

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 20200139-WS

REBUTTAL TESTIMONY

OF

JARED DEASON

on behalf of

Utilities, Inc. of Florida

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

2 A. My name is Jared Deason. I am the Regulatory Manager for Utilities, Inc. of Florida. My
3 business address is 200 Weathersfield Ave., Altamonte Springs, FL 32714.

4 **Q. Did you prefile direct testimony in this proceeding?**

5 A. Yes.

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

7 A. The purpose of my rebuttal testimony is to rebut the prefilled testimony of OPC witnesses
8 Radigan and Crane regarding UIF's proposal for cost recovery for its proposed Sewer and
9 Water Improvement Mechanism (SWIM) as well as OPC witness Crane's proposed
10 adjustments to Severance Expense, Incentive Compensation Award Expense, Non-Qualified
11 Retirement Benefits Expense, Excess Deferred Income Tax Amortization Expense, and State
12 Income Tax Expense.

13 **Q. Do you agree with OPC witness Radigan's statement that SWIM is unfair, unreasonable
14 and unnecessary?**

15 A. No, I do not. Based on Mr. Radigan's testimony, it appears that he is unfamiliar with the fact
16 that mechanism's similar to the SWIM are not new in Florida. There is precedent for such
17 mechanisms that have already been approved and successfully implemented by the Florida
18 Public Service Commission (FPSC).

19 **Q. Could you elaborate more on the precedent in Florida for Base Rate recovery
20 mechanisms such as the proposed SWIM mechanism?**

21 A. Yes, the FPSC has broad ratemaking authority under 367.011(2) & (3), 367.081 and
22 367.121(1)(a) Florida Statutes (F.S.) provides the necessary legal authority. In addition,
23 367.121(1)(d) F.S. specifically grants the FPSC the authority to require repairs and
24 improvements if reasonably necessary to provide adequate and proper service (similar to
25 366.05(1)(a) F.S.). The crisis in this State (and the Nation) of aging water and wastewater

1 infrastructure is without question. Fortunately, UIF has not experienced the infrastructure
2 failures that have garnered so much publicity such as that in Fort Lauderdale, which earlier
3 this year had approximately 211 million gallons of raw sewage spill into the city' waterways
4 and streets. UIF seeks through the SWIM Program to be proactive with respect to the timely
5 replacement of existing assets that have neared the end of their service life. Since water is the
6 only utility service ingested by customers, if UIF waited until infrastructure failures occur to
7 make repairs, it would undoubtedly be heavily criticized by its customers, the media, OPC
8 and the FPSC. More importantly, it will effectively lower the level of service to its customers.
9 The FPSC previously had addressed the need to replace aging gas distribution infrastructure
10 in a proactive manner through approval of the Gas Reliability Infrastructure Programs (GRIP)
11 in 2012, after which the SWIM Program is patterned. The following determination by the
12 FPSC regarding the GRIP Program is equally applicable to the need for the SWIM Program:

13
14 “Replacement of bare steel pipelines is in the public interest to improve the safety of Florida’s
15 natural gas infrastructure, thereby reducing the risk to life and property. Given the length of
16 time these pipelines have been installed and the leak history due to corrosion, we find that it
17 is appropriate to approve the proposed replacement program. Without the GRIP surcharge,
18 it is reasonable to expect that Chesapeake will have to file for more frequent base rate
19 proceedings to recover the expenses of an accelerated replacement program. The annual
20 filings will provide us with the oversight to ensure that projected expenses are trued-up and
21 only actual costs are recovered. Chesapeake’s GRIP and its associated surcharges will
22 terminate when all replacements have been made and the revenue requirement has been rolled
23 into rate base.” Order No. PSC-2012-0490-TRF-GU, page 19.

24
25 In addition, The FPSC had jurisdiction to approve GRIP Programs based upon the broad

1 ratemaking powers in 366.04, 366.05 and 366.06 F.S.:

2
3 “It is clear to us that we have the authority under the broad ratemaking powers found in
4 Sections 366.04, 366.05, and 366.06, F.S., to establish this type of surcharge to recover a
5 discreet set of costs incurred in response to unusual, urgent circumstances. For example, in
6 Action Group v. Deason, 615 So. 2d 683 (Fla. 1993), the Florida Supreme Court upheld our
7 approval of a 15-year rate rider charged to customers in a specific service area to retire the
8 existing debt of a bankrupt system that Florida Power Corporation (now Progress Energy
9 Florida, Inc.) had purchased. The Court stated that we had the authority under Section
10 366.04(1), F.S., to fix “just, reasonable, and compensatory rates, charges, fares, tolls, or
11 rentals”, and the authority under Section 366.05(1), F.S., to prescribe “fair and reasonable
12 rates and charges [and] classifications,” which authority, the Court stated, was to be construed
13 liberally. See also Section 366.041(2), F.S., which provides that the “power and authority
14 herein conferred upon the commission shall... be construed liberally to further the legislative
15 intent that adequate service be rendered by public utilities.” In Docket No. 041291-EI, In re:
16 Petition for authority to recover prudently incurred storm restoration costs related to 2004
17 storm season that exceed storm reserve balance, by Florida Power & Light Co., we approved
18 a surcharge to cover FPL’s unanticipated storm restoration costs for a period of three
19 years. Likewise, in Docket No. 041272-EI, In re: Petition for approval of storm cost recovery
20 clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances,
21 Jeanne, and Ivan, by Progress Energy Florida, Inc., we approved a two-year temporary
22 surcharge to recover Progress’s storm costs. Here, we are approving a similar surcharge, for
23 a discreet period, in response to unusual circumstances.” Id. Pages 18-19.

24
25 Those same broad ratemaking powers are afforded the FPSC with regard to water and

1 wastewater systems under 367.011(2) & (3), 367.081 and 367.121(1)(a), and more
2 specifically in Section 367.121(1)(d) F.S.

3

4 The SWIM Program is a more efficient and less costly process (for both UIF and its
5 customers) than filing annual limited proceedings or full rate cases, and suffering the
6 regulatory lag.

7 **Q. Are there other mechanisms similar to the GRIP that have been approved by the FPSC?**

8 A. Yes, two other mechanisms have been approved by the FPSC in the electric industry. These
9 mechanisms are the Generation Base Rate Adjustment (GBRA) and the Solar Base Rate
10 Adjustment (SoBRA). Both of these mechanisms allow for electric utilities to increase base
11 rates to recover capital costs associated with new generation facilities as they enter
12 commercial service.

13 **Q. Are there any cost savings for UIF customers if the SWIM program is approved?**

14 A. Yes, UIF's customers stand to receive significant cost savings in the form of reduced rate
15 case expense. Further, it provides for a more judicious use of FPSC staff time. The SWIM
16 program is designed to reduce the regulatory lag associated with rate proceedings by allowing
17 for the inclusion of FPSC-approved capital expenditures in rates on an annual basis. Thus,
18 the need for UIF to petition the FPSC for recovery of its capital investments will be greatly
19 reduced and occur less frequently due to the timeliness of those capital investments being
20 added to rate base. It is well known that rate proceedings are a costly endeavor. In UIF's
21 last rate proceeding, Docket No. 20160101-WS, the FPSC approved total rate case expense
22 of \$1,040,038 and in the current rate proceeding, rate case expense is on pace to be
23 approximately \$700,000. These expenses are born entirely by UIF's customers over a
24 four-year timeframe.

25 **Q. Are there other benefits the UIF customers will receive if the SWIM is approved?**

1 A. Yes, the current method of incorporating capital investments into rates requires a formal rate
2 proceeding in the form of a fully litigated rate case, a file and suspend rate case, or limited
3 proceeding. These proceedings are not only very expensive, as stated above, but are also a
4 very time-consuming process. Because of the regulatory lag that is created, it can take several
5 years before some capital investments are reflected in rates. Due to UIF's need to replace a
6 significant amount of its aging infrastructure in a timely manner, it has spent and will continue
7 to spend millions of dollars a year on these replacements. When these several years of
8 investments get reflected in rates at the end of a rate proceeding a significant amount of rate
9 shock occurs. By approving the SWIM, large increases every four to five years will be
10 replaced with nominal increases on an annual basis. This allows for a more efficient method
11 of including capital investments in rates while gradually phasing in the new rates associated
12 with the capital investments.

13 Additionally, by replacing assets in a programmatic manner, UIF will achieve better unit
14 pricing through its bidding process that will accrue to the benefit of the customers. There will
15 be fewer unplanned interruptions of service by virtue of replacing assets prior to their failure.
16 By proactively scheduling pipe replacements, for instance, UIF will be able to utilize a wider
17 variety of construction methods and technologies, such as horizontal directional drilling, that
18 reduce restoration costs and the impact of construction on the community.

19 **Q. Will the PSC have an opportunity to review and approve the projects associated with**
20 **the SWIM?**

21 A. Yes, all infrastructure replacements associated with the SWIM will be subject to FPSC review
22 and approval to ensure their prudence and cost-effectiveness. For each SWIM project, UIF
23 will demonstrate not only that each project is necessary, but that the costs for components,
24 engineering and construction are reasonable by conducting competitive bids to ensure that it
25 is obtaining the most favorable terms with its qualified contractors. If any of the SWIM

1 projects are not shown to be prudent and cost-effective, the FPSC has the authority to deny
2 or defer the inclusion of SWIM projects in rate base. Additionally, UIF has identified that
3 the majority of the SWIM related projects will be associated with the replacement of
4 horizontal assets. UIF would be willing to limit SWIM related projects to those that are solely
5 related to the replacement of its linear infrastructure if the FPSC believes that this constraint
6 will optimize the value to the customer.

7 **Q. Do you agree with OPC witness Radigan’s assertion that, “a full rate case must be**
8 **filed...if a change in rates is required”?**

9 A. No, as stated above, there are several capital investment recovery mechanisms already
10 approved by the FPSC that are analogous to SWIM. None of these other mechanisms require
11 a full rate case to be filed each time the capital investments are completed.

12 **Q. Do you agree with OPC witness Radigan’s assertion that together with the annual index,**
13 **the SWIM mechanism would result in a 5%-8% per year increase?**

14 A. No, it is not anticipated that the SWIM together with the annual index would result in a 5-8%
15 increase per year.

16 First, Mr. Radigan states, “increases attributable to the annual index filing... has been
17 increasing at a rate of between 1% - 3% per year”. This statement is misleading. The annual
18 FPSC approved index percentage has been variable over the last ten years. And only twice
19 over the last 10 years has it exceeded 2% with the other years being less than 2%. The total
20 average index percentage over the last ten years has been only 1.69 percent. Additionally,
21 the index for 2021 is expected to be only 1.17 percent and with the decreased economic
22 activity associated with the COVIC-19 virus, the index is more than likely to remain low for
23 the next few years. Thus, given these factors, the index will probably be approximately 1.5%
24 for the next few years.

25 Also, OPC witness Radigan does not completely understand how the index percentage is

1 reflected as a percentage increase in rates. The index applies to only certain Operating and
2 Maintenance expenses and not to a Utility's total revenue requirement on which rates are
3 based. In the case of UIF, the percentage increase in rates is almost always less than the index
4 percentage that is applied to Operating and Maintenance expenses. For the past four years,
5 since UIF has had consolidated rates, the average percentage increase for its index increase,
6 including pass-through items, has only been 0.94%.

7 If you combine the 0.94% increases from indexes and pass-throughs, with another 4% for
8 capital investments associated with SWIM, the increase would be a maximum of 4.94% and
9 not a maximum 8% as Mr. Radigan has suggested.

10 **Q. Is UIF willing to agree to a cap in the amount of annual increase in rates associated with**
11 **SWIM projects on an annual basis?**

12 A. Yes, UIF is sensitive to how rate increases affects its customers and does not want any
13 increase to be overly burdensome. Therefore, UIF is amenable to a cap on the annual increase
14 in rates associated with SWIM projects if the capped rate is reasonable.

15 **Q. Is UIF willing to agree to a stay out provision for a rate proceeding if SWIM is**
16 **approved?**

17 A. Yes, because the SWIM program will result in less rate cases needed, UIF would agree to a
18 stay out provision if the timeframe is reasonable.

19 **Q. Do you agree with OPC witness Crane's removal of Severance Expense?**

20 A. No, I do not. OPC witness Crane states that severance costs should be removed because UIF
21 provided no detail regarding these costs and she believes these costs occurred in only one
22 year. OPC witness Crane is incorrect on both accounts. The detail for the Test Year was of
23 the \$748,552 in severance costs incurred by UIF's parent company, approximately \$57,000
24 was allocated to UIF. This information was previously provided to OPC in response to their
25 Interrogatory #15. Also, the amount of severance expense varies from year to year. It can

1 be as low as \$0 in some years and very high in others. For example, the total amount of
2 severance expense has been \$5,164,352 for the past three years (\$0 in 2017, \$4,415,800 in
3 2018, and \$748,552 in 2019). For variable expenses such as severance costs, it is common
4 regulatory practice to take a three-year average for rate setting purposes. However, UIF was
5 conservative and only requested the test year amount in this rate proceeding. Requesting only
6 the test year amount is more than reasonable considering taking a three-year average would
7 yield a much higher amount for severance expense.

8 **Q. Do you agree with OPC witness Crane's adjustment to Incentive Compensation Award**
9 **Expense?**

10 **A.** No, I do not. OPC witness Crane's recommendation to remove costs associated with
11 Incentive Compensation Award Expense are not consistent with prudent regulatory policy or
12 the principles of regulatory ratemaking.

13 OPC witness Crane is recommending a disallowance of 50% of Incentive Compensation
14 Award Expense because it is tied to what she considers financial goals or metrics. If accepted
15 by the FPSC, the effect of her recommendation would be to deny cost recovery of these
16 costs on a going forward basis.

17 **Q. How is OPC witness Crane's recommendation inconsistent with prudent regulatory**
18 **policy and the principles of regulatory ratemaking?**

19 **A.** A fundamental theory of sound regulatory policy is to provide recovery of all reasonable
20 and necessary costs incurred to provide service to customers. A basic principle of
21 ratemaking is to include all such costs as test year expenses in calculating a regulated
22 utility's net operating income. Only if the FPSC finds that the expenses in question are
23 unreasonable or unnecessary should they be disallowed in calculating the company's
24 revenue requirement.

25 Another fundamental theory of prudent regulatory policy is to encourage regulated utilities

1 to be efficient and provide high quality service to their customers over the long run.
2 Sacrificing efficiency or quality of service in the long run to achieve temporary rate
3 reductions is not in the customers' best interest. All regulatory decisions have
4 consequences and good regulatory policy results when these consequences are adequately
5 considered. OPC witness Crane's recommendation violates both theories of prudent
6 regulatory policy mentioned above.

7 **Q. Please explain how OPC witness Crane's recommendation violates the theory of**
8 **recovery of reasonable and necessary costs.**

9 A. OPC witness Crane has made no allegations or presented any evidence that the total
10 compensation paid to UIF's employees, or its parent company CORIX's employees, is
11 unnecessary or unreasonable. This includes performance-based variable compensation. Also,
12 OPC witness Crane has not presented any analysis of the employment market to determine
13 what amount of compensation is reasonable and necessary to attract the employees needed to
14 efficiently and effectively run a water and wastewater utility.

15 Additionally, OPC witness Crane's recommendation makes no analysis of the reasonableness
16 of the net amount of compensation that remains after 50% of the incentive compensation is
17 eliminated. She has not provided any evidence that shows the level of compensation that
18 remains will ensure that UIF or CORIX is competitive in the market in terms of its ability to
19 attract and retain qualified employees.

20 Therefore, OPC witness Crane's testimony is lacking any consideration of reasonableness
21 regarding either the overall amount of compensation or of the net amount she has
22 recommended. Also, OPC witness Crane has not presented any evidence that the salaries
23 for any employee are excessive. Instead she recommends a portion be disallowed based on
24 merely how it is paid. She believes that because it is performance-based variable pay, rather
25 than base salary, it is subject to disallowance notwithstanding whether the total amount of

1 compensation may be reasonable. The focus of any disallowance should be how much is
2 paid, not how it is paid.

3 **Q. Has the FPSC addressed Incentive Compensation Award Expense for other**
4 **utilities?**

5 Yes, there are multiple instances where the FPSC has approved costs associated with
6 Incentive Compensation Award Expense. These cases are detailed below:

7

8 • Order No. PSC-92-13 1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, the
9 FPSC found that: “Incentive plans that are tied to achievement of corporate goals are
10 appropriate and provide an incentive to control costs.”

11 • Order No. PSC-09-0283-FOF-EI, issued April 30, 2009, in Docket No. 080317-EI, the
12 FPSC found that TECO’s total compensation package, including the component
13 contingent on achieving incentive goals, was set near the median level of benchmarked
14 compensation and allowed recovery of incentive compensation that was directly tied to
15 results of TECO:

16 “TECO’s Success Sharing Plan has been in place since 1990 and its
17 appropriateness was approved in the Company’s last rate case in 1992. Lowering
18 or eliminating the incentive compensation would mean TECO employees would
19 be compensated below the employees at other Companies, which would adversely
20 affect the Company’s ability to compete in attracting and retaining a high quality
21 and skilled workforce. We therefore decline to do so.”

22 • Order No. PSC-09-0283-FOF-EI, issued April 30, 2009, in Docket No. 080317-EI, The
23 FPSC has also approved incentive compensation in three prior rate cases for Gulf Power
24 Company (“Gulf Power”), the most recent of which resulted in Order No. PSC-12-0179-
25 FOF-EI, issued April 3, 2012, in Docket No. 110138-EI, In re: Petition for increase in

1 rates by Gulf Power Company. The Commission’s finding in the 2001 Gulf rate case
2 contains language similar to the TECO case:

3 “To only receive a base salary would mean Gulf employees would be
4 compensated at a lower level than employees at other companies. Therefore, an
5 incentive pay plan is necessary for Gulf salaries to be competitive in the market.
6 Another benefit of the plan is that 25% of an individual employee’s salary must
7 be re-earned each year. Therefore, each employee must excel to achieve a higher
8 salary. When employees excel, we believe that the customers benefit from a
9 higher quality of service.””

10 **Q. Are there any Court decisions in Florida related to the issue of disallowing Incentive**
11 **Compensation Award Expense?**

12 A. Yes, I am aware of a Court decision that dealt with the FPSC’s disallowance of
13 executive compensation.

14
15 In *Florida Bridge Company v. Bevis*, the Florida Supreme Court reversed a decision of
16 the FPSC disallowing a portion of the Company President’s salary. The Court
17 observed:

18 “Indeed, the Commission has made no attempt to determine whether the
19 president’s compensation is excessive in view of the services he provides. The
20 arbitrary ratio by which the Commission reduced the salary and expense
21 account[,] the ratio of days physically absent from the home office to the total
22 number of workdays in the test year[,] has no support in logic, precedent, or
23 policy.”

24 363 So. 2d 799, 800-01 (Fla. 1978)

1 The Court found the Commission’s action “was arbitrary and constitutes a substantial
2 departure from the essential requirements of law.” Id.

3
4 The Court reversed the FPSC Order because it was not shown that the executive
5 compensation was unreasonable when compared to the market. OPC witness Crane
6 provides no such comparison to the market to justify its disallowance.

7 **Q. Has UIF provided any cost comparisons to justify its costs associated with executive
8 compensation to the market?**

9 A. Yes, in the pre-filed direct testimony of Shawn Elicegui, the costs associated with
10 management were reduced to an hourly rate and then compared to a market benchmark.
11 Overall, the management costs per hour for CORIX were \$137 per hour while those for
12 service organizations servicing utilities were \$293, a \$156 difference. This confirms that
13 CORIX’s executive compensation is lower than market and thus reasonable.

14 **Q. Are there any benefits that customers derive from Incentive Compensation Award
15 Expense?**

16 A. Yes, I believe there are two main benefits customers derive from Incentive Compensation
17 Award Expense. First, as noted in previous FPSC decisions, when a portion of an employee’s
18 compensation is based on performance, the employee has to perform at a high level whether
19 the employee’s responsibility is operational, financial, or customer service related. Thus, the
20 utility is more likely to achieve its mandate of providing safe and reliable service to its
21 customers. Second, with respect to financial metrics, customers benefit greatly when
22 financial metric goals are achieved. Almost all large utilities, including UIF, have capital
23 structures which contain both debt and equity. In the case of UIF, approximately half of its
24 capital structure is debt. When financial metrics are not met, a utility’s risk profile is directly
25 affected. If the utility is deemed to be a higher risk due to financial metrics not being met, the

1 cost of debt increases as no financial institution will be willing to loan money without being
2 compensated for taking on more risk. If the cost of debt goes up then so will the utility's
3 weighted average cost of capital and resulting authorized rate of return in a subsequent rate
4 proceeding. In the end, the increase in debt costs gets passed along to customers in the form
5 of higher rates. Thus, it is in the customers' best interest that financial metrics are met by
6 those employees who are responsible for them.

7 **Q. Do you agree with OPC witness Crane's removal of Non-Qualified Retirement Benefits**
8 **Expense?**

9 A. No, I do not. OPC witness Crane's reasoning behind the disallowance of Non-Qualified
10 Retirement Benefits Expense is essentially the same as those behind her proposed
11 adjustments to Incentive Compensation Award Expense. Just as with her adjustments to
12 Incentive Compensation Award Expense it is inconsistent with prudent regulatory policy
13 and the principles of regulatory ratemaking. It focuses entirely on how certain employees
14 are compensated, not on how much they are compensated. OPC witness Crane provides no
15 analysis that the total amount of compensation received by these employees is excessive to
16 the marketplace for these employees. UIF and CORIX, just like any other company in a
17 competitive job market, has to compete for well qualified and effective employees. UIF and
18 CORIX have designed their compensation packages in order to be competitive in attracting
19 its employees. If UIF and CORIX are unable to attract and retain well qualified and effective
20 employees, it will not be able to achieve its mandate of providing safe and reliable service.

21 **Q. Do you agree with OPC witness Crane's adjustment to the Amortization Period for**
22 **Unprotected Excess Deferred Income Taxes?**

23 A. No, I do not. For the excess ADITs, there is diversity among state regulators on how to treat
24 these "unprotected" amounts. Some regulators followed a treatment akin to ARAM for the
25 unprotected differences. Other regulators required regulated entities to pass unprotected

1 excess ADIT to customers over a term shorter than the remaining book life of the assets, thus
2 passing the impact on to customers sooner than the ARAM. For UIF, the bulk of unprotected
3 ADITs are related to deferred charges/maintenance being amortized. The average
4 amortization period for deferred charges/maintenance being amortized is approximately 10
5 years, so the 10 years makes sense for regulatory purposes since the amortization period is
6 consistent with previous FPSC decisions related to unprotected ADITs. As for OPC witness
7 Crane’s assertion that amortization of the ADITs should be less than ten years because it is a
8 liability instead of an asset is not consistent with the FPSC’s mandate to set rates that are fair,
9 just, and reasonable. In other words, is not fair to UIF or any other Utility to deviate from
10 prior FPSC precedent simply because one side stands to benefit more than the other.

11 **Q. Has the FPSC addressed the amortization of unprotected ADITs in Florida cases?**

12 A. Yes, I was able to find several orders where the FPSC determined the appropriate
13 amortization period for unprotected ADITs, as well as whether the amortization should be
14 kept by the utility. Most importantly, in all the cases I was able to find, the FPSC established
15 a 10-year amortization period for unprotected deferred taxes. As a matter of fact, in the cases
16 I reviewed, OPC agreed that the amortization period should be 10 years.

17 **Q. Do you have some examples?**

18 A. Yes, in Order No. PSC-2019-0076-FOF-GU, the commission stated “...the unprotected
19 deferred tax amount of \$3,072,874 should be amortized over 10 years and netted against
20 the protected excess deferred taxes of \$21,955,922.”

21 The discussion in staff recommendation for Docket No. 20180053-GU (Issue 20) that OPC
22 was in agreement with a 10-year amortization. “However, if the Commission decides to allow
23 Fort Meade to retain the unprotected deferred tax benefit, OPC agreed the benefit should be
24 amortized over 10 years.” In the final order, Order No. PSC-2019-0079-FOF-GU, the 10-
25 year amortization period was approved. OPC also agreed to the 10-year amortization in

1 Docket No. 20180054-GU, Docket No. 20180051-GU, Docket No. 20180052-GU.

2 **Q. Do you agree with OPC witness Crane’s adjustment to the Tax Rate associated with the**
3 **State Income Tax expense?**

4 A. No, the state income tax to be used in determining revenue requirement should be 5.5%. As
5 stated in OPC Witness Crane’s testimony, “On September 12, 2019, the Florida Department
6 of Revenue announced a reduction in the state corporate income tax from 5.5% to 4.458%
7 for the tax years beginning 2019, 2020, and 2021.” Based on this temporary change, OPC
8 witness Crane believes that the 4.458% tax rate should be used in setting prospective rates
9 because of a mere possibility that the 4.458% tax rate could be extended. It is not reasonable
10 or prudent regulatory policy to make prospective adjustments on what amounts to “wishful
11 thinking”. Additionally, due to the significant budget shortfall that the state of Florida is
12 currently facing due to the decreased economic activity from the COVID-19 pandemic, it is
13 highly unlikely that OPC witness Crane’s wishful thinking will come to fruition.

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

15 A. Yes

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by E-mail to the following parties this 14th day of December, 2020:

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