment.

23          COMMISSIONER POLMANN: So, is it possible that  
24          a capital project would be oversized because the  
25          development has not occurred? Is that -- is that

1 possible?

2 THE WITNESS: Yes, and that's -- and if you --  
3 in the MFR, something that's a little bit different  
4 in water and sewer cases is non-used and useful.  
5 The wastewater treatment plant is only 71.5 percent  
6 used and useful because the rest of it is needed  
7 for growth beyond five years from now. And so,  
8 that's -- that's how that's contemplated in the --  
9 in the regulatory and revenue-requirement scenario.

10 COMMISSIONER POLMANN: Thank you.

11 Redirect?

12 FURTHER EXAMINATION

13 BY MR. FRIEDMAN:

14 Q Ms. Swain, was it your understanding that the  
15 escrow agreement was to secure the repayment of the PAA  
16 rates?

17 A Yes.

18 Q All right. And are you familiar with any  
19 other methodologies that the Commission is allowed to  
20 utilize to secure a refund of PAA or interim rates?

21 A Yeah, it's corporate undertaking, corporate  
22 bond.

23 Q Or regular insurance-type company bond as  
24 well --

25 A Or -- or -- right, or insurance bond.

1           Q     So, if the company wanted to take this money  
2     out of this escrow account and put it in their operating  
3     account, all they would have had to do was get a bond,  
4     correct?

5           A     There's probably some sort of communication  
6     with the Commission required, but yes.

7           Q     And then, that money would -- where would that  
8     money -- which account would that money go into if that  
9     occurred?

10          A     That --

11          Q     Just go into that operating account you talked  
12     about?

13          A     It would have gone into the operating account  
14     or the capital account to help pay for the capital  
15     expenditures and probably would have reduced the equity  
16     infusion that was necessary.

17          Q     It would have been cash available for --

18          A     For anything --

19          Q     -- capital projects and --

20          A     Yes.

21                 MR. FRIEDMAN: That's all -- I'm -- I do --

22                 COMMISSIONER POLMANN: Exhibits.

23                 MR. FRIEDMAN: No, I do -- I just want to  
24     mention -- I don't have any more questions of her,  
25     and I would like to move her exhibits into

1 evidence.

2 I did want to note that, in response to OPC's  
3 second POD, which is Exhibit 94 that was stipulated  
4 to, a copy of the BB- -- BB&T note is in there.  
5 So -- so, I think Public Counsel was saying they've  
6 never seen it. I just wanted to -- the record to  
7 reflect that it is, in fact, in the exhibit that  
8 everybody stipulated to.

9 MR. SAYLER: Which hearing exhibit?

10 MR. FRIEDMAN: 94.

11 MR. SAYLER: 94 -- in response to which  
12 question?

13 MR. SMITH: 17 and 18.

14 MR. SAYLER: No. 17 and 18?

15 MS. CRAWFORD: 18.

16 MR. FRIEDMAN: And I would like to move her  
17 exhibits in.

18 MR. SAYLER: All right.

19 COMMISSIONER POLMANN: We have prefiled  
20 rebuttal Exhibits DDS-2 through DDS-8. Is that  
21 what we're referring to, Mr. Friedman? Previously  
22 identified in the comprehensive exhibit list as 54  
23 through 60.

24 MR. FRIEDMAN: 54 through -- yes, sir, thank  
25 you.

1           COMMISSIONER POLMANN: Okay. We will move  
2 those into the record at this time.

3           (Whereupon, Exhibit Nos. 54 through 60  
4 admitted into evidence.)

5           MR. SAYLER: Public Counsel would move  
6 Exhibit 132.

7           MR. FRIEDMAN: I object to Exhibit 132.

8           COMMISSIONER POLMANN: Okay. Public Counsel  
9 is -- requested to move Exhibit 132 that is the  
10 excerpt from the book.

11          MR. SAYLER: Yes, sir.

12          COMMISSIONER POLMANN: And KWRU has objected.

13          MR. FRIEDMAN: And my objection is this --  
14 it's a simple one: The portion that Counsel asked  
15 that Ms. Swain quote from is in the bottom right-  
16 hand corner where it talks about methods of  
17 computation.

18                 And if you look at the sentence at the very  
19 end, it -- it discusses other things and -- and,  
20 obviously, the same discussion goes somewhere else,  
21 into some other page of the document. And we've  
22 got no idea how those other pages of the document  
23 may affect this.

24                 For instance, it says: To determine working  
25 capital in a retail rate case, a utility may

1 consider cash working capital -- (indicating).

2 COMMISSIONER POLMANN: So, your assertion is  
3 that this is somehow incomplete or out of context.

4 Ms. Helton?

5 MR. FRIEDMAN: We don't know. It is an  
6 incomplete is what I'm saying.

7 COMMISSIONER POLMANN: That's what I'm saying:  
8 It's incomplete.

9 Ms. Helton?

10 MS. HELTON: If Mr. Sayler were to give us the  
11 whole section on working capital, would that work  
12 for you, Mr. Friedman?

13 MR. FRIEDMAN: Well, it doesn't do me much  
14 good now because I can't ask any questions about  
15 it.

16 MS. CRAWFORD: Dr. Polmann, another  
17 possibility is -- the witness spoke to that  
18 particular line that was at issue and, perhaps,  
19 Counsel might consider whether her comments on the  
20 record are sufficient, without the need for the  
21 exhibit, but I would have to leave that to OPC  
22 Counsel.

23 MS. HELTON: And -- and if I could make one  
24 note, too -- I think there's more than one version  
25 or edition of Bonbright's book. And so, Mr. Sayler



1 did not include which edition we're using. So, in  
2 the future, that might be something to note as  
3 well.

4 COMMISSIONER POLMANN: Mr. Sayler, is it -- do  
5 you feel it's necessary to enter that as an  
6 exhibit, having identified the book by title and  
7 page number?

8 MR. SAYLER: In the interest of moving things  
9 along, I will note that Mr. Friedman didn't object  
10 to the incomplete exhibit at the time of cross  
11 when, generally, parties object to the introduction  
12 of cross-examination exhibits.

13 But since Ms. Swain attested to the portions  
14 of this exhibit that I asked her about, then, I'm  
15 happy not to move this into the record. So, I'm --

16 COMMISSIONER POLMANN: You're -- you're  
17 willing to not move it into the record.

18 MR. SAYLER: Yes.

19 COMMISSIONER POLMANN: Okay. So --

20 MR. SAYLER: So, I un-move this exhibit into  
21 the record.

22 COMMISSIONER POLMANN: It will -- we withdraw  
23 that exhibit request on Exhibit No. 132. We'll put  
24 that aside.

25 MS. CRAWFORD: And then, staff --

1 COMMISSIONER POLMANN: Staff Exhibits.

2 MS. CRAWFORD: -- would request entry of 133,  
3 134, 135, please.

4 MR. WRIGHT: And please note our ob- --  
5 continuing objection to 135, for all the reasons  
6 previously discussed. Thank you.

7 COMMISSIONER POLMANN: That was on 135 you  
8 raised that objection --

9 MR. WRIGHT: 135, yes, sir.

10 COMMISSIONER POLMANN: -- what was  
11 identified --

12 MR. WRIGHT: I did raise --

13 COMMISSIONER POLMANN: You just -- I'm just  
14 acknowledging that you did.

15 MR. WRIGHT: Oh, thank you very much.

16 COMMISSIONER POLMANN: Okay. Did I move 1- --  
17 wait a minute. Did we move 54 through 60 into the  
18 record? We did that.

19 MS. CRAWFORD: Yes, sir.

20 MS. HELTON: Yes.

21 COMMISSIONER POLMANN: Okay. So, those that  
22 were identified during live testimony -- that was  
23 132 with -- was put aside.

24 MS. CRAWFORD: Correct.

25 COMMISSIONER POLMANN: 133, 134, 135, Crawford

1 by staff, which were identified, we will now move  
2 into the record.

3 MS. CRAWFORD: Again, recognizing the standing  
4 objection.

5 COMMISSIONER POLMANN: Yes.

6 MS. CRAWFORD: Thank you.

7 COMMISSIONER POLMANN: Acknowledging the  
8 objected -- objection noted by Mr. Wright on behalf  
9 of the County.

10 MR. WRIGHT: Thank you, again.

11 (Whereupon, Exhibit Nos. 133, 134, and 135  
12 were admitted into the record.)

13 COMMISSIONER POLMANN: Okay. Mr. Friedman?

14 MR. FRIEDMAN: Yes, sir. I -- yes, I think  
15 that concludes all of her testimony. We would ask  
16 that she be excused.

17 COMMISSIONER POLMANN: Ms. Swain, you are  
18 excused. Thank you for your testimony. Safe  
19 travels.

20 We have remaining witnesses on rebuttal,  
21 Mr. Johnson, and then we have additional work on  
22 surrebuttal. Mr. Castle and -- I'm sorry. Not  
23 true.

24 MS. HELTON: Woodcock and Schultz.

25 COMMISSIONER POLMANN: Mr. Woodcock and

1 Mr. Schultz.

2 I think we're done. Everybody is tired. I'm  
3 tired. Some of us are hungry. We will stand  
4 down -- we will be in recess until 9:30 tomorrow.

5 So, we're off the record.

6 (Transcript continues in sequence in Volume  
7 6.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA )  
COUNTY OF LEON )

I, ANDREA KOMARIDIS, 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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same has been transcribed under my direct supervision;  
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I FURTHER CERTIFY that I am not a relative,  
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DATED THIS 29th day of May, 2018.



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ANDREA KOMARIDIS  
NOTARY PUBLIC  
COMMISSION #GG060963  
EXPIRES February 9, 2021