

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In Re: Application for increase in water and /  
wastewater rates in Charlotte, Highlands, Lake, /  
Lee, Marion, Orange, Pasco, Pinellas, Polk, and /  
Seminole Counties, by Utilities, Inc. of Florida. /

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Docket No: 20200139-WS

FILED: November 13, 2020

**(SUBJECT TO A CLAIM OF CONFIDENTIALITY BY**

**UTILITIES, INC. OF FLORIDA)**

**DIRECT TESTIMONY**

**OF**

**ANDREA C. CRANE**

**ON BEHALF OF THE CITIZENS OF THE STATE OF FLORIDA**

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**DIRECT TESTIMONY**

**OF**

**ANDREA C. CRANE**

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No. 20200139-WS

**I. STATEMENT OF QUALIFICATIONS**

**Q. Please state your name and business address.**

A. My name is Andrea C. Crane and my business address is 2805 East Oakland Park Boulevard, #401, Ft. Lauderdale, FL 33306.

**Q. By whom are you employed and in what capacity?**

A. I am President of The Columbia Group, Inc., a financial consulting firm that specializes in utility regulation. In this capacity, I analyze rate filings, prepare expert testimony, and undertake various studies relating to utility rates and regulatory policy. I have held several positions of increasing responsibility since I joined The Columbia Group, Inc. in January 1989. I became President of the firm in 2008.

**Q. Please summarize your professional experience in the utility industry.**

A. Prior to my association with The Columbia Group, Inc., I held the position of Economic Policy and Analysis Staff Manager for GTE Service Corporation, from December 1987

1 to January 1989. From June 1982 to September 1987, I was employed by various Bell  
2 Atlantic (now Verizon) subsidiaries. While at Bell Atlantic, I held assignments in the  
3 Product Management, Treasury, and Regulatory Departments.  
4

5 **Q. Have you previously testified in regulatory proceedings?**

6 A. Yes. since joining The Columbia Group, Inc., I have testified in over 400 regulatory  
7 proceedings in the states of Arizona, Arkansas, Connecticut, Delaware, Florida,  
8 Hawaii, Kansas, Kentucky, Maryland, New Jersey, New Mexico, New York,  
9 Oklahoma, Pennsylvania, Rhode Island, South Carolina, Vermont, Washington, West  
10 Virginia and the District of Columbia. These proceedings involved gas, electric, water,  
11 wastewater, telephone, solid waste, cable television, and navigation utilities. A list of  
12 dockets in which I have filed testimony over the past five years is included in Exhibit  
13 ACC-1.  
14

15 **Q. Have you previously testified in regulatory proceedings in Florida?**

16 A. Yes. I filed testimony on behalf of the Office of Public Counsel (“OPC”) in the Peoples  
17 Gas System base rate case, PSC Docket No. 20200051-GU.  
18

19 **Q. What is your educational background?**

20 A. I received a Master of Business Administration degree, with a concentration in Finance,  
21 from Temple University in Philadelphia, Pennsylvania. My undergraduate degree is a  
22 B.A. in Chemistry from Temple University.

1 **II. PURPOSE OF TESTIMONY**

2 **Q. What is the purpose of your testimony?**

3 A. On July 13, 2020, Utilities, Inc. of Florida (“UIF” or “Company”) filed a Petition with  
4 the Florida Public Service Commission (“Commission”) seeking a base revenue  
5 increase of \$2,823,848, or approximately 17.0% over current revenues at present rates,  
6 for its water utility. In addition, the Company requested a base rate increase of  
7 \$6,529,383, or approximately 32.2%, for its sewer systems.

8 The Company’s filing is based on a historic Test Year ending December 31,  
9 2019. UIF is also seeking to include in rate base capital projects anticipated to be  
10 completed within 24 months of the end of the Test Year. In addition, the Company has  
11 reflected certain pro forma operating expense adjustments in its filing. UIF is  
12 requesting a return on equity of 11.75% and a capital structure consisting of 49.4%  
13 common equity (excluding customer deposits and deferred income taxes). The  
14 Company’s last base rate case was filed in Docket No. 20160101-WS and was based  
15 on an historic 2015 Test Year. That case was resolved with a Commission Order on  
16 September 25, 2017.

17 In addition to its request for base rate increases, the Company is also seeking  
18 authorization to implement a Sewer and Water Improvement Mechanism (“SWIM”) to  
19 recover the revenue requirement associated with certain capital projects between base  
20 rate case filings.

21 The Columbia Group, Inc. was engaged by OPC to review the Company’s  
22 Petition and to provide recommendations to the Commission regarding revenue  
23 requirement issues. In addition, David Garrett is sponsoring testimony on behalf of



1 OPC regarding cost of capital and capital structure issues, and Frank Radigan is  
2 sponsoring testimony on behalf of OPC regarding engineering issues, including pro  
3 forma plant additions, non-used and useful plant, unaccounted-for water, and  
4 Infiltration and Inflow (“I&I”).  
5

6 **Q. What are the most significant issues in this rate proceeding?**

7 A. The most significant financial issues include the Company’s request to reflect in rates  
8 significant capital expenditures projected over a two-year period and the Company’s  
9 requested 11.75% return on equity. The Company is also seeking increases to its labor  
10 costs, chemical costs, and certain other operating and maintenance expenses.  
11

12 **III. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS**

13 **Q. Please provide a brief description of the Company.**

14 A. UIF provides water services to more than 36,000 customers in eight counties through  
15 its 22 operating water systems. In addition, the Company provides sewer services to  
16 approximately 33,000 customers through 18 wastewater systems located in nine  
17 Florida counties. UIF provides water and/or sewer services in Charlotte, Highlands,  
18 Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk and Seminole Counties.

19 UIF receives shared supporting services from an affiliate, Water Services  
20 Corporation (“WSC”), and certain corporate services from its parent company, Corix  
21 Infrastructure, Inc. (“CII”). Costs from these entities are charged or allocated to UIF  
22 pursuant to a Cost Allocation Manual, as discussed in the testimony of Mr. Elicegui.  
23

1    **Q.    What are your conclusions concerning the Company’s revenue requirement and**  
2    **its need for rate relief?**

3    A.    Based on my analysis of the Company’s filing and other documentation in this case,  
4    my conclusions are as follows:

5           1.       The twelve months ending December 30, 2019, is an acceptable Test Year to  
6           utilize in evaluating the reasonableness of the Company’s claim.

7           2.       As discussed in the testimony of Mr. Garrett, the Commission should authorize  
8           a pro forma cost of equity of 9.5% for UIF, and a capital structure consisting of  
9           50% long-term debt, 5% short-term debt, and 45% common equity. In addition,  
10          other capital components that the Company included in capital structure, such  
11          as customer deposits, tax credits, and deferred income taxes, should also be  
12          included, resulting in an overall cost of capital of 6.73% (see Exhibit ACC-2,  
13          Schedule 2 and Exhibit ACC-3, Schedule 2).<sup>1</sup>

14          4.       UIF’s Water Utility has a pro forma Test Year rate base of \$54.07 million and  
15          pro forma operating income at present rates of \$2.82 million. Based on my  
16          recommended adjustments and on Mr. Garrett’s recommended cost of capital,  
17          the Commission should authorize a revenue increase of no more than \$1.13  
18          million, or approximately 6.8%, for the water utility (see Exhibit ACC-2,  
19          Schedule 1).

20          5.       UIF’s Sewer Utility has a pro forma Test Year rate base of \$74.39 million and

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<sup>1</sup> Exhibit ACC-2 contains my Water Revenue Requirement schedules. Schedule 1 and Schedule 25 are Revenue Requirement Summary Schedules, Schedules 2 to 7 are Rate Base Schedules, and Schedules 8 to 24 are Operating Income Schedules. Exhibit ACC-3 contains my Sewer Revenue Requirement schedules. Schedule 1 and Schedule 28 are Revenue Requirement Summary Schedules, Schedules 2 to 8 are Rate Base Schedules, and Schedules 9 to 27 are Operating Income Schedules.

1 pro forma operating income at present rates of \$3.15 million. Based on my  
2 recommended adjustments and on Mr. Garrett's recommended cost of capital,  
3 the Commission should authorize a revenue increase of no more than \$2.58  
4 million, or 12.7%, for the sewer utility (see Exhibit ACC-3, Schedule 1).

5 6. The Commission should authorize a prospective allowance for funds used  
6 during construction ("AFUDC") rate of no higher than 6.73% for the water and  
7 sewer utilities.

8 7. The Commission should reject the Company's request to implement a "SWIM"  
9 mechanism to recover the revenue requirement of certain capital projects  
10 between base rate cases.

11

12 **Q. Are you in agreement with all of the components of the Company's revenue**  
13 **requirement claim, other than those specifically discussed in your testimony?**

14 A. No, not necessarily. If a specific issue or methodology is not addressed in my  
15 testimony, it does not necessarily mean that I support the Company's position on that  
16 issue or ratemaking methodology. In addition to the adjustments recommended in my  
17 testimony, there may be adjustments raised by other parties or Commission staff to this  
18 proceeding that have merit and that should be adopted by the Commission. For this  
19 reason, I have identified my calculated revenue deficiency as a maximum.

20 In addition, in some cases, the Company has utilized methodologies with which  
21 I may disagree but which have been accepted by the Commission in the past, and which  
22 I chose not to address in this testimony. Accordingly, the Commission should not  
23 assume that OPC is necessarily in agreement with all issues that are not otherwise

1 addressed in my testimony.

2

3 **IV. COST OF CAPITAL AND CAPITAL STRUCTURE**

4 **Q. What is the cost of capital and capital structure that the Company is requesting**  
5 **in this case?**

6 A. The Company is requesting an authorized return on common equity of 11.75%, and a  
7 capital structure consisting of 49.4% common equity to total debt plus equity. The  
8 capital structure also includes customer deposits, tax credits, and deferred income  
9 taxes. Based on its proposed capital structure and cost rates, UIF is requesting an  
10 overall authorized return of 7.89%, as shown below:

11

	Percent	Cost	Weighted Cost
Long Term Debt	41.59%	5.78%	2.40%
Short Term Debt	4.59%	4.04%	0.19%
Common Equity	45.07%	11.75%	5.30%
Customer Deposits	0.17%	2.00%	0.00%
Tax Credits – Zero Cost	0.05%	0.00%	0.00%
Accumulated DIT	4.88%	0.00%	0.00%
Other Deferred Tax Liability – TCJA	3.65%	0.00%	0.00%
Total	100%		7.89%

17

18 **Q. Is OPC recommending any adjustments to the Company’s capital structure?**

19 A. Yes, as discussed by Mr. Garrett, OPC is recommending a capital structure that consists  
20 of 50% long-term debt, 5% short-term debt, and 45% common equity. This  
21 recommendation excludes the impact of customer deposits, tax credits and deferred  
22 taxes. To determine OPC’s overall cost of capital, I have included customer deposits,

1 tax credits, and deferred income taxes at the percentages proposed by UIF, and adjusted  
2 the debt and equity components consistent with Mr. Garrett’s recommendation.

3

4 **Q. What cost of equity is Mr. Garrett recommending?**

5 A. Mr. Garrett is recommending a cost of equity of 9.5%. OPC is not recommending  
6 adjustments to any other capital cost rates.

7

8 **Q. What is the overall cost of capital that OPC is recommending in this case?**

9 A. OPC is recommending an overall cost of capital of 6.73%, based on the following  
10 capital structure and cost rates:

	Percent	Cost	Weighted Cost
11 Long Term Debt	45.63%	5.78%	2.64%
12 Short Term Debt	4.56%	4.04%	0.18%
13 Common Equity	41.06%	9.50%	3.90%
Customer Deposits	0.17%	2.00%	0.00%
14 Tax Credits – Zero Cost	0.05%	0.00%	0.00%
Accumulated DIT	4.88%	0.00%	0.00%
15 Other Deferred Tax Liability – TCJA	3.65%	0.00%	0.00%
16 Total	100%		6.73%

17 This is the cost of capital that I have incorporated into my revenue requirement  
18 schedules, as shown in Exhibit ACC-2, Schedule 2 for water and in Exhibit ACC-3,  
19 Schedule 2 for sewer.

1 V. RATE BASE ISSUES

2 A. Post-Test Year Utility Plant-in-Service Additions

3 Q. **What Test Year did the Company utilize to develop its rate base claim in this**  
4 **proceeding?**

5 A. The Company selected the Test Year ending December 31, 2019. In addition, the  
6 Company included post-test year additions that are expected to be in-service within 24  
7 months of the end of the Test Year.

8

9 Q. **How do the Company's 2020 and 2021 projected additions compare with the**  
10 **Company's gross plant balances?**

11 A. For the water utility, the Company has included post-test year, pro forma additions of  
12 \$4.06 million, or approximately 3.3% of the gross utility plant at the end of the Test  
13 Year. For the sewer utility, the Company has included post-test year additions of  
14 \$25.31 million, or approximately 19.3% of the gross utility sewer plant at the end of  
15 the Test Year.

16

17 Q. **Is OPC recommending any adjustments to the post-test year utility plant-in-**  
18 **service additions projected by UIF in its filing?**

19 A. Yes, OPC is recommending several adjustments as discussed in the testimony of Mr.  
20 Radigan. UIF identified 45 post-test year projects for which it is requesting rate base  
21 treatment in this case, designated PCF-1 through PCF-45 in UIF witness Flynn's  
22 testimony. Most of these are capital projects or studies that the Company is proposing  
23 to include in its utility plant-in-service claim. A few of these projects are studies that

1 the Company is proposing to include in its sewer utility working capital allowance.

2 Mr. Radigan has reviewed the post-test year projects included in the Company's  
3 filing, along with supporting documentation and bids for the various projects. He has  
4 also  
5 conducted an on-site visit of certain systems. As a result of his investigation, Mr.  
6 Radigan has identified three water projects that he recommends be excluded from the  
7 Company's rate base claim. The projects that Mr. Radigan recommends be excluded  
8 are the following:

9

Project (Water)	PCF#	Amount in Filing
E.E. Williamson Utility Relocations	28	\$347,142
Ground Storage Tank Deficiency	31	\$188,923
Eng Northwestern Bridge WM Replacement	45	\$22,000
Total		\$558,065

10

11 In addition, Mr. Radigan has identified thirteen of UIF's sewer projects that he  
12 recommends be excluded from rate base in this case. As shown below, three of these  
13 sewer projects are composed of subparts that were separately accounted for in the  
14 accounting testimony of UIF witness Swain. In addition, Ms. Swain also included  
15 trucks for new employees in her pro forma plant adjustment. The sewer projects that  
16 OPC recommends be excluded from utility plant-in-service are the following:

Project (Sewer)	PCF#	Amount in Filing
Engineering WWTP Master Plan	6	\$40,636
Barrington WWTP Cap Improvements	13	\$396,710
PDR & Master Lift Station	14	\$382,847
PDR & Master Lift Station	14	\$89,331
PDR & Master Lift Station	14	\$195,252
PDR & Master Lift Station	14	\$545,041

PDR & Master Lift Station	14	\$665,728
Curlew Creek I&K Improvements	16	\$664,201
MC Headworks Improvements	17	\$3,186,839
Eng Relocate LS 10 FM	18	\$58,139
L/S RTU Installation -2020091	20	\$135,490
Const – Wekiva WWTF Headworks	23	\$2,901,907
ENG – Wekiva WWTF Headworks	23	\$198,117
ENG FS/C1/L2 FM	26	\$202,637
E.E. Williamson Utility Relocations	28	\$115,714
Lift Station Mechanical Rehab	29	\$560,469
UIF CIP Analysis/Modeling	30	\$93,492
FM / GSM Relocation	33	\$374,656
FM / GSM Relocation	33	\$190,409
FM / GSM Relocation	33	\$44,426
Trucks for New Employees	N/A	\$95,000
Total		\$11,137,041

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The total recommended disallowance of \$11.13 million includes the elimination of the additional trucks related to new employees. As discussed later in this testimony, I am recommending that costs for these new employees be excluded from this case. In addition, it should be noted that one of these projects, PCF #28 - the E. F. Williamson Utility Relocations, includes investment in both the water and sewer utilities.

**Q. Based on Mr. Radigan’s review, what adjustments are you recommending to the Company’s utility plant-in-service claims?**

A. I am recommending several adjustments. First, I am recommending that the utility plant-in-service balances associated with the projects identified by Mr. Radigan be eliminated from the Company’s utility plant-in-service claim. In addition, several of these projects have associated retirements that had been removed by UIF in its rate base claim. In order to develop my water and sewer utility plant-in-service adjustments, I



1 excluded the post-test year additions identified by Mr. Radigan, but added back the  
2 associated retirements, since those retirements would presumably not take place until  
3 and unless the associated plant addition is completed and placed into service. These  
4 adjustments are shown in Exhibit ACC-2, Schedule 4 for water and in Exhibit ACC-3,  
5 Schedule 4 for sewer.

6  
7 **B. Non-Used and Useful Plant**

8 **Q. Is Mr. Radigan also recommending an adjustment to non-used and useful plant?**

9 A. Yes, he is. Non-used and useful plant is plant that has been completed but which the  
10 Commission finds is not needed to serve existing customers, e.g., excess capacity in a  
11 sewer treatment facility that was constructed to serve future anticipated load. The  
12 Company quantified its non-used and useful plant and proposed a rate base reduction  
13 for the associated amount. UIF included non-used and useful adjustments for three  
14 sewer systems. Mr. Radigan is proposing adjustments to several additional systems,  
15 based on previous findings of non-used and useful plant by the Commission.

16  
17 **Q. Have you reflected Mr. Radigan's adjustments relating to non-used and useful  
18 plant in your rate base recommendation?**

19 A. Yes, I have. All of the adjustments proposed by Mr. Radigan relate to the Company's  
20 sewer systems. Hence, I have not reflected any adjustment related to non-used and  
21 useful plant to the Company's rate base claim for its water systems. Mr. Radigan is  
22 recommending that a percentage of Treatment and Disposal Plant investment be  
23 excluded from several sewer systems. Therefore, on Exhibit ACC-3, Schedule 5, I

1 have reflected Mr. Radigan's non-used and useful adjustments related to the sewer  
2 utility systems.

3  
4 **Q. How did you quantify Mr. Radigan's adjustments?**

5 A. The percentage disallowances recommended by Mr. Radigan are the same percentages  
6 that the Commission determined should be excluded in the Company's last base rate  
7 case. In its schedules supporting the Company's claim for interim relief in this current  
8 case, UIF quantified each of these disallowances. I compared the data from the interim  
9 schedules to the non-used and useful adjustments included in the current filing to  
10 quantify the impact of Mr. Radigan's adjustments. My recommended rate base  
11 disallowance related to non-used and useful plant is shown in Exhibit ACC-3, Schedule  
12 5.

13  
14 **C. Reserve for Depreciation**

15 **Q. Are there other rate base adjustments associated with the projects that Mr.  
16 Radigan is proposing to exclude from rate base?**

17 A. Yes, there are. In its filing, UIF made several adjustments to the reserve for  
18 depreciation. First, it annualized the reserve for projects completed during the Test  
19 Year. Second, it increased the reserve for one year of depreciation expense on post-  
20 test year projects that were included in utility plant-in-service. Third, it reduced the  
21 reserve to remove the accumulated depreciation associated with plant retirements. The  
22 amount of the Company's reserve adjustment for these retirements matched the  
23 Company's utility plant-in-service adjustment associated with retirements, so that the

1 same amount was deducted from utility plant-in-service and from the reserve.

2 Since I am reducing post-test year plant additions and associated retirements, it  
3 is necessary to first eliminate the one year of depreciation expense that the Company  
4 added to the reserve related to the utility plant-in-service additions that are the subject  
5 of Mr. Radigan's adjustment. In addition, it is necessary to reduce the Company's  
6 reserve adjustment associated with retirements, since I am assuming that at least some  
7 of these retirements will not occur. My adjustments to the Company's depreciation  
8 reserve are shown in Exhibit ACC-2, Schedule 5 for water and in Exhibit ACC-2,  
9 Schedule 6 for sewer.

10

11 **D. Contributions in Aid of Construction**

12 **Q. Are you recommending any adjustments to Contributions in Aid of Construction**  
13 **("CIAC") or the associated Accumulated Reserve?**

14 A. Yes, I am. Some of the projected plant retirements included in the Company's filing  
15 were financed with CIAC. CIAC is a contra-account in that it reduces utility plant in  
16 service. In addition, the CIAC amortization reserve similarly acts as an offset to the  
17 depreciation reserve. To the extent that I added back retirements that have been funded  
18 with CIAC, it is necessary to make corresponding adjustments to CIAC and the CIAC  
19 amortization reserve. These adjustments are shown in Exhibit ACC-2, Schedule 6 for  
20 water and in Exhibit ACC-2, Schedule 7 for sewer.

21

22 **E. Working Capital Adjustments**

23 **Q. How did the Company determine its working capital claim in this case?**

1 A. The Company first developed a working capital requirement based on the Balance  
2 Sheet method, which has been used previously by this Commission. However, in  
3 calculating this requirement, UIF excluded both receivables and payables related to  
4 intercompany transactions. As described in the testimony of Ms. Swain, all of UIF's  
5 cash transactions are recorded through intercompany accounts. Ms. Swain stated in  
6 her testimony that she initially determined that the intercompany receivable and  
7 payable should be included in working capital. However, the magnitude of the  
8 intercompany transactions relative to rate base was so significant that Ms. Swain  
9 conducted a detailed review of the associated intercompany transactions to determine  
10 which, if any, should be included in working capital. As stated on page 4 of her  
11 testimony, Ms. Swain concluded that "it was not possible to isolate a specific account"  
12 that should be included in working capital. Ms. Swain then examined other cases to  
13 determine if it was possible to derive an appropriate cash balance for UIF. Based on  
14 two orders involving KW Resorts Utilities Corp., Ms. Swain made an adjustment to  
15 include a cash balance based on 2% of rate base. This resulted in a "presumed cash  
16 balance" adjustment of \$2,355,199 for the water utility and of \$3,061,123 for the sewer  
17 utility.

18 In addition, UIF included unamortized rate case costs related to prior rate cases  
19 as well as unamortized costs related to a generic investigation. The Company also  
20 included unamortized costs related to Project Phoenix. Finally, UIF included additional  
21 adjustments to its sewer utility working capital claim relating to unamortized costs for  
22 three studies that were included in the capital projects discussed in Mr. Flynn's  
23 testimony. The resulting total working capital claims included in UIF's filing are

1           \$4,151,132 for the water utility and \$5,551,167 for the sewer utility.

2

3   **Q.    Are you recommending any adjustments to the Company’s working capital**  
4   **claims?**

5   A.    Yes, I am recommending several adjustments. First, I am recommending that the water  
6   and sewer working capital claims be reduced to eliminate the “presumed” cash balances  
7   described by Ms. Swain. In addition, I am recommending that several of the studies  
8   included in the sewer working capital claim be eliminated. Finally, I am recommending  
9   that the Chlorine Dioxide Study costs be moved from the sewer working capital  
10   allowance to the water working capital allowance.

11

12   **Q.    Why are you recommending that the Commission reject the “presumed cash**  
13   **balance” adjustment proposed by Ms. Swain?**

14   A.    I am recommending that the presumed cash balance adjustment be eliminated because  
15   the Company has not demonstrated that these balances are necessary for the provision  
16   of safe and reliable utility service in Florida. These presumed cash balances are  
17   calculated amounts based on another case that has no applicability to UIF. In the two  
18   cases cited by Ms. Swain, the actual cash balance of KW Resorts Utilities, Inc. was  
19   about \$900,000, or approximately three times the cash balance of \$317,978 authorized  
20   by the Commission. In this case, the actual 13-month average cash balances were  
21   \$32,412 and \$41,164 for the water and sewer utilities respectively, or less than 1.4%  
22   of the presumed cash balances being claimed by the Company. This discrepancy calls  
23   into question the relevance of relying upon the KW Resorts Utilities Corp. cases cited

1 by Ms. Swain. In addition, Ms. Swain admitted that she was unable to identify specific  
2 intercompany accounts that should be included in the Company's working capital  
3 claim. Therefore, Ms. Swain has not demonstrated that the presumed cash balances  
4 based on the KW Resorts Utilities Corp. cases are appropriate for use in this case.

5 Moreover, the working capital balances excluding the presumed cash  
6 adjustments are very much in line with the working capital allowances authorized in  
7 the Company's last base rate case. If the presumed cash balances are excluded, the  
8 Company's working capital claim (inclusive of unamortized regulatory costs and costs  
9 for certain studies) is \$1,795,933 for the water utility and \$2,490,044 for the sewer  
10 utility, for a total of \$4,285,977. In the last case, the Commission authorized a total  
11 working capital allowance of \$4,160,764, which consisted of \$1,130,422 for water and  
12 \$3,030,342 for sewer, suggesting that no additional "presumed cash balance"  
13 adjustment is necessary in this case. Given that (1) the working capital allowance  
14 exclusive of the presumed cash balance adjustment is consistent with the Commission's  
15 finding in the prior case, (2) the fact that the Company was unable to identify  
16 intercompany transaction cash balances that should be included in working capital, and  
17 (3) the differences between this case and the KW Resorts Utilities Corp. cases, I  
18 recommend that the Company's presumed cash balance adjustments be rejected. My  
19 adjustment is shown in Exhibit ACC-2, Schedule 7 for water and in Exhibit ACC-3,  
20 Schedule 8 for sewer.

21  
22 **Q. Please describe the studies included in UIF's working capital claim.**

23 **A.** As stated previously, the Company has also included the costs for certain studies in its

1 working capital claim for the sewer utility. These include the following:

2

Study	PCF#	Amount
Chlorine Dioxide Pilot Study – Summertree	38	\$52,000
Smoke Testing / I&I Investigation, Cypress Lakes	21 / 39	\$89,328
I&I Investigation, Cypress Lakes (1 Yr. Amortized)	1	\$45,000

3

4 Before discussing the merits of the Company’s claim for these studies, a few clarifying  
5 comments are in order. First, while the Company has included the Chlorine Dioxide  
6 Pilot Study in its sewer utility working capital, I understand that this study actually  
7 relates to its water utility. Second, the Company’s working capital claim includes  
8 \$89,328 for Smoke Testing/I&I Investigation in the Cypress Lakes system. However,  
9 Ms. Swain’s workpapers indicate that this is actually two projects: a \$61,847 sewer  
10 Smoke Testing/I&I investigation in Sandalhaven (PCF #21 in Mr. Flynn’s testimony)  
11 and a \$27,481 Smoke Testing/I&I investigation in Summertree (PCF #39 in Mr.  
12 Flynn’s testimony). Third, UIF is proposing to amortize costs associated with the I&I  
13 Investment at Cypress Lakes over 10 years and has therefore included only the  
14 unamortized costs of \$45,000 in its working capital claim.

15

16 **Q. Are you recommending any adjustments to the various study costs included in the**  
17 **Company’s working capital claim?**

18 A. Yes, I have reflected two adjustments, based on the recommendations of OPC witness  
19 Mr. Radigan. Mr. Radigan is recommending that the Smoke Testing/I&I investigation  
20 costs at the Sandalhaven system (PCF #21 in Mr. Flynn’s testimony) and the Smoke

1 Testing/I&I investigation at Summertree (PCF #39) both be eliminated. His  
2 recommendation is based on the Company's representation that future capital projects  
3 will be implemented to correct any deficiencies identified in these investigations;  
4 therefore, it is premature to include these study costs in rates at this time. Therefore, on  
5 Exhibit ACC-3, Schedule 8, I have also removed these study costs in the amount of  
6 \$89,328 from the sewer utility's working capital.

7

8 **Q. Have you also moved the Chlorine Dioxide Study from the sewer utility to the**  
9 **water utility?**

10 A. Yes, I have. It is my understanding that this study relates to the water utility. Therefore,  
11 I have eliminated these costs from the sewer utility's working capital claim and instead  
12 included these costs in the working capital allowance for the water utility.

13

14 **Q. Based on your adjustments, what working capital allowances are you**  
15 **recommending in this case?**

16 A. My working capital adjustments are shown in Exhibit ACC-2, Schedule 7 and in  
17 Exhibit ACC-3, Schedule 8, for the water and sewer utilities respectively. Based on  
18 the adjustments discussed above, I am recommending a working capital allowance of  
19 \$1,847,933 for the water utility and of \$2,348,716 for the sewer utility, as shown on  
20 my Rate Base Summary schedules, Exhibit ACC-2, Schedule 3 (water) and Exhibit  
21 ACC-3, Schedule 3 (sewer).



1 F. Rate Base Summary

2 Q. What is the total rate base that you are recommending for the water and sewer  
3 utilities?

4 A. As summarized on Exhibit ACC-2, Schedule 3 and Exhibit ACC-3, Schedule 3, I am  
5 recommending a rate base of \$54,066,409 for the water utility and a rate base of  
6 \$74,394,657 for the sewer utility.

7

8 VI. OPERATING INCOME ISSUES

9 Q. How did the Company develop its pro forma revenue claim in this case?

10 A. The Company's claim is based on its actual Test Year water and sewer revenue,  
11 adjusted to remove certain accruals and surcharge revenues, and further adjusted to  
12 reflect the water and sewer rates that are currently in effect.

13

14 Q. How did the Company determine its Test Year operating and maintenance costs?

15 A. The Company began with its actual 2019 Test Year costs per its books and records of  
16 account. It then made a series of adjustments to reflect Test Year chemical usage, to  
17 eliminate costs for excess unaccounted-for water and excess infiltration and inflow, and  
18 to include expenses for the current rate case.

19 In addition to these Test Year adjustments, UIF also made a series of Pro Forma  
20 Operating Expense adjustments. These included adjustments to purchased water and  
21 sewer costs, labor costs, chemical costs, contractual services costs, office lease and  
22 equipment rental costs, and truck fleet costs. In most cases, the Company provided no  
23 description of its adjustment or no explanation as to why the adjustment was being

1 made in its filing. There is virtually no accounting testimony in support of any of the  
2 Company's adjustments. In discovery, OPC asked the Company to provide a  
3 description of each pro forma adjustment along with supporting workpapers and  
4 calculations. However, in many cases, the information provided by the Company was  
5 inadequate.

6 The Company bears the burden to support each pro forma adjustment in a rate  
7 case application. Therefore, while we have conducted some discovery to elicit  
8 additional information that would support the Company's pro forma adjustments, it is  
9 the Company that bears the ultimate responsibility for justifying its expense claims in  
10 a base rate case. As discussed in more detail below, UIF failed to meet this  
11 responsibility in many cases. My operating income adjustments are summarized in  
12 Exhibit ACC-2, Schedule 8 for the water utility and in Exhibit ACC-3, Schedule 9 for  
13 the sewer utility.

14  
15 **A. Labor Expense**

16 **Q. How did the Company develop its claim for labor-related costs?**

17 A. The Company began with its actual Test Year costs. It then made adjustments to salary  
18 and wages and to Employee Pensions and Benefits to reflect a) a 3.75% labor increase  
19 applied to all labor components and b) additional employees. The Company also  
20 included an adjustment to telephone expense to reflect the impact of additional  
21 employees. The Company's adjustments are shown on Schedule B-3, page 2 of the  
22 filing.

1 **Q. Are you recommending any adjustment to the Company's labor cost claim?**

2 A. Yes, I am recommending adjustments to both the labor escalator and to the request for  
3 additional employee expense.

4 **Q. Please explain your adjustment related to the labor escalator.**

5 A. While the Company included a 3.75% escalator to its labor costs, including salary and  
6 wages and Pensions and Benefits, it did not describe the basis or provide sufficient  
7 evidentiary support for this adjustment. Moreover, in response to various discovery  
8 requests, the Company indicated that it generally budgeted for 3% annual increases.  
9 UIF stated that WSC/UIF employees receive wage increases in April and that CII  
10 employees generally receive increases in January.

11 Based on the information elicited through the OPC's interrogatories, I am  
12 recommending that the labor escalation adjustment be limited to 3.0%. This annual  
13 escalator would therefore reflect expected 2020 salary and wage costs. Any further  
14 salary and wage adjustment would essentially reflect costs in 2021, more than 12  
15 months beyond the Test Year in this case.

16 Moreover, while I have applied this recommended 3% escalator to all labor  
17 costs, including Pensions and Benefits, employee benefits do not necessarily trend in  
18 line with salary and wage increases. Therefore, it is entirely possible that some of the  
19 overall labor costs may increase at a rate of less than 3.0%. Nevertheless, I have  
20 followed the Company's methodology and applied the same escalator to all  
21 components of Pension and Benefit costs. My recommended adjustments are shown  
22 in Exhibit ACC-2, Schedule 9 for the water utility and in Exhibit ACC-3, Schedule 10

1 for the sewer utility.

2

3 **Q. Are you also recommending an adjustment to the Company's claim for costs**  
4 **related to additional employees?**

5 A. Yes, I am. UIF included costs for several additional employees in its claim. I am  
6 recommending that these costs be excluded from the Company's claim in this case.  
7 While it may be appropriate to include post-test year price changes in the underlying  
8 components of the Company's revenue requirement, it is inappropriate to reflect  
9 additional "unit" costs, such as costs for additional employees, unless other adjustments  
10 are made. The Company's actual Test Year costs reflect the costs, and employee base,  
11 that were incurred during the Test Year to provide water and sewer utility. In fact,  
12 according to UIF's response to OPC Interrogatory No. 138, none of these additional  
13 employees have as yet been hired. The Company has not adjusted its water or sewer  
14 sales to reflect post-test year growth in the system; therefore, it would be inappropriate  
15 to include a change in the number of employees needed to supply utility service.

16

17 **Q. Has UIF experienced growth in customers over the past few years?**

18 A. Yes, it has. UIF has experienced growth of approximately 4% in customer counts from  
19 December 2016 through the end of the Test Year for its water utility, and growth of  
20 approximately 4.6% in its sewer utility.<sup>2</sup> Moreover, the Company experienced growth  
21 during the Test Year of approximately 1.7% in the water utility and of 2.3% in the  
22 sewer utility. However, UIF did not annualize revenues to reflect this Test Year growth

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<sup>2</sup> UIF's Response to OPC's Interrogatory No. 4.

1 but instead based its revenue claim in this case on actual water and sewer sales and  
2 customer counts during the Test Year. Therefore, actual growth that occurred during  
3 the Test Year was not annualized in the Company's pro forma revenue claims in this  
4 case. If the Commission accepts the Company's claim to include costs for additional  
5 employees in its revenue requirement, then it should also make an adjustment to reflect  
6 additional revenues related to customer growth. At a minimum, it should annualize the  
7 actual growth that occurred during the Test Year.

8

9 **Q. What do you recommend?**

10 A. I recommend that the Commission eliminate the Company's claims associated with  
11 new employees. This includes salary and wage costs, Pension and Benefit costs, and  
12 additional telephone costs. My adjustments are shown in Exhibit ACC-2, Schedule 10  
13 for water and in Exhibit ACC-3, Schedule 11, for sewer. In the alternative, if the  
14 Commission accepts these additional employee costs, then it should also make an  
15 adjustment to reflect additional revenues based on customer growth.

16

17 **B. Severance Expense**

18 **Q. Has the Company included any severance costs in its revenue requirement claim?**

19 A. Yes. According to its response to OPC's Interrogatory No. 15, the Company has  
20 included \$57,000 of severance costs allocated from CII in its revenue requirement  
21 claim. According to this response, there were no severance costs incurred by UIF or  
22 allocated by WSC Shared Services in 2017-2019. However, costs were allocated from  
23 CII in the Test Year.

1 **Q. Are you recommending any adjustment to these severance costs?**

2 A. Yes. I am recommending that these CII severance costs be disallowed, for two reasons.

3 First, since the Company provided no details regarding these severance costs, we do

4 not have any information about the nature of these severance costs, the number of

5 employees involved, or the underlying factors that resulted in these severance

6 payments. Therefore, the Company has not met its burden to demonstrate that these

7 costs are necessary to the provision of safe and reliable utility service, or that these

8 costs should otherwise be paid by Florida ratepayers. In addition, we do not know if

9 these costs are recurring costs. It appears from the Company's response that CII

10 severance costs were incurred in only one year. If these costs are non-recurring, then

11 it would be inappropriate to include them in prospective utility rates regardless of the

12 underlying factors that resulted in the costs being incurred. For both of these reasons,

13 I recommend that these severance costs be disallowed. My water adjustment is shown

14 in Exhibit ACC-2, Schedule 11 and my sewer adjustment is shown in Exhibit ACC-3,

15 Schedule 12.

16

17 **C. Incentive Compensation Award Expense**

18 **Q. Does the Company offer any incentive compensation awards to its employees or**  
19 **officers?**

20 A. According to the Company's response to OPC's Interrogatory No. 17, "[s]ome non-

21 officer employees may receive deferred compensation incentives based on regional

22 KPIs and/or manager evaluation of operational performance." This response indicates

23 that during the Test Year, UIF had 15 non-officers participate for a total of \$92,500,

1 and WSC Shared Services had 25 non-officers for a total of \$45,605, approximately  
2 22% of which was allocated to UIF.

3 With regard to executives and officers, the Company's response to OPC's  
4 Interrogatory No. 18 states that some WSC/UIF and CII executives/officers participate  
5 in an Employee Incentive Plan ("EIP") program. A description of this program was  
6 provided in UIF's response to OPC's Interrogatory No. 18. The Company further  
7 stated that a long-term incentive program ("LTIP") also exists for the executive  
8 management team and select senior leaders at CII. The CII LTIP is a 3-year cash  
9 payout program based on company performance. No other details of the LTIP were  
10 provided in response to this interrogatory. The Company indicated that in the Test  
11 Year, approximately \$244,000 of WSC/UIF costs were allocated or charged to UIF  
12 relating to executives and officers. The Company was also allocated \$49,935 in  
13 deferred compensation incentive costs from CII in the Test Year, according to the  
14 Company's response to OPC's Interrogatory No. 11. However, this incentive  
15 compensation is identified as "deferred short term compensation," so there may be  
16 additional amounts associated with the LTIP that have not been identified by UIF.  
17 Moreover, UIF did not provide a copy of the LTIP so we do not know what criteria are  
18 used to make these long-term incentive awards.

19

20 **Q. What descriptive information did UIF provide in response to OPC's discovery,**  
21 **which sought a description of each incentive compensation program, the**  
22 **performance criteria or factors used to determine awards, and the amount**  
23 **included in the Company's claim?**

1 A. UIF only provided details of the EIP; it did not provide the requested descriptive  
2 information about the LTIP. According to UIF, the first objective of the EIP is to  
3 “provide eligible employees with an annual incentive as an integral component of their  
4 total annual compensation package while furthering the annual performance of the  
5 Company with a view to maximizing shareholder value.” OPC Interrogatory No. 18  
6 (emphasis added) While most employees in non-regulated business operations  
7 participate in the EIP, only executive positions in the regulated sectors are eligible to  
8 participate. Awards are based on company, business unit, and personal performance;  
9 the relative impact of each factor depends upon each employee’s position. The more  
10 senior positions, such as the regulated positions eligible to participate, are heavily  
11 weighted toward company performance rather than business unit or personal  
12 performance. In addition, in order for any award to be made, the company must achieve  
13 a targeted level of return on investment and must be free from any code red safety or  
14 environmental incidents. Seventy percent of the company performance metric is based  
15 on financial performance measures.

16  
17 **Q. Are you recommending any adjustment to the Company’s claim for incentive**  
18 **compensation award costs?**

19 A. Yes. I am recommending that the incentive compensation award costs that are tied to  
20 financial metrics, or which do not otherwise benefit ratepayers, be recovered from the  
21 Company’s shareholders, and denied for recovery in this case. Regulatory commissions  
22 frequently disallow incentive compensation costs tied to financial metrics on the basis  
23 that such metrics benefit shareholders, but may not benefit, and may even harm,



1           ratepayers.     Awarding incentive compensation based on financial metrics is  
2           inconsistent with a utility’s mandate to provide safe and reliable utility service at the  
3           lowest reasonable cost.

4

5     **Q.     How did you quantify your adjustment?**

6     A.     The Company has provided very limited information about its incentive compensation  
7           programs. However, based on the information provided for the EIP, we know that this  
8           program is heavily weighted toward financial metrics, at least for regulated company  
9           participants who must hold executive positions in order to participate. Based on the  
10          information provided by UIF and received to date, I am unable to quantify exactly how  
11          much of the Company’s incentive compensation awards are based on financial metrics,  
12          since the actual award criteria vary by employee level. Given the overall EIP’s  
13          objective to maximize shareholder value and the overall requirement that certain  
14          financial metrics must be achieved prior to any awards being made, I am  
15          recommending an adjustment to eliminate 50% of the incentive compensation costs  
16          identified by the Company. Moreover, as noted above, there may be additional costs  
17          associated with the LTIP that are embedded in the Company’s claim. If so, a further  
18          disallowance may be appropriate. My water utility adjustment is shown in Exhibit  
19          ACC-2, Schedule 12 and my sewer utility adjustment is shown in Exhibit ACC-3,  
20          Schedule 13.

21

22           **D.     Payroll Tax Expense**

23     **Q.     In addition to the Labor, Severance, and Incentive Compensation adjustments**

1           **discussed above, did you make corresponding adjustments relating to payroll tax**  
2           **expense?**

3    A.    Yes, on Exhibit ACC-2, Schedule 13, I have made a corresponding water utility payroll  
4           tax adjustment, to reflect the impact on payroll taxes of my recommended adjustments  
5           to eliminate costs for new employee positions, to reduce the Company's annual labor  
6           cost escalator, to eliminate severance costs, and to eliminate 50% of incentive  
7           compensation award costs. A similar sewer utility payroll tax adjustment is shown in  
8           Exhibit ACC-3, Schedule 14. My payroll tax adjustments reflect the statutory payroll  
9           tax rate of 7.65%.

10

11           **E.    Non-Qualified Retirement Benefits Expense**

12    **Q.    Does the Company provide any non-qualified retirement benefits to its**  
13           **employees?**

14    A.    Yes, it does. These non-qualified plans provide supplemental retirement benefits for  
15           key executives that are in addition to the normal retirement programs provided by the  
16           Company. By offering a non-qualified plan, a company is able to provide additional  
17           benefits to highly paid officers and executives that cannot be provided under "qualified"  
18           plans, which limit the amount of compensation that can be considered for purposes of  
19           determining pension benefits. The current compensation limit is \$285,000. In addition,  
20           non-qualified plans allow a company to avoid rules and regulations that apply to  
21           qualified plans, e.g., rules that prohibit discrimination among employees with regard to  
22           retirement benefits. Non-qualified plans generally do not need to meet the requirements  
23           of the Employee Retirement Income Security Act ("ERISA"). Non-qualified plans also

1 do not qualify for the more favorable tax treatment that is available to qualified  
2 retirement plans under the Internal Revenue Service ("IRS") Tax Code.

3

4 **Q. How much did the Company incur in the Test Year relating to non-qualified**  
5 **retirement plans?**

6 A. As shown in the Company's response to OPC's Interrogatory No. 11, UIF incurred  
7 non-qualified retirement plan costs of \$26,853 and was allocated approximately 22%  
8 of the total WSC costs of \$127,203.

9

10 **Q. Do you believe that these costs should be included in utility rates?**

11 A. No, I do not. These benefits are generally available to a very small group of officers  
12 and other executives, who are generally well compensated. Moreover, the individuals  
13 that receive non-qualified retirement plan benefits also receive the normal retirement  
14 plan benefits offered by the Company as well. Ratepayers are already paying rates that  
15 include retirement benefits for these officers and other key personnel based on the IRS  
16 limits. However, I do not believe that ratepayers, some of whom may not have any  
17 retirement plans, should be required to pay utility rates that reflect an excessive level  
18 of retirement benefit costs from these non-qualified retirement plans. Just as the IRS  
19 has determined that these costs should not be eligible for favorable tax treatment, the  
20 Commission should also determine that these costs should not be recoverable from  
21 regulated ratepayers. If UIF wants to provide additional retirement benefits to select  
22 officers and executives, then shareholders, not ratepayers, should fund these excess  
23 benefits. Therefore, I recommend that the Commission disallow the Company's claim

1 for non-qualified retirement plan costs. My adjustment is shown in Exhibit ACC-2,  
2 Schedule 14, for the water utility and in Exhibit ACC-3, Schedule 15, for the sewer  
3 utility.

4

5 **F. Truck Fleet Expense**

6 **Q. Did the Company also include incremental truck fleet costs in its revenue  
7 requirement claim?**

8 A. Yes, it did. As shown in UIF’s filing at Exhibit B-3, page 2, the Company included  
9 incremental truck fleet costs of \$6,931 for the water utility and of \$6,362 for the sewer  
10 utility in its claim. The Company indicated on that schedule that this adjustment  
11 represented an “Increase in exp to reflect increase of assigned truck fleet (3.8%)”.  
12 However, it did not provide supporting documentation for these costs, explain why  
13 these additional costs are necessary, or explain the 3.8% reference. In its response to  
14 OPC’s Interrogatory No. 136, the Company indicated that these costs relate to  
15 incremental expenses associated with the new trucks that are being acquired for the  
16 new employees being requested in this case. Since I am recommending that costs  
17 related to additional employees be excluded, I have made an adjustment to remove  
18 these additional truck fleet costs from my revenue requirement. At Exhibit ACC-2,  
19 Schedule 15, I have made a water utility adjustment. A corresponding sewer  
20 adjustment is shown in Exhibit ACC-3, Schedule 16.

21

22 **G. Lobbying Expense**

23 **Q. Has the Company included lobbying costs in its revenue requirement claim?**

1 A. Yes. In OPC’s Interrogatory No. 34, we asked the Company to identify, for each  
 2 organization for which dues or membership expenses are included in the filing, any  
 3 portion of dues or membership fees that are directed toward lobbying activities by the  
 4 organization, and to state if those amounts have been excluded from the Company’s  
 5 revenue requirement claim. In response, the Company initially identified a total of  
 6 \$75,859 associated with lobbying efforts, as shown below:

Organization	Amount	Lobbying Information
Florida Chamber of Commerce	\$3,000	State Lobbying
Gunster, Yoakley, Stewart, P.A.	\$60,972	State Lobbying
Florida Rural Water Association	\$560.00	State Lobbying
National Association of Water Companies	\$11,677	Registered Federal Lobbyist

8  
 9 In response to OPC Interrogatory No. 140, UIF clarified that not all of these costs were  
 10 related to lobbying activities. Instead, UIF stated that only \$45,827 of lobbying costs  
 11 were included in the Test Year.

12  
 13 **Q. Is it appropriate to recover lobbying costs from regulated ratepayers?**

14 A. No, it is not. Lobbying costs are not necessary for the provision of safe and adequate  
 15 utility service. Moreover, the lobbying activities of a regulated utility may be focused  
 16 on policies and positions that enhance shareholders but may not benefit, and may even  
 17 harm, ratepayers. Regulatory agencies generally disallow costs involved with  
 18 lobbying, since most of these efforts are directed toward promoting the interests of the  
 19 utilities’ shareholders rather than its ratepayers. Ratepayers have the ability to lobby  
 20 on their own through the legislative process if they so choose. Moreover, lobbying

1 activities have no functional relationship to the provision of safe and adequate utility  
2 service. If the Company were immediately to cease contributing to these types of  
3 efforts, utility service would not be disrupted. Clearly, these costs should not be borne  
4 by ratepayers. At Exhibit ACC-2, Schedule 16, I have made an adjustment to remove  
5 these costs from the water utility. I made a similar adjustment at Exhibit ACC-3,  
6 Schedule 17, for the sewer utility. I have allocated my adjustments based on the  
7 allocation percentages for dues and memberships provided in the Company's response  
8 to OPC's Interrogatory No. 33.

9  
10 **H. Holiday Party Expense**

11 **Q. Are you recommending any other operating expense adjustments?**

12 A. Yes. I am recommending that costs for the annual Holiday social event be borne by  
13 shareholders instead of ratepayers. These costs were identified in UIF's response to  
14 OPC's Interrogatory No. 38. While these costs are modest, such costs are not necessary  
15 to the provision of safe and adequate utility service. Allowing the Company to recoup  
16 these costs from ratepayers sends the wrong message about the types of costs that  
17 should be included in regulated rates. While hosting an annual employee holiday party  
18 is a nice corporate gesture, these costs should clearly be borne by shareholders. My  
19 adjustments are shown in Exhibit ACC-2, Schedule 17, and in Exhibit ACC-3,  
20 Schedule 18, for the water and sewer utilities respectively.

21  
22 **I. Depreciation and Amortization Expense**

23 **Q. How did the Company develop its depreciation expense claim in this case?**

1 A. The Company's depreciation expense claim is based on actual depreciation expense  
2 booked during the twelve months ending December 31, 2019, adjusted for certain  
3 reclassifications and corrections. The Company then made adjustments to remove  
4 depreciation expense associated with non-used and useful plant. UIF made additional  
5 adjustments to annualize depreciation expense for plant additions made during the Test  
6 Year, to include depreciation on post-test year plant additions, and to remove  
7 depreciation associated with post-test year plant retirements. In addition to these  
8 depreciation expense adjustments, the Company also made an adjustment to  
9 amortization expenses related to the retirements that were funded with CIAC.

10

11 **Q. Are you recommending any adjustment to the Company's depreciation or**  
12 **amortization expense claims?**

13 A. Yes. I am recommending several adjustments. First, with regard to both the water and  
14 sewer utilities, I have made adjustments to eliminate depreciation expense on the post-  
15 test year plant additions that Mr. Radigan recommends be excluded from rate base. In  
16 addition, I have increased depreciation expense to reflect depreciation on retirements  
17 associated with these projects. Since Mr. Radigan is recommending that certain  
18 projects be excluded from rate base, I am assuming that the associated retirements will  
19 not take place, and therefore it is necessary to add back the depreciation expense  
20 associated with these retirements. Finally, I have made an adjustment to remove the  
21 amortization expense on CIAC associated with the retirements that are being added  
22 back to rate base. My adjustments for the water utility are shown in Exhibit ACC-2,  
23 Schedule 18, and my adjustments for the sewer utility are shown in Exhibit ACC-3,

1 Schedule 19.

2 Additionally, I have made an adjustment to remove depreciation expenses on  
3 the incremental non-used and useful plant that I discussed earlier in the Rate Base  
4 section of my testimony. Since Mr. Radigan is recommending a larger non-used and  
5 useful sewer adjustment than the adjustment included in the Company's filing, it is  
6 necessary to make a corresponding adjustment to depreciation expense. My sewer  
7 adjustment to depreciation expense associated with non-used and useful plant is shown  
8 in Exhibit ACC-3, Schedule 20.

9

10 **J. Property Tax Expense**

11 **Q. How did the Company develop its property tax expense claim in this case?**

12 A. The Company began with its actual Test Year property tax expense. It then made an  
13 adjustment to remove property taxes on non-used and useful plant and to reflect  
14 incremental property taxes on net post-test year plant additions. The Company used  
15 composite millage rates adjusted for certain payment discounts to quantify its water  
16 and sewer adjustments.

17

18 **Q. What adjustments are you recommending to the Company's property tax expense  
19 claims?**

20 A. I am not recommending any adjustment to the millage rates used by the Company.  
21 However, since I am recommending certain reductions to utility plant-in-service, it is  
22 necessary to make corresponding reductions to property tax expense. Therefore, at  
23 Exhibit ACC-2, Schedule 19, I have made an adjustment to remove property tax



1 expense associated with OPC's recommended water utility plant adjustments. A  
2 similar adjustment for the sewer utility is shown in Exhibit ACC-3, Schedule 21. In  
3 addition, in Exhibit ACC-3, Schedule 22, I have made an adjustment to property taxes  
4 consistent with Mr. Radigan's non-used and useful plant adjustment for the sewer  
5 utility.

6 **K. Excess Deferred Income Tax Amortization Expense**

7 **Q. What are deferred income taxes?**

8 A. Deferred income taxes are taxes that have been collected from ratepayers but have not  
9 yet been paid by the utility, due to differences in the tax treatment utilized by regulatory  
10 commissions and taxing authorities, including the IRS. The cumulative difference  
11 between the taxes that that have been collected from ratepayers and the taxes paid is  
12 known as accumulated deferred income taxes ("ADIT").

13

14 **Q. How is ADIT treated for ratemaking purposes?**

15 A. ADIT is reflected as an adjustment to rate base. Accumulated deferred income taxes  
16 that have been collected from ratepayers but not yet paid by the Company are used to  
17 reduce rate base, while accumulated deferred taxes that have been paid but not yet  
18 collected from ratepayers are rate base additions.

19 **Q. What are excess deferred income taxes?**

20 A. Excess deferred income taxes are the difference between the accumulated deferred  
21 income tax liability booked at a prior income tax rate and the accumulated deferred  
22 income tax liability booked at current income tax rates. Since the Company's last base

1 rate case, Congress passed the Tax Cut and Jobs Act of 2017, which reduced the federal  
2 income tax rate from 35% to 21%. UIF's ADIT balance was based on the expectation  
3 that the Company's future income would be taxed at the prior federal income tax rate  
4 of 35%. Instead, commencing with Calendar Year 2018, the Company's income is  
5 now taxed at 21%. The difference represents taxes that were collected from ratepayers  
6 but will never be paid, assuming the 21% rate remains in effect.

7

8 **Q. How are excess deferred income taxes treated for ratemaking purposes?**

9 A. There are two types of excess deferred income taxes – protected and unprotected.  
10 Protected excess deferred income taxes relate to deferred taxes associated with plant-  
11 related balances, primarily related to accelerated depreciation methodologies  
12 (including bonus depreciation) that were permissible for tax purposes, but which were  
13 not reflected for ratemaking purposes. Protected excess deferred income taxes are  
14 required to be returned to ratepayers using the Average Rate Assumption Method  
15 (“ARAM”) or an alternate method such as the Reverse South Georgia Method  
16 (“RSGM”), which generally provides that the excess deferred taxes cannot be flowed-  
17 through to ratepayers more rapidly than the average remaining life of the underlying  
18 property that gave rise to the deferred taxes. UIF is proposing to return the protected  
19 excess deferred income taxes of \$5,287,412 to ratepayers over a period of 21.5 years.

20 Unprotected excess deferred taxes relate to differences between the tax and  
21 ratemaking treatments afforded other types of costs, such as pension and benefit costs,  
22 regulatory costs, and costs for which the Company accrues a reserve. Unprotected  
23 deferred taxes can be flowed-through for ratemaking purposes over any “reasonable”

1 period. The Company has approximately \$360,233 of unprotected excess deferred  
2 income taxes, which it is proposing to return to ratepayers over 10 years.

3 As shown on Schedule C-2, page 1, the Company has included amortization of  
4 excess deferred income taxes as a pro forma adjustment associated with its requested  
5 rate increase, instead of as an adjustment to the Test Year operating income.

6

7 **Q. Are you recommending any adjustment to the Company’s proposed amortization**  
8 **expense claims associated with excess deferred federal income taxes?**

9 A. Yes, I am recommending two adjustments. First, I am recommending that the  
10 unprotected excess deferred income taxes be returned to ratepayers over a period of 5  
11 years, instead of over the 10-year period proposed by UIF. In addition, I am  
12 recommending that the amortization be reflected as a Test Year adjustment, prior to the  
13 determination of the required revenue increase.

14

15 **Q. Why did the Company propose a 10-year amortization period for the return of**  
16 **unprotected excess deferred income taxes?**

17 A. The Company stated in its response to OPC’s Interrogatory No. 44 that the use of a 10-  
18 year amortization was “Commission precedent” and cited Commission Order No. PSC-  
19 2019-0076-FOF-GU. That order involved Florida Public Utility Company (“FPUC”) –  
20 Gas, and can be distinguished from UIF in at least two respects. First, in the FPUC  
21 case, the unprotected excess deferred income tax balance was a deferred tax asset, i.e.,  
22 these were amounts that ratepayers owed to the Company. Therefore, the period of  
23 time selected to amortize that asset had a much different impact on ratepayers than in

1 this case where the unprotected excess tax balance is a regulatory liability. The second  
2 key distinction is that in the FPUC case, the amount of the protected excess deferred  
3 taxes was about three times as large as the balance of unprotected deferred income  
4 taxes. In the case of UIF, the unprotected balance is relatively small, only \$360,233 or  
5 about 7% of the protected balance of \$5,287,412.

6  
7 **Q. What do you recommend?**

8 A. I recommend that the Commission require UIF to return unprotected excess deferred  
9 federal income tax balances to ratepayers over a 5-year period. Given the relatively  
10 small balance to be returned, my recommendation will allow ratepayers to receive their  
11 refunds sooner without causing undue rate shock when this amortization ends in five  
12 years. Moreover, given the financial difficulties that many Floridians are experiencing  
13 as a result of the pandemic, a five-year amortization period will provide at least some  
14 small additional relief to ratepayers during these difficult times. Accordingly, I have  
15 made an adjustment for the water utility in Exhibit ACC-2, Schedule 20, and an  
16 adjustment for the sewer utility in Exhibit ACC-3, Schedule 23, to reflect a five-year  
17 amortization period.

18 In addition, rather than showing the excess deferred tax amortization as a  
19 component of the proposed revenue increase, I have included this amortization as an  
20 adjustment to operating income at present rates. While this recommendation is largely  
21 presentational, I believe that reflecting the excess deferred income tax amortization as  
22 an adjustment at present rates is appropriate since the amount of the amortization is  
23 fixed regardless of the overall revenue increase that is ultimately authorized by the

1 Commission.

2

3 **L. State Income Tax Expense**

4 **Q. What state tax rate did the Company utilize in its revenue requirement**  
5 **calculation?**

6 A. The Company utilized a state income tax rate of 5.5%, as shown in Schedule C-2 to the  
7 filing.

8

9 **Q. Are you recommending any adjustment to the Company's claim for state income**  
10 **taxes?**

11 A. Yes, in addition to the income tax adjustments that result from my other operating  
12 expense adjustments, I am also recommending that a state income tax rate of 4.458%  
13 be used to determine the Company's revenue requirement. On September 12, 2019,  
14 the Florida Department of Revenue announced a reduction in the state corporate  
15 income tax rate from 5.5% to 4.458% for tax years beginning in 2019, 2020, and 2021.  
16 While the state income tax rate is currently projected to revert to the rate of 5.5%  
17 effective January 1, 2022, there is a possibility that the reduction in the tax rate will be  
18 extended. Therefore, I recommend that the Commission utilize a state income tax rate  
19 of 4.458% in determining the Company's revenue requirement. My adjustment is  
20 shown in Exhibit ACC-2, Schedule 21 for the water utility and in Exhibit ACC-3,  
21 Schedule 24 for the sewer utility.

1           **M.    Interest Synchronization**

2    **Q.    Have you adjusted the pro forma interest expense for income tax purposes?**

3    A.    Yes, I have made this adjustment at Exhibit ACC-2, Schedule 22 for the water utility  
4           and at Exhibit ACC-3, Schedule 25 for the sewer utility. It is consistent (synchronized)  
5           with my recommended rate base and with the capital structure and cost of capital  
6           recommendations of Mr. Garrett. The rate base and cost of capital being recommended  
7           by OPC in this case result in a higher pro forma interest expense for the Company's  
8           water utility and in a lower pro forma interest expense for the Company's sewer utility.  
9           Since interest expense is an income tax deduction for state and federal tax purposes,  
10          OPC's adjustments will result in a decrease to income taxes and in an increase to  
11          operating income for the water utility. For the sewer utility, OPC's recommendations  
12          will result in an increase to income taxes and in a decrease to operating income.

13

14           **N.    Revenue Multiplier**

15    **Q.    What is the composite income tax factor that you have reflected in your schedules?**

16    A.    My schedules are based on an income tax factor of 24.52%, which includes a state  
17          income tax rate of 4.458% and a federal income tax rate of 21%. The calculation of  
18          this rate is shown in Exhibit ACC-2, Schedule 23 for the water utility and in Exhibit  
19          ACC-3, Schedule 26 for the sewer utility. My revenue multiplier, which is shown in  
20          Exhibit ACC-2, Schedule 24 and in Exhibit ACC-3, Schedule 27 for the water and  
21          sewer utilities respectively, reflects these corporate income tax rates. In addition, the  
22          revenue multiplier also includes the regulatory assessment of 4.5%, resulting in a  
23          revenue multiplier of 1.3873.

1 **VII. REVENUE REQUIREMENT SUMMARY**

2 **Q. What is the result of the recommendations contained in your testimony?**

3 A. My adjustments indicate a revenue deficiency at present rates of no more than  
4 \$1,129,866 for the water utility, as summarized on Exhibit ACC-2, Schedule 1. This  
5 recommendation reflects revenue requirement adjustments of \$1,693,982 to the  
6 Company's claimed revenue deficiency of \$2,823,848. My recommendations would  
7 result in an overall water revenue increase of no more than approximately 6.8%. In  
8 addition, my recommended sewer adjustments indicate a revenue deficiency at present  
9 rates of no more than \$2,577,689, as summarized on Exhibit ACC-3, Schedule 1. This  
10 recommendation reflects revenue requirement adjustments of \$3,951,694 to the  
11 Company's claimed revenue deficiency of \$6,529,383. My recommendations would  
12 result in an overall sewer revenue increase of no more than approximately 12.7%.

13

14 **Q. Have you quantified the revenue requirement impact of each of your**  
15 **recommendations?**

16 A. Yes, at Exhibit ACC-2, Schedule 25, I have quantified the revenue requirement impact  
17 of each of the rate of return, rate base, and expense recommendations contained in this  
18 testimony relating to the water utility. Similar information is provided in Exhibit ACC-  
19 3, Schedule 28, for the sewer utility.

20

21 **VIII. OTHER ISSUES**

22 **A. Allowance for Funds Used During Construction**

23 **Q. What is an allowance for funds used during construction ("AFUDC")?**

1 A. AFUDC is a financing cost that is added to the capital costs of a project in order to  
2 compensate a utility for the costs of financing a project during its construction period.  
3 The AFUDC is added to the direct capital costs of the project and included in rate base  
4 once the project is completed and serving customers, either as part of a subsequent base  
5 rate case or under the provision that permits the inclusion of plant additions completed  
6 within 24 months of the end of the Test Year.

7

8 **Q. Are there restrictions on the amount of AFUDC that can be accrued by utilities?**

9 A. Generally, there are certain limitations on the types of projects that can accrue AFUDC.  
10 There are often minimum construction periods and/or capital costs that must be met  
11 before a project can accrue AFUDC. In addition, there are often formulas used in order  
12 to determine the AFUDC rate that can be applied to eligible plant.

13

14 **Q. Is there a Florida statute governing AFUDC?**

15 A. Yes, I understand that in Florida, AFUDC is governed by Rule 25-30.116, Florida  
16 Administrative Code (“F.A.C.”) (“the AFUDC Rule”). According to the AFUDC Rule,  
17 projects eligible to accrue AFUDC generally include those that have construction  
18 periods exceeding sixty days and have capital costs in excess of \$5,000. The AFUDC  
19 Rule also dictates the formula that shall be used to determine AFUDC, as follows:

20 (a) the most recent 12-month average embedded cost of capital, except  
21 as noted below, shall be derived using all sources of capital and adjusted  
22 using adjustments consistent with those used by the Commission in the  
23 Company’s last base rate case.

24 (b) The cost rates for the components in the capital structure shall be the  
25 midpoint of the last allowed return on common equity, the most recent  
26



1 12-month average cost of short term debt and customer deposits and a  
2 zero cost rate for deferred taxes and all investment tax credits. The cost  
3 of long term debt and preferred stock shall be based on end of period  
4 cost. The annual percentage rate shall be calculated to two decimal  
5 places.  
6

7 (c) A company that has not had its equity return set in a rate case shall  
8 calculate its return on common equity by applying the most recent water  
9 and wastewater equity leverage formulas.  
10

11 Rule 25-30.116(2)(a)-(c), F.A.C.  
12

13 **Q. What is the current AFUDC rate being used by UIF?**

14 A. According to Schedule A-15 of the Company's filing, the current AFUDC rate is  
15 9.03%. Moreover, this rate has been utilized since January 1, 2003.  
16

17 **Q. Are you recommending any prospective adjustment to the AFUDC rate for UIF**  
18 **projects?**

19 A. Yes, I am recommending that the AFUDC rate be reduced to reflect the cost of capital  
20 authorized by the Commission in this case. The current AFUDC rate of 9.03% is  
21 excessive. Even with the Company's cost of equity claim of 11.75%, the overall cost  
22 of capital being claimed in this case is only 7.89%, well below the 9.03% AFUDC rate  
23 being used by UIF. In addition, OPC is recommending a cost of equity that is well  
24 below the 11.75% being claimed by UIF; therefore, a reasonable AFUDC rate is even  
25 lower than the Company's claimed cost of capital. The current AFUDC rate is causing  
26 Florida ratepayers to pay rates that are significantly higher than necessary. Moreover,  
27 since AFUDC is recovered over the life of the underlying asset, the high AFUDC rates  
28 that have been in place for the past 18 years not only impacted ratepayers in the past,

1 but will continue to negatively impact ratepayers in the future as the associated plant  
2 is depreciated over its remaining life, currently estimated at more than 20 years. By  
3 way of comparison, the 20-year U.S. Government Bond rate was 5.05% in January  
4 2003, but had fallen to 1.43% by October 2020 - a decline of approximately 72%. In  
5 addition, it appears from Order No. PSC-04-0262-PAA-WS in Docket No. 20031006-  
6 WS that the debt rate reflected in the 9.03% AFUDC rate is based on a cost of long-  
7 term debt of 7.82% and on no short-term debt, yet in this case the Company's long-  
8 term debt cost has fallen to 5.78% and the capital structure also contains short-term  
9 debt at a rate of 4.04%. In spite of the significant decline in capital costs over the past  
10 twenty years, UIF has continued to accrue AFUDC at the same rate of 9.03%, and to  
11 embed high financing costs into the Company's rate base. This has improperly and  
12 negatively impacted the rates paid by Florida ratepayers and has embedded  
13 unnecessarily high financing costs in rate base.

14

15 **Q. What do you recommend?**

16 A. I recommend that the Commission order UIF to reduce its AFUDC rate to reflect the  
17 capital cost components authorized in this case. Based on Mr. Garrett's  
18 recommendation, this would result in an AFUDC rate of 6.73%.

19

20 **Q. Do you have any additional comments?**

21 A. Yes. In addition to reducing the AFUDC rate prospectively, I recommend that the  
22 Company should be required to demonstrate that the AFUDC rate used by the  
23 Company since its last base rate case has been in compliance with the Rule 25-30.116,

1 F.A.C. In the event that the Company has not complied with the Rule, then the  
2 Commission should also adjust the Company's Test Year rate base to reflect  
3 investment based on an AFUDC rate that is in compliance with the statute.

4

5 **B. Sewer and Water Improvement Mechanism**

6 **Q. Please describe the Company's proposed Sewer and Water Improvement**  
7 **Mechanism ("SWIM").**

8 A. As described in Mr. Deason's testimony, UIF devised a new mechanism it refers to as  
9 a "SWIM" by which it proposes the Commission allow the Company to recover the  
10 revenue requirement associated with capital projects between base rate case filings.  
11 The revenue requirement passed through to ratepayers would include the return on  
12 investment using the equity and debt components of the cost of capital approved in the  
13 prior rate case, Commission-authorized depreciation rates, and federal and state income  
14 taxes. The Company proposes to make annual filings in conjunction with the annual  
15 index and pass-through filings. It appears that the Company envisions  
16 contemporaneous recovery of this investment, i.e., rate adjustments would be based on  
17 projected investment. The Company is also proposing an annual true-up to reflect  
18 actual replacement costs, actual index revenues, and over or under recovered balances  
19 for the prior year.

20

21 **Q. Does the Company propose an earnings test as part of its "SWIM" proposal?**

1 A. Although details of the Company’s proposal are vague, incomplete, and inadequate for  
2 purposes of a thorough analysis, it does not appear that the Company is proposing an  
3 earnings test as part of its proposed SWIM.

4

5 **Q. What is the rationale for the Company’s proposed “SWIM”?**

6 A. According to the Company’s Application for Increase in Rates at page 4, the proposed  
7 SWIM would allow the Company to accelerate the replacement of infrastructure and  
8 treatment plant to “proactively respond to the growing concerns regarding aging  
9 infrastructure and treatment plant reliability and safety.” UIF further claims that  
10 without the so-called SWIM, “UIF’s rate of returns would deteriorate over time,” and  
11 purportedly require more frequent rate filings.

12

13 **Q. Has the Company provided the details of a proposed infrastructure replacement  
14 program as part of its filing in this case?**

15 A. No, it has not. The Company has actually provided very little testimony on its SWIM  
16 plan, which would constitute a major regulatory policy change in the recovery of capital  
17 investment. UIF claims it plans to file two years of program detail in each annual filing;  
18 however, the Company failed to include any project descriptions whatsoever as part of  
19 this base rate case. In response to discovery, the Company stated that that it did not  
20 plan to restrict recovery to certain infrastructure projects, but instead planned to apply  
21 the SWIM to virtually all capital projects contained in its five-year capital program.<sup>3</sup>  
22 Therefore, the SWIM, as proposed by UIF, is actually not an accelerated replacement

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<sup>3</sup> UIF’s Response to Staff’s Interrogatory No. 4.

1 program – it would simply be a new scheme for recovering alleged capital costs without  
2 having to comply with the authorized regulatory analysis and review process.

3 **Q. What factors should the Commission consider as it considers the proposed**  
4 **SWIM?**

5 A. The Commission should consider whether such a mechanism is necessary in order for  
6 the Company to meet its service obligations. Replacing aging infrastructure and  
7 ensuring safety and reliability are not new concepts for a regulated utility. These are  
8 functions that are integral to the provision of safe and reliable utility service. The  
9 investment proposed by UIF that would be recovered through the proposed SWIM  
10 surcharge is not incremental investment – it is the normal, routine investment that is  
11 required in order to maintain regulated water and sewer utilities. Moreover, system  
12 integrity and reliability are not new concepts for the Company or for the Commission.  
13 Rather, ensuring reliability is an integral part of managing any utility system. The  
14 regulatory compact provides that in exchange for being granted a monopoly franchise  
15 area, a utility will provide safe and reliable utility service at reasonable rates. The  
16 obligation to provide safe and reliable service is a cornerstone of the utility’s  
17 obligations. Thus, the concept of undertaking system integrity projects, when required,  
18 is not new or novel. Rather, this is a fundamental obligation of any regulated utility  
19 company. In addition, the utility has the obligation to demonstrate that all investment  
20 is prudent and necessary. Permitting recovery of investment between base rate case  
21 filings provides an incentive for the Company to maximize expenditures knowing that  
22 dollar-for-dollar recovery is assured.

1                   While there may be changes in certain rules and regulations with regard to  
2                   system integrity over the years, UIF has always had, and continues to have, an  
3                   obligation to operate its business in a safe and reliable manner. This has not changed.  
4                   UIF has not shown why an alternative recovery mechanism is necessary in order to  
5                   undertake those investments necessary to provide safe and reliable utility service. From  
6                   a cost recovery prospective, investments are either necessary in order to meet the  
7                   Company’s service obligation or they are not. The level of investment necessary to  
8                   ensure a utility meets its service obligations to its ratepayers should be determined  
9                   pursuant to the base rate case methodology that has traditionally and historically been  
10                  used by the Commission to determine whether a given utility may recover its cost of  
11                  service.

12  
13   **Q.    Does the Company already have the ability to include future projects in regulated**  
14           **rates?**

15   A.    Yes, it does. Pursuant to Florida Statutes, UIF has the ability to include in rate base  
16           capital projects that will be completed and placed into service within 24 months of the  
17           end of the Test Year. This already provides a significant benefit to UIF and its  
18           shareholders.

19

20   **Q.    What is the impact on shareholders of the Company’s proposed SWIM, i.e.,**  
21           **surcharge mechanism?**

22   A.    Contrary to economic theory and good ratemaking practice, the proposed surcharge  
23           mechanism would increase shareholder return while significantly reducing risk.

1 Shareholder return is directly proportional to the amount of investment made by the  
2 utility. Since shareholders benefit from every investment dollar that is spent by a  
3 utility, UIF's proposed surcharge mechanism would increase overall return to  
4 shareholders and accelerate recovery of that return. UIF provided no evidentiary  
5 support of how the SWIM scheme would benefit its ratepayers.

6 Pursuant to the current ratemaking mechanism, future plant additions are only  
7 included in rate base, and therefore in utility rates, if they are reviewed in a base rate  
8 case and if the Commission finds that the investment is prudent and reasonable and  
9 likely to go into service within 24 months of the end of the Test Year. Between general  
10 base rate cases, plant that is booked to utility plant-in-service is not reflected in utility  
11 rates until the Company's next base rate case. However, under UIF's proposal,  
12 ratepayers would bear higher costs sooner, as a result of the proposed SWIM  
13 mechanism. If the SWIM scheme is adopted, ratepayers will pay an additional charge  
14 each year, even if the Company is earning within its authorized rate of return earnings  
15 range. From a financial perspective, these are serious detriments to ratepayers.

16  
17 **Q. Would the Company's proposal to implement the proposed SWIM shift additional**  
18 **risk onto ratepayers?**

19 **A.** Yes, it would. The Company's proposed mechanism would shift risk from  
20 shareholders, where it properly belongs, to ratepayers without any commensurate  
21 reduction in the Company's return on equity. The SWIM scheme would reduce  
22 shareholder risk in two ways. First, since the SWIM would accelerate recovery,  
23 shareholders would no longer have to wait for a general base rate case to receive a

1 return on this investment. Nor would shareholders have to wait for a general base rate  
2 case in order to begin recovery of depreciation and income taxes associated with the  
3 investment. Second, given the true-up included in the SWIM proposal, recovery of,  
4 and on, this investment would be guaranteed. Under traditional ratemaking,  
5 shareholders are awarded a risk-adjusted return on equity and given the opportunity,  
6 but not a guarantee, to earn this return. Under the true-up process proposed by UIF as  
7 part of its SWIM scheme, shareholders would be guaranteed to recover both the return  
8 on this investment as well as the return of this investment. This guarantee results from  
9 the fact that any shortfalls would be charged to ratepayers in a subsequent period  
10 through a true-up process. Depending on design, this mechanism could eliminate all  
11 shareholder risk associated with recovery of projects funded through the proposed  
12 SWIM until the time that such projects are rolled into rate base in a subsequent base  
13 rate case.

14

15 **Q. Will adoption of the proposed SWIM mitigate the need for base rate cases?**

16 A. No. The Company suggests that its SWIM scheme could delay the need to file a full  
17 base rate case to recover this investment; however, UIF has not included any stay-out  
18 provision as part of its SWIM proposal. Moreover, a full rate case allows the  
19 Commission and other parties the opportunity to examine all components of a utility's  
20 revenue requirement, as well as its operations, in a comprehensive manner, unlike the  
21 SWIM contrivance which would not only result in single-issue ratemaking, but would  
22 further result in overall annual increases to be paid by customers.

23



1 **Q. What do you recommend with regard to the Company's proposed SWIM plan?**

2 **A.** I recommend that the Commission reject UIF's SWIM strategy. Utilities have a basic  
3 obligation to provide safe and reliable utility service. Investment related to meeting  
4 this obligation should be recovered through the traditional rate case process. The  
5 Company's proposal is overly broad regarding the types of projects that would qualify  
6 for recovery under the SWIM scheme and fails to adequately explain why a new  
7 recovery mechanism is necessary. The Company's proposal would increase costs to  
8 ratepayers and shift significant risk from shareholders to customers. For all these  
9 reasons, I recommend that the proposed SWIM be rejected by the Commission.

10

11 **Q. Does this conclude your testimony?**

12 **A.** Yes, it does.

**The Columbia Group, Inc.**  
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**Andrea C. Crane, BA, MBA**

Andrea C. Crane has 38 years of experience in utility-related matters. Since joining The Columbia Group in 1989, Ms. Crane has testified in over 400 regulatory proceedings involving electric, gas, water, wastewater, telephone, cable television, solid waste, and navigation utilities in 17 states and the District of Columbia. Ms. Crane has testified on a wide range of issues, including revenue requirements, cost of capital, capital structure, weather normalization, renewable energy, energy efficiency, utility acquisitions, affiliated interests, cost allocations, market power, fuel pricing, fuel adjustment clauses, gas procurement, gas supply and transportation issues, and regulatory policy. Ms. Crane became President of The Columbia Group, Inc. in January 2008.

Ms. Crane has filed testimony in proceedings involving such companies as Public Service Company of New Mexico, El Paso Electric Company, New Jersey American Water Company, Public Service Electric and Gas Company, Delmarva Power and Light Company, Kansas City Power and Light Company, Southwestern Public Service Company, Atmos Energy, New Jersey Natural Gas Company, United Water Delaware, Artesian Water Company, Comcast Communications, Westar Energy, and many others. Ms. Crane has developed financial models in the areas of bond coverage ratios, cash flow forecasting, utility revenue forecasting and budgeting, and rate of return analysis. Ms. Crane has also conducted strategic planning and utility finance seminars.

Prior to becoming a consultant in 1989, Ms. Crane spent seven years in professional positions with GTE Service Corporation, where she was responsible for the economic analysis of new products and service plans for telephone operations, and with Bell Atlantic Corporation (now Verizon), which included a position in the Regulatory Department where she was responsible for Affiliated Interest rate case litigation support in seven Bell Atlantic state jurisdictions.

From 1991 to 1997, Ms. Crane served in a volunteer position as Vice-Chairman of the Water Pollution Control Commission in Redding, Connecticut.

Ms. Crane's educational background includes an M.B.A. degree in Finance (1982) and a B.A. degree in Chemistry (1979), both from Temple University in Philadelphia, Pennsylvania.

Attached is a list of testimonies filed by Ms. Crane over the past five years.

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Utilities, Inc. of Florida	W/WW	Florida	20200139-WS	11/20	Revenue Requirements	Office of Public Counsel
El Paso Electric Company	E	New Mexico	20-00104-UT	10/20	Revenue Requirements	Office of Attorney General
Public Service Company of New Mexico	E	New Mexico	20-00121-UT	9/20	Regulatory Disincentive Mechanism	Office of Attorney General
Peoples Gas System	G	Florida	20200051-GU	9/20	Revenue Requirements	Office of Public Counsel
New Mexico Gas Company	G	New Mexico	19-00317-UT	7/20	Revenue Requirements	Office of Attorney General
El Paso Electric Company	E	New Mexico	19-00317-UT	4/20	CCN For Newman Unit 6	Office of Attorney General
Public Service Company of New Mexico	E	New Mexico	19-00195-UT	12/19	Replacement Resources for SJGS Units 1 and 4	Office of Attorney General
Southwestern Public Service Company	E	New Mexico	19-00170-UT	11/19	Revenue Requirements	Office of Attorney General
Atmos Energy Company	G	Kansas	19-ATMG-525-RTS	10/19	Revenue Requirements	Citizens' Utility Ratepayer Board
Public Service Company of New Mexico	E	New Mexico	19-00018-UT	10/19	Abandonment of SJGS and Stranded Cost Recovery	Office of Attorney General
Rockland Electric Company	E	New Jersey	ER19050552	10/19	Revenue Requirements	Division of Rate Counsel
Avista Corporation	E/G	Washington	UE-190334/UG-190335	10/19	Revenue Requirements	Public Counsel Unit
Westar Energy, Inc.	E	Kansas	19-WSEE-355-TAR	6/19	JEC Capacity Purchase	Citizens' Utility Ratepayer Board
Empire District Electric Company	E	Kansas	19-EPDE-223-RTS	5/19	Revenue Requirements	Citizens' Utility Ratepayer Board
Public Service Electric and Gas Co.	E/G	New Jersey	EO18060629/ G018060630	3/19	Energy Strong II Program	Division of Rate Counsel
Southwestern Public Service Company	E	New Mexico	18-00308-UT	2/19	Voluntary Renewable Energy Program	Office of Attorney General
Zero Emission Certificate Program (Various Applicants)	E	New Jersey	EO18080899	1/19	Zero Emission Certificates Subsidy	Division of Rate Counsel
Public Service Company of New Mexico	E	New Mexico	18-00043-UT	12/18	Removal of Energy Efficiency Disincentives	Office of Attorney General
Kansas Gas Service	G	Kansas	18-KGSG-560-RTS	10/18	Revenue Requirements	Citizens' Utility Ratepayer Board
New Mexico Gas Company	G	New Mexico	18-00038-UT	9/18	Testimony in Support of Stipulation	Office of Attorney General
Kansas City Power and Light Company	E	Kansas	18-KCPE-480-RTS	9/18	Revenue Requirements	Citizens' Utility Ratepayer Board
Public Service Electric and Gas Co.	E/G	New Jersey	ER18010029/ GR18010030	8/18	Revenue Requirements	Division of Rate Counsel
Westar Energy, Inc.	E	Kansas	18-WSEE-328-RTS	6/18	Revenue Requirements	Citizens' Utility Ratepayer Board
Southwestern Public Service Company	E	New Mexico	17-00255-UT	4/18	Revenue Requirements	Office of Attorney General
Empire District Electric Company	E	Kansas	18-EPDE-184-PRE	3/18	Approval of Wind Generation Facilities	Citizens' Utility Ratepayer Board
GPE/ Kansas City Power & Light Co., Westar Energy, Inc.	E	Kansas	18-KCPE-095-MER	1/18	Proposed Merger	Citizens' Utility Ratepayer Board

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Public Service Electric and Gas Co.	E	New Jersey	GR17070776	1/18	Gas System Modernization Program	Division of Rate Counsel
Southwestern Public Service Company	E	New Mexico	17-00044-UT	10/17	Approval of Wind Generation Facilities	Office of Attorney General
Kansas Gas Service	G	Kansas	17-KGSG-455-ACT	9/17	MGP Remediation Costs	Citizens' Utility Ratepayer Board
Atlantic City Electric Company	E	New Jersey	ER17030308	8/17	Base Rate Case	Division of Rate Counsel
Public Service Company of New Mexico	E	New Mexico	16-00276-UT	6/17	Testimony in Support of Stipulation	Office of Attorney General
Westar Energy, Inc.	E	Kansas	17-WSEE-147-RTS	5/17	Abbreviated Rate Case	Citizens' Utility Ratepayer Board
Kansas City Power and Light Company	E	Kansas	17-KCPE-201-RTS	4/17	Abbreviated Rate Case	Citizens' Utility Ratepayer Board
GPE/ Kansas City Power & Light Co., Westar Energy, Inc.	E	Kansas	16-KCPE-593-ACQ	12/16	Proposed Merger	Citizens' Utility Ratepayer Board
Kansas Gas Service	G	Kansas	16-KGSG-491-RTS	9/16	Revenue Requirements	Citizens' Utility Ratepayer Board
Public Service Company of New Mexico	E	New Mexico	15-00312-UT	7/16	Automated Metering Infrastructure	Office of Attorney General
Kansas City Power and Light Company	E	Kansas	16-KCPE-160-MIS	6/16	Clean Charge Network	Citizens' Utility Ratepayer Board
Kentucky American Water Company	W	Kentucky	2016-00418	5/16	Revenue Requirements	Attorney General/LFUCG
Black Hills/Kansas Gas Utility Company	G	Kansas	16-BHCG-171-TAR	3/16	Long-Term Hedge Contract	Citizens' Utility Ratepayer Board
General Investigation Regarding Accelerated Pipeline Replacement	G	Kansas	15-GIMG-343-GIG	1/16	Cost Recovery Issues	Citizens' Utility Ratepayer Board
Public Service Company of New Mexico	E	New Mexico	15-00261-UT	1/16	Revenue Requirements	Office of Attorney General
Atrnos Energy Company	G	Kansas	16-ATMG-079-RTS	12/15	Revenue Requirements	Citizens' Utility Ratepayer Board
El Paso Electric Company	E	New Mexico	15-00109-UT	12/15	Sale of Generating Facility	Office of Attorney General
El Paso Electric Company	E	New Mexico	15-00127-UT	9/15	Revenue Requirements	Office of Attorney General
Rockland Electric Company	E	New Jersey	ER14030250	9/15	Storm Hardening Surcharge	Division of Rate Counsel
El Paso Electric Company	E	New Mexico	15-00099-UT	8/15	Certificate of Public Convenience - Ft. Bliss	Office of Attorney General
Southwestern Public Service Company	E	New Mexico	15-00083-UT	7/15	Approval of Purchased Power Agreements	Office of Attorney General
Westar Energy, Inc.	E	Kansas	15-WSEE-115-RTS	7/15	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power and Light Company	E	Kansas	15-KCPE-116-RTS	5/15	Revenue Requirements	Citizens' Utility Ratepayer Board
Comcast Cable Communications	C	New Jersey	CR14101099-1120	4/15	Cable Rates (Form 1240)	Division of Rate Counsel
Liberty Utilities (Pine Bluff Water)	W	Arkansas	14-020-U	1/15	Revenue Requirements	Office of Attorney General

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Docket No. 20200139-WS  
Schedule 1 - Revenue Requirement  
Summary  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
REVENUE REQUIREMENT SUMMARY**

	Company Claim	Recommended Adjustment	Recommended Position	
1. Pro Forma Rate Base	(A) \$56,913,982	(\$2,847,573)	\$54,066,409	(B)
2. Required Cost of Capital	7.89%	-1.16%	6.73%	(C)
3. Required Return	\$4,489,988	(\$853,602)	\$3,636,386	
4. Operating Income @ Present Rates	2,391,589	430,370	2,821,959	(D)
5. Operating Income Deficiency	\$2,098,399	(\$1,283,973)	\$814,426	
6. Revenue Multiplier	1.3457	1.3457	1.3873	(E)
7. Required Revenue Increase	<b><u>\$2,823,848</u></b>	<b><u>(\$1,693,982)</u></b>	<b><u>\$1,129,866</u></b>	

Sources:

- (A) UIF Filing, Schedule B-1, Page 1.
- (B) Exhibit ACC-2, Schedule 3.
- (C) Exhibit ACC-2, Schedule 2.
- (D) Exhibit ACC-2, Schedule 8.
- (E) Exhibit ACC-2, Schedule 24.

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Docket No. 20200139-WS  
Schedule 2 - Required Cost of  
Capital  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
REQUIRED COST OF CAPITAL**

	Capital Structure (%)	Cost Rate (%)		Weighted Cost (%)
	(A)	(B)		
1. Long-Term Debt	45.63%	5.78%		2.64%
2. Short-Term Debt	4.56%	4.04%		0.18%
3. Common Equity	41.06%	9.50%	(C)	3.90%
4. Customer Deposits	0.17%	2.00%		0.00%
5. Tax Credits - Zero Cost	0.05%	0.00%		0.00%
6. Accumulated Deferred Income Taxes	4.88%	0.00%		0.00%
7. Other Deferred Tax Liability - TCIA	3.65%	0.00%		0.00%
8. Total Cost of Capital	<u>100.00%</u>			<u>6.73%</u>

Sources:

- (A) Derived from UIF Filing, Schedule D-1, page 1, and recommendations of Mr. Garrett regarding percentages of long-term debt, short-term debt, and common equity.  
(B) Cost rates per UIF Filing, Schedule D-1, page 1 except for cost of equity.  
(C) Cost of equity cost rate per Testimony of Mr. Garrett.

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Docket No. 20200139-WS  
Schedule 3 - Rate Base Summary  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
RATE BASE SUMMARY**

	Company Claim	Test Year Adjustment		Recommended Position
	(A)			
1. Utility Plant in Service	\$119,062,759	(\$481,645)	(B)	\$118,581,114
2. Utility Land and Land Rights	296,859	0		296,859
3. Less: Non -Used and Useful Plant	0	0		0
4. Accumulated Depreciation	(46,148,164)	(62,729)	(C)	(46,210,893)
5. Contributions in Aid of Construction	(41,216,765)	(71,685)	(D)	(41,288,450)
6. Accumulated Amortization of CIAC	20,804,928	71,685	(D)	20,876,613
7. Advances for Construction	(36,767)	0		(36,767)
8. Working Capital Allowance	4,151,132	(2,303,199)	(E)	1,847,933
9. Total Rate Base	<u>\$56,913,982</u>	<u>(\$2,847,573)</u>		<u>\$54,066,409</u>

Sources:

- (A) UIF Filing, Schedule A-1.
- (B) Exhibit ACC-2, Schedule 4.
- (C) Exhibit ACC-2, Schedule 5.
- (D) Exhibit ACC-2, Schedule 6.
- (E) Exhibit ACC-2, Schedule 7.



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Docket No. 20200139-WS  
Schedule 4 - Utility Plant-in-Service  
Exhibit ACC-2  
Page 1 of 2

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
UTILITY PLANT-IN-SERVICE**

1. Adjustments to Pro Forma Additions	(\$558,065)	(A)
2. Adjustments to Pro Forma Retirements	<u>76,420</u>	(A)
3. Total Pro Forma Adjustments to Utility Plant	<b><u>(\$481,645)</u></b>	

Sources:

(A) Exhibit ACC-2, Schedule 4, page 2 of 2.

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Docket No. 20200139-WS  
 Schedule 4 - Utility Plant-in-Service  
 Exhibit ACC-2  
 Page 2 of 2

**UTILITIES, INC. OF FLORIDA - WATER  
 TEST YEAR ENDING DECEMBER 31 2019  
 UTILITY PLANT-IN-SERVICE ADDITIONS**

Docket# 20200139-WS

Job Description	Co	PCF#	County	System	Retirement?	CIAC?	System	Base Project Cost	Cost Per RR Schedule	Accumulated Depreciation	Book Depreciation	Retirement	Retirement Depreciation	CIAC Amortization
E.E. Williamson Utility Relocations	255	28	Seminole	Sanlando	Yes	Yes	Water	333,075	347,142	8,073	8,073	71,685	1,667	1,667
GST (ground storage tanks) Deficiency Correc	255	31	Seminole	Sanlando	No		Water	180,919	188,923	5,106	5,106			
Eng Northwestern Bridge WM Replacement	252	45	Seminole	UIF - Wekiva	Yes	No	Water	22,000	22,000	512	512	4,735	110	
Total Water									\$558,065	\$13,691	\$13,691	\$76,420	\$1,777	\$1,667

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Docket No. 20200139-WS  
Schedule 5 - Accumulated Depreciation  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
ACCUMULATED DEPRECIATION**

1. Adjustments Related to Additions	\$13,691	(A)
2. Adjustments Related to Retirements	<u>(76,420)</u>	(A)
3. Total Pro Forma Adjustments to Acc. Dep.	<u><b>(\$62,729)</b></u>	

Sources:

(A) Exhibit ACC-2, Schedule 4, page 2 of 2.

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Docket No. 20200139-WS  
Schedule 6 - Contributions in Aid  
of Construction  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
CONTRIBUTIONS IN AID OF CONSTRUCTION**

1. Retirement Adjustments Associated with CIAC	<b><u>(\$71,685)</u></b>	(A)
2. Associated Accumulated Amortization of CIAC	<b><u>\$71,685</u></b>	(A)

Sources:

(A) Exhibit ACC-2, Schedule 4, page 2 of 2.

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Docket No. 20200139-WS  
Schedule 7 - Working Capital Adjustments  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
WORKING CAPITAL ADJUSTMENTS**

1. Presumed Cash Balance	(\$2,355,199)	(A)
2. Chlorine Dioxide Pilot Study	<u>52,000</u>	(A)
3. Recommended Adjustments	<u><b>(\$2,303,199)</b></u>	

Sources:

(A) UIF Filing, Schedule A-3, page 5.

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Docket No. 20200139-WS  
Schedule 8 - Operating Income Summary  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
OPERATING INCOME SUMMARY**

		<u>Schedule No.</u>
1. Company Claim	\$2,391,589	1
Recommended Adjustments:		
2. Salary and Wage Increase Expense	21,791	9
3. Additional Employees Expense	81,079	10
4. Severance Expense	22,432	11
5. Incentive Compensation Expense	78,014	12
6. Payroll Tax Expense	13,237	13
7. Non-Qualified Retirement Plan Expense	21,581	14
8. Truck Fleet Expense	5,231	15
9. Lobbying Expense	18,035	16
10. Holiday Party Expense	1,999	17
11. Depreciation Expense - Plant	10,251	18
12. Property Tax Expense - Plant	6,454	19
13. Excess Deferred Income Tax Amortization	127,997	20
14. State Income Tax Expense	10,098	21
15. Interest Synchronization	<u>12,172</u>	22
16. Operating Income	<u><b>\$2,821,959</b></u>	

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Docket No. 20200139-WS  
Schedule 9 - Salary and Wage Increase Expense  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
SALARY AND WAGE INCREASE EXPENSE**

1. Salaries and Wages	\$2,847,573	(A)
2. Salaries and Wages Officers	216,514	(A)
3. Pensions and Benefits	<u>785,355</u>	(A)
4. Total Test Year Costs	\$3,849,442	
5. Increase @ 3.0%	115,483	(B)
6. Company Claim	<u>144,354</u>	(C)
7. Recommended Adjustment	\$28,871	
8. Income Taxes @ 24.52%	<u>7,080</u>	
9. Operating Income Impact	<u><b>\$21,791</b></u>	

Souces:

- (A) UIF Filing, Schedule B-5, page 1.
- (B) Line 4 X .03.
- (C) UIF Filing, Schedule B-3, page 2.

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Docket No. 20200139-WS  
Schedule 10 - Additional Employees Expense  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
ADDITIONAL EMPLOYEES EXPENSE**

1. Salaries and Wages	\$73,182	(A)
2. Employee Pensions and Benefits	32,322	(A)
3. Telephone Expense	<u>1,917</u>	(A)
4. Recommended Adjustment	\$107,421	
5. Income Taxes @	24.52% <u>26,342</u>	
6. Operating Income Impact	<u><b>\$81,079</b></u>	

Souces:

(A) Company Filing, Schedule B-3, page 2.



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Docket No. 20200139-WS  
Schedule 11 - Severance Expense  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
SEVERANCE EXPENSE**

1. Severance Claim	\$57,000	(A)
2. Allocation to Water (%)	<u>52.14%</u>	(A)
3. Allocation to Water (\$)	29,720	
4. Income Taxes @ 24.52%	<u>7,288</u>	
5. Operating Income Impact	<u><b>\$22,432</b></u>	

Sources:

(A) Response to OPC IRR-15.

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Docket No. 20200139-WS  
Schedule 12 - Incentive Compensation Expense  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
INCENTIVE COMPENSATION EXPENSE**

1. UIF Expense - Non-Officers	\$92,500	(A)
2. WSC Expense - Non Officers @ 22%	10,033	(B)
3. WSC/UIF Officers	244,000	(C)
4. CII Incentive Compensation @ 10.3%	<u>49,935</u>	(D)
5. Total Incentive Compensation	\$396,468	
6. Recommended Adjustment	<u>50.00%</u>	(E)
7. Total Recommended Adjustment	\$198,234	
8. Allocation to Water (%)	<u>52.14%</u>	(F)
9. Allocation to Water (\$)	\$103,359	
10. Income Taxes @	24.52% <u>25,346</u>	
11. Operating Income Impact	<u><b>\$78,014</b></u>	

Sources:

- (A) Response to OPC IRR-17.
- (B) Represents 22% of total cost of \$45,605, per the response to OPC IRR-17.
- (C) Response to OPC IRR-18.
- (D) Represents 10.3% (per OPC IRR-18) of amount shown in the response to OPC IRR-11.
- (E) Recommendation of Ms. Crane.
- (F) Allocation per the response to OPC IRR-18.

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Docket No. 20200139-WS  
Schedule 13 - Payroll Tax Expense  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
PAYROLL TAX EXPENSE**

1. Salary and Wage Increase Expense Adjustment	\$22,981	(A)
2. Additional Employees Expense Adjustment	73,182	(B)
3. Severance Expense Adjustment	29,720	(C)
4. Incentive Compensation Expense Adjustment	<u>103,359</u>	(D)
5. Total Expense Adjustments	\$229,241	
6. Statutory Payroll Tax Rate	<u>7.65%</u>	
7. Recommended Payroll Tax Adjustment	\$17,537	
8. Income Taxes @ 24.52%	<u>4,300</u>	
9. Operating Income Impact	<u>\$13,237</u>	

Sources:

- (A) Derived from Exhibit ACC-2, Schedule 9.
- (B) Exhibit ACC-2, Schedule 10.
- (C) Exhibit ACC-2, Schedule 11.
- (D) Exhibit ACC-2, Schedule 12.

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Docket No. 20200139-WS  
Schedule 14 - Non-Qualified Retirement  
Plan Expense  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
NON-QUALIFIED RETIREMENT PLAN EXPENSE**

1. UIF Non-Qualified Expense	\$26,853	(A)
2. WSC Shared Services Non-Qualified Expense	<u>27,985</u>	(B)
3. Total Expense Adjustments	\$54,838	
4. Allocation to Water (%)	<u>52.14%</u>	(C)
5. Allocation to Water (\$)	28,592	
6. Income Taxes @	24.52%	<u>7,011</u>
7. Operating Income Impact	<u><b>\$21,581</b></u>	

Sources:

(A) Response to OPC IRR-11.

(B) Represents 22% allocation of the amounts per the response to OPC IRR-11.

(C) Allocation per the response to OPC IRR-18.

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Docket No. 20200139-WS  
Schedule 15 - Truck Fleet Expense  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
TRUCK FLEET EXPENSE**

1. Recommended Adjustment		\$6,931	(A)
2. Income Taxes @	24.52%	<u>1,700</u>	
3. Operating Income Impact		<u>\$5,231</u>	

Sources:

(A) UIF Filing, Schedule B-3, page 2.

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Docket No. 20200139-WS  
Schedule 16 - Lobbying Expense  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
LOBBYING EXPENSE**

1. Lobbying Costs in Filing	\$45,827	(A)
2. Allocation to Water (%)	<u>52.14%</u>	(B)
3. Allocation to Water (\$)	\$23,894	
4 Income Taxes @ 24.52%	<u>5,859</u>	
5 Operating Income Impact	<u><b>\$18,035</b></u>	

Sources:

(A) Response to OPC IRR-140.

(B) Allocation per the response to OPC IRR-33.

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Docket No. 20200139-WS  
Schedule 17 - Holiday Party Expense  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
HOLIDAY PARTY EXPENSE**

1. Holiday Party Costs in Filing	\$5,079	(A)
2. Allocation to Water (%)	<u>52.14%</u>	(B)
3. Allocation to Water (\$)	\$2,648	
4 Income Taxes @ 24.52%	<u>649</u>	
5 Operating Income Impact	<u><b>\$1,999</b></u>	

Sources:

(A) Response to OPC IRR-38.

(B) Allocation per the response to OPC IRR-38.

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Docket No. 20200139-WS  
Schedule 18 - Depreciation Expense  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
DEPRECIATION EXPENSE**

1. Reductions Related to Plant Additions	\$13,691	(A)
2. Reductions Related to Retirements	(1,777)	(A)
3. Reductions to Related Retirements - CIAC	<u>1,667</u>	(A)
4. Recommended Adjustment	\$13,581	
5. Income Taxes @	24.52% <u>3,330</u>	
6. Operating Income Impact	<u><b>\$10,251</b></u>	

Sources:

(A) Exhibit ACC-2, Schedule 4, page 2 of 2.



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Docket No. 20200139-WS

Schedule 19 - Property Tax Expense

Exhibit ACC-2

Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
PROPERTY TAX EXPENSE**

1. Reductions to Net Plant	\$544,374	(A)
2. Net Mil Rate	<u>1.57%</u>	(B)
3. Recommended Adjustment	\$8,551	
4. Income Taxes @ 24.52%	<u>2,097</u>	
5. Operating Income Impact	<u><b>\$6,454</b></u>	

Sources:

(A) Exhibit ACC-2, Schedule 2.

(B) UIF Filing, Schedule B-3, page 5.

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Docket No. 20200139-WS  
Schedule 20 - Excess Deferred  
Income Tax Amortization  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
EXCESS DEFERRED INCOME TAX AMORTIZATION**

1. Unprotected Excess Deferred Income Taxes	\$360,233	(A)
2. Recommended Amortization Period	<u>5</u>	(B)
3. Recommended Annual Amortization	\$72,047	
4. Annual Amortization of Protected EDIT	<u>257,797</u>	(A)
5. Total Annual Amortization	\$329,844	
6. Allocation to Water (%)	<u>38.81%</u>	(C)
7. Allocation to Water (\$)	\$127,997	
8. Impact on Operating Income at Present Rates	<u>\$127,997</u>	

Sources:

(A) UIF Filing, Schedule B-3, page 6.

(B) Recommendation of Ms. Crane.

(C) Based on allocation per UIF Filing, Schedule B-3, page 6.

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Docket No. 20200139-WS  
Schedule 21 - State Income Tax Expense  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
STATE INCOME TAX EXPENSE**

1. State Taxable Income	\$1,226,666	(A)
2. State Tax Rate	<u>4.46%</u>	(B)
3. State Income Taxes	\$54,685	
4. Company Claim	<u>67,467</u>	(A)
5. Recommended Adjustment	12,782	
6. Federal Income Taxes @ 21%	<u>2,684</u>	(C)
7. Operating Income Impact	<u><b>\$10,098</b></u>	

Sources:

(A) UIF Filing, Schedule C-2, page 1.

(B) Current State Income Tax Rate.

(C) Federal Income Tax Rate per UIF Filing, Schedule C-2, page 1.

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Docket No. 20200139-WS  
Schedule 22 - Interest Synchronization  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
INTEREST SYNCHRONIZATION**

1. Recommended Rate Base	\$54,066,409	(A)
2. Weighted Interest Cost	<u>2.82%</u>	(B)
3. Pro Forma Interest Expense	\$1,525,457	
4. Company Claim	<u>1,475,821</u>	(C)
5. Increase to Pro Forma Interest Expense	\$49,636	
6. Decrease to Income Taxes @ 24.52%	(\$12,172)	
7. Increase to Operating Income	<u>\$12,172</u>	

Sources:

(A) Exhibit ACC-2, Schedule 3.

(B) Exhibit ACC-2, Schedule 2.

(C) UIF Filing, Schedule C-2, page 1.

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Docket No. 20200139-WS  
Schedule 23 - Income Tax Rate  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
INCOME TAX RATE**

1. Revenue		100.00%	
2. State Income Taxes @	4.46%	<u>4.46%</u>	(A)
3. Federal Taxable Income		95.54%	
4. Income Taxes @	21.00%	<u>20.06%</u>	(A)
5. Operating Income		75.48%	
6. Total Tax Rate		<u><b>24.52%</b></u>	(B)

Sources:

(A) Tax rates per Company Filing, Schedule C-2, page 1.

(B) Line 1 - Line 5.

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Docket No. 20200139-WS  
Schedule 24 - Revenue Multiplier  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
REVENUE MULTIPLIER**

1. Revenue		100.00%	
2. Regulatory Assessment		4.50%	(A)
3. Taxable Income		95.50%	
4. State Income Taxes @	4.46%	<u>4.26%</u>	(B)
4. Federal Taxable Income		91.24%	
5. Income Taxes @	21.00%	<u>19.16%</u>	(B)
6. Operating Income		72.08%	
7. Revenue Multiplier		<u><b>1.3873</b></u>	(C)

Sources:

(A) Rate per UIF Filing, Schedule B-3, page 5.

(B) Tax rates per Company Filing, Schedule C-2, page 1.

(C) Line 1 / Line 6.

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Docket No. 20200139-WS  
Schedule 25 - Revenue Requirement  
Impact of Adjustments  
Exhibit ACC-2  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - WATER  
TEST YEAR ENDING DECEMBER 31, 2019  
REVENUE REQUIREMENT IMPACT OF ADJUSTMENTS**

1. Capital Structure/Cost of Capital	(\$918,515)
<b>Rate Base Adjustments:</b>	
2. Utility Plant in Service	(44,941)
3. Accumulated Depreciation	(5,853)
4. Contributions in Aid of Construction	(6,689)
5. Accumulated Amortization of CIAC	6,689
6. Working Capital Allowance	(214,906)
<b>Operating Income Adjustments</b>	
7. Salary and Wage Increase Expense	(30,231)
8. Additional Employees Expense	(112,483)
9. Severance Expense	(31,120)
10. Incentive Compensation Expense	(108,229)
11. Payroll Tax Expense	(18,363)
12. Non-Qualified Retirement Plan Expense	(29,940)
13. Truck Fleet Expense	(7,258)
14. Lobbying Expense	(25,020)
15. Holiday Party Expense	(2,773)
16. Depreciation Expense - Plant	(14,221)
17. Property Tax Expense - Plant	(8,954)
18. Excess Deferred Income Tax Amortization	(177,573)
19. State Income Tax Expense	(14,009)
20. Interest Synchronization	(16,886)
21. Revenue Multiplier	87,293
22. Total Recommended Adjustments	(\$1,693,982)
23. Company Claim	2,823,848
24. Recommended Revenue Requirement Deficiency	<u><b>\$1,129,866</b></u>

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Docket No. 20200139-WS  
Schedule 1 - Revenue Requirement Summary  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
REVENUE REQUIREMENT SUMMARY**

	Company Claim	Recommended Adjustment	Recommended Position	
1. Pro Forma Rate Base	(A) \$89,747,182	(\$15,352,525)	\$74,394,657	(B)
2. Required Cost of Capital	7.89%	-1.16%	6.73%	(C)
3. Required Return	\$7,080,225	(\$2,076,607)	\$5,003,618	
4. Operating Income @ Present Rates	2,290,839	854,738	3,145,577	(D)
5. Operating Income Deficiency	\$4,789,386	(\$2,931,345)	\$1,858,041	
6. Revenue Multiplier	1.3633	1.3633	1.3873	(E)
7. Required Revenue Increase	<u>\$6,529,383</u>	<u>(\$3,951,694)</u>	<u>\$2,577,689</u>	

Sources:

- (A) UIF Filing, Schedule B-2, Page 1.
- (B) Exhibit ACC-3, Schedule 3.
- (C) Exhibit ACC-3, Schedule 2.
- (D) Exhibit ACC-3, Schedule 9.
- (E) Exhibit ACC-3, Schedule 27.



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Docket No. 20200139-WS  
Schedule 2 - Required Cost of Capital  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
REQUIRED COST OF CAPITAL**

	Capital Structure (%)	Cost Rate (%)		Weighted Cost (%)
	(A)	(B)		
1. Long-Term Debt	45.63%	5.78%		2.64%
2. Short-Term Debt	4.56%	4.04%		0.18%
3. Common Equity	41.06%	9.50%	(C)	3.90%
4. Customer Deposits	0.17%	2.00%		0.00%
5. Tax Credits - Zero Cost	0.05%	0.00%		0.00%
6. Accumulated Deferred Income Taxes	4.88%	0.00%		0.00%
7. Other Deferred Tax Liability - TCIA	3.65%	0.00%		0.00%
8. Total Cost of Capital	<u>100.00%</u>			<u>6.73%</u>

Sources:

- (A) Derived from UIF Filing, Schedule D-1, page 1, and recommendations of Mr. Garrett regarding percentages of long-term debt, short-term debt, and common equity.
- (B) Cost rates per UIF Filing, Schedule D-1, page 1 except for cost of equity.
- (C) Cost of equity cost rate per Testimony of Mr. Garrett.

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Docket No. 20200139-WS  
Schedule 3 - Rate Base Summary  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
RATE BASE SUMMARY**

	Company Claim	Test Year Adjustment		Recommended Position
	(A)			
1. Utility Plant in Service	\$154,552,247	(\$7,125,593)	(B)	\$147,426,654
2. Utility Land and Land Rights	583,043	0		583,043
3. Less: Non-Used and Useful Plant	(928,928)	(1,536,239)	(C)	(2,465,167)
4. Accumulated Depreciation	(54,270,966)	(3,488,242)	(D)	(57,759,208)
5. Contributions in Aid of Construction	(44,243,811)	(419,575)	(E)	(44,663,386)
6. Accumulated Amortization of CIAC	28,503,115	419,575	(E)	28,922,690
7. Advances for Construction	1,315	0		1,315
8. Working Capital Allowance	5,551,167	(3,202,451)	(F)	2,348,716
9. Total Rate Base	<u>\$89,747,182</u>	<u>(\$15,352,525)</u>		<u>\$74,394,657</u>

Sources:

- (A) UIF Filing, Schedule A-2.
- (B) Exhibit ACC-3, Schedule 4.
- (C) Exhibit ACC-3, Schedule 5.
- (D) Exhibit ACC-3, Schedule 6.
- (E) Exhibit ACC-3, Schedule 7.
- (F) Exhibit ACC-3, Schedule 8.

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Docket No. 20200139-WS  
Schedule 4 - Utility Plant-in-Service  
Exhibit ACC-3  
Page 1 of 2

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
UTILITY PLANT-IN-SERVICE**

1. Adjustments to Pro Forma Additions	(\$11,137,042)	(A)
2. Adjustments to Pro Forma Retirements	<u>4,011,449</u>	(A)
3. Total Pro Forma Adjustments to Utility Plant	<u><b>(\$7,125,593)</b></u>	

Sources:

(A) Exhibit ACC-3, Schedule 4, page 2 of 2.

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Docket No. 20200139-WS  
 Schedule 4 - Utility Plant-in-Service  
 Exhibit ACC-3  
 Page 2 of 2

**UTILITIES, INC. OF FLORIDA - SEWER  
 TEST YEAR ENDING DECEMBER 31, 2019  
 UTILITY PLANT-IN-SERVICE ADDITIONS**

Docket# 20200139-WS

Job Description	Co	PCF#	County	System	Retirement?	CIAC?	System	Base Project Cost	Cost Per RR Schedule	Accumulated Depreciation	Book Depreciation	Retirement	Retirement Depreciation	CIAC Amortization
Engineering WWTP Master Plan	259	6	Pasco	Labrador	No		Sewer	40,636	40,636	2,258	2,258			
Barrington WWTP Cap Improvements	251	13	Lake	LUSI	No		Sewer	380,000	396,710	22,039	22,039			
PDR & Master Lift Station	250	14	Pinellas	Mid-County	Yes	No	Sewer	360,000	382,847	8,000	8,000	70,866	1,575	
PDR & Master Lift Station	250	14	Pinellas	Mid-County	Yes	No	Sewer	84,000	89,331	2,800	2,800	30,094	1,003	
PDR & Master Lift Station	250	14	Pinellas	Mid-County	Yes	No	Sewer	183,600	195,252	6,120	6,120	58,781	1,959	
PDR & Master Lift Station	250	14	Pinellas	Mid-County	Yes	No	Sewer	512,515	545,041	17,084	17,084	200,856	6,695	
PDR & Master Lift Station	250	14	Pinellas	Mid-County	Yes	No	Sewer	626,000	665,728	34,778	34,778	246,028	13,668	
Curlew Creek I&I Improvements	250	16	Pinellas	Mid-County	No		Sewer	635,000	664,201	14,760	14,760			
MC Headworks Improvements	250	17	Pinellas	Mid-County	Yes	No	Sewer	3,045,500	3,186,839	177,047	177,047	1,558,186	86,566	
Eng Relocate LS 10 FM	250	18	Pinellas	Mid-County	Yes	No	Sewer	56,000	58,139	1,938	1,938	20,063	669	
L/S RTU Installation - 2020091	256	20	Charlotte	Sandalhaven	No		Sewer	130,000	135,490	13,549	13,549			
Const - Wekiva WWTF Headworks	255	23	Seminole	Sanlando	Yes	No	Sewer	2,750,000	2,901,907	161,217	161,217	1,406,998	78,167	
ENG - Wekiva WWTF Headworks	255	23	Seminole	Sanlando	No		Sewer	186,715	198,117	11,007	11,007			
ENG F5/C1/L2 FM	255	26	Seminole	Sanlando	No		Sewer	194,500	202,637	6,755	6,755			
E.E. Williamson Utility Relocations	255	28	Seminole	Sanlando	Yes	Yes	Sewer	111,025	115,714	3,857	3,857	39,777	1,326	1,326
Lift Station Mechanical Rehab	255	29	Seminole	Sanlando	Yes	Yes	Sewer	540,000	560,469	18,682	18,682	211,628	7,054	7,054
UIF CIP Analysis/Modeling	255	30	Seminole	Sanlando	No		Sewer	83,500	93,492	3,116	3,116			
FM / GSM Relocation	241	33	Pinellas	Tierra Verde	Yes	Yes	Sewer	338,865	374,656	12,489	12,489	121,404	4,047	4,047
FM / GSM Relocation	241	33	Pinellas	Tierra Verde	Yes	Yes	Sewer	172,219	190,409	4,231	4,231	33,901	753	753
FM / GSM Relocation	241	33	Pinellas	Tierra Verde	Yes	Yes	Sewer	40,182	44,426	1,481	1,481	12,865	429	429
<b>Trucks for New Employees</b>				ALL					95,000		15,833			
								<b>10,470,257</b>	<b>11,137,041</b>	<b>523,207</b>	<b>539,040</b>	<b>4,011,449</b>	<b>203,911</b>	<b>13,609</b>

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Docket No. 20200139-WS

Schedule 5 - Utility Plant-in-Service – Used and Useful

Exhibit ACC-3

Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
UTILITY PLANT-IN-SERVICE - USED AND USEFUL**

1. Adjustment Per Interim Schedules	\$2,465,167	(A)
2. Company Claim	<u>928,928</u>	(B)
3. Recommended Net Reduction	<b><u>(\$1,536,239)</u></b>	

Sources:

(A) UIF Interim Filing, Schedule A-7.

(B) UIF Filing, Schedule A-2.

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Docket No. 20200139-WS  
Schedule 6 - Accumulated Depreciation  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
ACCUMULATED DEPRECIATION**

1. Adjustments Related to Additions	\$523,207	(A)
2. Adjustments Related to Retirements	<u>(4,011,449)</u>	(A)
3. Total Pro Forma Adjustments to Acc. Dep.	<u><b>(\$3,488,242)</b></u>	

Sources:

(A) Exhibit ACC-3, Schedule 4, page 2 of 2.

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Docket No. 20200139-WS  
Schedule 7 - Contributions in Aid  
of Construction  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
CONTRIBUTIONS IN AID OF CONSTRUCTION**

1. Retirement Adjustments Associated with CIAC	<b><u>(\$419,575)</u></b>	(A)
2. Associated Accumulated Amortization of CIAC	<b><u>\$419,575</u></b>	(A)

Sources:

(A) Exhibit ACC-3, Schedule 4, page 2 of 2.

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Docket No. 20200139-WS  
Schedule 8 - Working Capital Adjustments  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
WORKING CAPITAL ADJUSTMENTS**

1. Presumed Cash Balance	(\$3,061,123)	(A)
2. Chlorine Dioxide Pilot Study	(52,000)	(A)
3. Smoke Testing/I&I Investigations	<u>(89,328)</u>	(A)
4. Recommended Adjustments	<b><u>(\$3,202,451)</u></b>	

Sources:

(A) UIF Filing, Schedule A-3, page 5.



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Docket No. 20200139-WS  
Schedule 9 - Operating Income Summary  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
OPERATING INCOME SUMMARY**

		<u>Schedule No.</u>
1. Company Claim	\$2,290,839	1
Recommended Adjustments:		
2. Salary and Wage Increase Expense	20,002	10
3. Additional Employees Expense	74,423	11
4. Severance Expense	20,591	12
5. Incentive Compensation Expense	71,610	13
6. Payroll Tax Expense	16,097	14
7. Non-Qualified Retirement Plan Expense	19,809	15
8. Truck Fleet Expense	4,802	16
9. Lobbying Expense	16,554	17
10. Holiday Party Expense	1,835	18
11. Depreciation Expense - Plant	263,221	19
12. Depreciation Expense - Non Used and Useful	58,187	20
13. Property Tax Expense - Plant	125,513	21
14. Property Tax Expense - Non Used and Useful	16,519	22
15. Excess Deferred Income Tax Amortization	201,846	23
16. State Income Tax Expense	(397)	24
17. Interest Synchronization	(55,874)	25
18. Operating Income	<u>\$3,145,577</u>	

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Docket No. 20200139-WS

Schedule 10 - Salary and Wage Increase Expense

Exhibit ACC-3

Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
SALARY AND WAGE INCREASE EXPENSE**

1. Salaries and Wages	\$2,613,825	(A)
2. Salaries and Wages Officers	198,741	(A)
3. Pensions and Benefits	<u>720,887</u>	(A)
4. Total Test Year Costs	\$3,533,453	
5. Increase @ 3.0%	106,004	(B)
6. Company Claim	<u>132,504</u>	(C)
7. Recommended Adjustment	\$26,500	
8. Income Taxes @ 24.52%	<u>6,498</u>	
9. Operating Income Impact	<u><b>\$20,002</b></u>	

Souces:

(A) UIF Filing, Schedule B-6, page 1.

(B) Line 4 X .03.

(C) UIF Filing, Schedule B-3, page 2.

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Docket No. 20200139-WS  
Schedule 11 - Additional Employees Expense  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
ADDITIONAL EMPLOYEES EXPENSE**

1. Salaries and Wages		\$67,174	(A)
2. Employee Pensions and Benefits		29,669	(A)
3. Telephone Expense		<u>1,759</u>	(A)
4. Recommended Adjustment		\$98,602	
5. Income Taxes @	24.52%	<u>24,179</u>	
6. Operating Income Impact		<u><b>\$74,423</b></u>	

Souces:

(A) Company Filing, Schedule B-3, page 2.

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Docket No. 20200139-WS  
Schedule 12 - Severance Expense  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
SEVERANCE EXPENSE**

1. Severance Claim	\$57,000	(A)
2. Allocation to Sewer (%)	<u>47.86%</u>	(A)
3. Allocation to Sewer (\$)	27,280	
4. Income Taxes @ 24.52%	<u>6,690</u>	
5. Operating Income Impact	<u><b>\$20,591</b></u>	

Sources:

(A) Response to OPC IRR-15.

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Docket No. 20200139-WS  
Schedule 13 - Incentive Compensation Expense  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
INCENTIVE COMPENSATION EXPENSE**

1. UIF Expense - Non-Officers	\$92,500	(A)
2. WSC Expense - Non Officers @ 22%	10,033	(B)
3. WSC/UIF Officers	244,000	(C)
4. CII Incentive Compensation @ 10.3%	<u>49,935</u>	(D)
5. Total Incentive Compensation	\$396,468	
6. Recommended Adjustment	<u>50.00%</u>	(E)
7. Total Recommended Adjustment	\$198,234	
8. Allocation to Sewer (%)	<u>47.86%</u>	(F)
9. Allocation to Sewer (\$)	\$94,875	
10. Income Taxes @	24.52%	<u>23,265</u>
11. Operating Income Impact	<u><b>\$71,610</b></u>	

Sources:

(A) Response to OPC IRR-17.

(B) Represents 22% of total cost of \$45,605, per the response to OPC IRR-17.

(C) Response to OPC IRR-18.

(D) Represents 10.3% (per OPC IRR-18) of amount shown in the response to OPC IRR-11.

(E) Recommendation of Ms. Crane.

(F) Allocation per the response to OPC IRR-18.

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Docket No. 20200139-WS  
Schedule 14 - Payroll Tax Expense  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
PAYROLL TAX EXPENSE**

1. Salary and Wage Increase Expense Adjustment	\$21,094	(A)
2. Additional Employees Expense Adjustment	67,174	(B)
3. Severance Expense Adjustment	27,280	(C)
4. Incentive Compensation Expense Adjustment	<u>94,875</u>	(D)
5. Total Expense Adjustments	\$210,423	
6. Statutory Payroll Tax Rate	<u>7.65%</u>	
7. Recommended Payroll Tax Adjustment	\$16,097	
8. Income Taxes @ 24.52%	<u>3,947</u>	
9. Operating Income Impact	<u><b>\$12,150</b></u>	

Sources:

(A) Exhibit ACC-2, Schedule 9 (excludes pensions and benefits).

(B) Derived from Exhibit ACC-2, Schedule 10.

(C) Exhibit ACC-2, Schedule 11.

(D) Exhibit ACC-2, Schedule 12.

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Docket No. 20200139-WS  
Schedule 15 - Non-Qualified Retirement Plan Expense  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
NON-QUALIFIED RETIREMENT PLAN EXPENSE**

1. UIF Non-Qualified Expense	\$26,853	(A)
2. WSC Shared Services Non-Qualified Expense	<u>27,985</u>	(B)
3. Total Expense Adjustments	\$54,838	
4. Allocation to Water (%)	<u>47.86%</u>	(C)
5. Allocation to Water (\$)	26,245	
6. Income Taxes @	24.52%	<u>6,436</u>
7. Operating Income Impact	<u><b>\$19,809</b></u>	

Sources:

(A) Response to OPC IRR-11.

(B) Represents 22% allocation of the amounts per the response to OPC IRR-11.

(C) Allocation per the response to OPC IRR-18.

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Docket No. 20200139-WS  
Schedule 16 - Truck Fleet Expense  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
TRUCK FLEET EXPENSE**

1. Recommended Adjustment		\$6,362	(A)
2. Income Taxes @	24.52%	<u>1,560</u>	
3. Operating Income Impact		<u><b>\$4,802</b></u>	

Sources:

(A) UIF Filing, Schedule B-3, page 2.



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Docket No. 20200139-WS  
Schedule 17 - Lobbying Expense  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
LOBBYING EXPENSE**

1. Lobbying Costs in Filing	\$45,827	(A)
2. Allocation to Sewer (%)	<u>47.86%</u>	(B)
3. Allocation to Sewer (\$)	\$21,933	
4 Income Taxes @ 24.52%	<u>5,378</u>	
5 Operating Income Impact	<u><b>\$16,554</b></u>	

Sources:

(A) Response to OPC IRR-140.

(B) Allocation per the response to OPC IRR-33.

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Docket No. 20200139-WS  
Schedule 18 - Holiday Party Expense  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
HOLIDAY PARTY EXPENSE**

1. Holiday Party Costs in Filing	\$5,079	(A)
2. Allocation to Sewer (%)	<u>47.86%</u>	(B)
3. Allocation to Sewer (\$)	\$2,431	
4 Income Taxes @ 24.52%	<u>596</u>	
5 Operating Income Impact	<u><b>\$1,835</b></u>	

Sources:

(A) Response to OPC IRR-38.

(B) Allocation per the response to OPC IRR-38.

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Docket No. 20200139-WS  
Schedule 19 - Depreciation Expense -- Plant  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
DEPRECIATION EXPENSE - PLANT**

1. Reduction Related to Plant Additions	\$539,040	(A)
2. Reduction Related to Retirements	(203,911)	(A)
3. Reductions to Retirements - CIAC	<u>13,609</u>	(A)
4. Recommended Adjustment	\$348,738	
5. Income Taxes @ 24.52%	<u>85,517</u>	
6. Operating Income Impact	<u><b>\$263,221</b></u>	

Sources:

(A) Exhibit ACC-3, Schedule 4, page 2 of 2.

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Docket No. 20200139-WS  
Schedule 20 - Depreciation Expense  
Used and Useful  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
DEPRECIATION EXPENSE - USED AND USEFUL**

1. Per Interim Rate Filing (including CIAC Adj)	\$160,335	(A)
2. Company Claim (including CIAC Adj)	<u>83,244</u>	(B)
3. Recommended Adjustment	\$77,091	
4. Income Taxes @	24.52% <u>18,904</u>	
5. Operating Income Impact	<u><b>\$58,187</b></u>	

Sources:

(A) UIF Interim Filing, Schedule B-3, page 2.

(B) UIF Filing, Schedule B-3, page 2.

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Docket No. 20200139-WS  
Schedule 21 - Property Tax Expense – Plant  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
PROPERTY TAX EXPENSE - PLANT**

1. Reductions to Net Plant	\$10,613,835	(A)
2. Net Mil Rate	<u>1.57%</u>	(B)
3. Recommended Adjustment	\$166,291	
4. Income Taxes @ 24.52%	<u>40,778</u>	
5. Operating Income Impact	<u>\$125,513</u>	

Sources:

(A) Exhibit ACC-3, Schedule 2.

(B) UIF Filing, Schedule B-3, page 5.

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Schedule 22 - Property Tax Expense  
Used and Useful  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
PROPERTY TAX EXPENSE-USED AND USEFUL**

1. Reductions to Net Plant	\$1,396,871	(A)
2. Net Mil Rate	<u>1.57%</u>	(B)
3. Recommended Adjustment	\$21,885	
4. Income Taxes @	24.52% <u>5,367</u>	
5. Operating Income Impact	<u><b>\$16,519</b></u>	

Sources:

(A) Plant in Service + Land - Accumulated Depreciation per  
UIF Filing, Schedule A-7 versus Interim Filing.

(B) UIF Filing, Schedule 3-B, page 5.

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Docket No. 20200139-WS  
Schedule 23 - Excess Deferred Income Tax Amortization  
Exhibit ACC-3  
Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
EXCESS DEFERRED INCOME TAX AMORTIZATION**

1. Unprotected Excess Deferred Income Taxes	\$360,233	(A)
2. Recommended Amortization Period	<u>5</u>	(B)
3. Recommended Annual Amortization	\$72,047	
4. Annual Amortization of Protected EDIT	<u>257,797</u>	(A)
5. Total Recommended Annual Amortization	\$329,844	
6. Allocation to Sewer (%)	<u>61.19%</u>	(C)
7. Allocation to Sewer (\$)	\$201,846	
8. Impact on Operating Income at Present Rates	<u>\$201,846</u>	

Sources:

(A) UIF Filing, Schedule B-3, page 6.

(B) Recommendation of Ms. Crane.

(C) Based on allocation per UIF Filing, Schedule B-3, page 6.

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Schedule 24 - State Income Tax Expense  
Exhibit ACC-3  
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**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
STATE INCOME TAX EXPENSE**

1. State Taxable Income	(\$48,251)	(A)
2. State Tax Rate	<u>4.46%</u>	(B)
3. State Income Taxes	(\$2,151)	
4. Company Claim	<u>(2,654)</u>	(A)
5. Recommended Adjustment	(\$503)	
6. Federal Income Taxes @ 21%	<u>(106)</u>	(C)
7. Operating Income Impact	<u><b>(\$397)</b></u>	

Sources:

(A) UIF Filing, Schedule C-2, page 2.

(B) Current State Income Tax Rate.

(C) Federal Income Tax Rate per UIF Filing, Schedule C-2, page 1.



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Schedule 25 - Interest Synchronization  
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Page 1 of 1

**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
INTEREST SYNCHRONIZATION**

1. Recommended Rate Base	\$74,394,657	(A)
2. Weighted Interest Cost	<u>2.82%</u>	(B)
3. Pro Forma Interest Expense	\$2,099,008	
4. Company Claim	<u>2,326,861</u>	(C)
5. Decrease to Pro Forma Interest Expense	(227,853)	
6. Increase in Income Taxes @ 24.52%	\$55,874	
7. Decrease to Operating Income	<u>(\$55,874)</u>	

Sources:

(A) Exhibit ACC-3, Schedule 3.

(B) Exhibit ACC-3, Schedule 2.

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Docket No. 20200139-WS  
Schedule 26 - Income Tax Rate  
Exhibit ACC-3  
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**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
INCOME TAX RATE**

1. Revenue		100.00%	
2. State Income Taxes @	4.46%	<u>4.46%</u>	(A)
3. Federal Taxable Income		95.54%	
4. Income Taxes @	21.00%	<u>20.06%</u>	(A)
5. Operating Income		75.48%	
6. Total Tax Rate		<u><b>24.52%</b></u>	(B)

Sources:

(A) Tax rates per Company Filing, Schedule C-2, page 1.

(B) Line 1 - Line 5.

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Schedule 27 - Revenue Multiplier  
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**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
REVENUE MULTIPLIER**

1. Revenue		100.00%	
2 Regulatory Assessment		4.50%	(A)
3. Taxable Income		95.50%	
4. State Income Taxes @	4.46%	<u>4.26%</u>	(B)
4. Federal Taxable Income		91.24%	
5. Income Taxes @	21.00%	<u>19.16%</u>	(B)
6. Operating Income		72.08%	
7. Revenue Multiplier		<u>1.3873</u>	(C)

Sources:

- (A) Rate per UIF Filing, Schedule B-3, page 5.
- (B) Tax rates per Company Filing, Schedule C-2, page 1.
- (C) Line 1 / Line 6.

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Schedule 28 - Revenue Requirement  
Impact of Adjustments  
Exhibit ACC-3  
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**UTILITIES, INC. OF FLORIDA - SEWER  
TEST YEAR ENDING DECEMBER 31, 2019  
REVENUE REQUIREMENT IMPACT OF ADJUSTMENTS**

1. Capital Structure/Cost of Capital	(\$1,448,399)
<b>Rate Base Adjustments:</b>	
2. Utility Plant in Service	(664,873)
3. Non-Used and Useful Plant	(143,343)
4. Accumulated Depreciation	(325,480)
5. Contributions in Aid of Construction	(39,150)
6. Accumulated Amortization of CIAC	39,150
7. Working Capital Allowance	(298,813)
<b>Operating Income Adjustments</b>	
8. Salary and Wage Increase Expense	(27,749)
9. Additional Employees Expense	(103,248)
10. Severance Expense	(28,566)
11. Incentive Compensation Expense	(99,345)
12. Payroll Tax Expense	(22,332)
13. Non-Qualified Retirement Plan Expense	(27,482)
14. Truck Fleet Expense	(6,662)
15. Lobbying Expense	(22,966)
16. Holiday Party Expense	(2,545)
17. Depreciation Expense - Plant	(365,171)
18. Depreciation Expense - Non Used and Useful	(80,724)
19. Property Tax Expense - Plant	(174,126)
20. Property Tax Expense - Non Used and Useful	(22,917)
21. Excess Deferred Income Tax Amortization	(280,025)
22. State Income Tax Expense	551
23. Interest Synchronization	77,514
24. Revenue Multiplier	115,006
25. Total Recommended Adjustments	<u>(\$3,951,694)</u>
26. Company Claim	<u>6,529,383</u>
27. Recommended Revenue Requirement Deficiency	<b><u>\$2,577,689</u></b>