

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 20200139-WS

APPLICATION FOR INCREASE IN
WATER AND WASTEWATER RATES IN
CHARLOTTE, HIGHLANDS, LAKE, LEE,
MARION, ORANGE, PASCO, PINELLAS,
POLK, AND SEMINOLE COUNTIES, BY
UTILITIES, INC. OF FLORIDA.

_____ /

VOLUME 1
PAGES 1 - 169

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: CHAIRMAN GARY F. CLARK
COMMISSIONER ART GRAHAM
COMMISSIONER JULIE I. BROWN
COMMISSIONER ANDREW GILES FAY
COMMISSIONER MIKE LA ROSA

DATE: Tuesday, February 2, 2021

TIME: Commenced: 10:45 a.m.
Concluded: 4:58 p.m.

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

REPORTED BY: DEBRA R. KRICK
Court Reporter

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

1 APPEARANCES:

2 MARTIN S. FRIEDMAN, ESQUIRE, Dean Mead, 420 S.
3 Orange Ave, Suite 700, Orlando, Florida 32801; JOHN L.
4 WHARTON, ESQUIRE, Dean, Mead & Dunbar, 106 E. College
5 Avenue, Suite 1200, Tallahassee, Florida, 32301,
6 appearing on behalf of Utilities, Inc. of Florida (UIF).

7 CHARLES REHWINKEL, DEPUTY PUBLIC COUNSEL;
8 STEPHANIE MORSE, ANASTACIA PIRRELLO, ESQUIRES, Office of
9 Public Counsel, c/o The Florida Legislature, 111 West
10 Madison Street, Room 812, Tallahassee, Florida
11 32399-1400, appearing on behalf of the Citizens of the
12 State of Florida (OPC).

13 WALT TRIERWEILER, BIANCA LHERISSON and
14 JENNIFER CRAWFORD, ESQUIRES, FPSC General Counsel's
15 Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida
16 32399-0850, appearing on behalf of the Florida Public
17 Service Commission (STAFF).

18 KEITH HETRICK, GENERAL COUNSEL; SAMANTHA
19 CIBULA, ESQUIRE, Florida Public Service Commission, 2540
20 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850,
21 Advisor to the Florida Public Service Commission.

22

23

24

25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X

WITNESSES

NAME :	PAGE
SHAWN M. ELICEGUI	
Prefiled Direct Testimony inserted	19
DYLAN W. D'ASCENDIS	
Prefiled Direct Testimony inserted	48
JARED DEASON	
Examination by Mr. Wharton	92
Prefiled Direct Testimony inserted	95
Examinaiton by Mr. Rehwinkel	98
Further Examination by Mr. Wharton	126
FRANK SEIDMAN	
Examination by Mr. Wharton	128
Prefiled Direct Testimony inserted	130
Examination by Ms. Pirrello	135
PATRICK C. FLYNN	
Examination by Mr. Friedman	141
Examination by Ms. Pirrello	144

EXHIBITS				
	NUMBER:		ID	ADMITTED
1				
2				
3				
4	1	Comprehensive Exhibit List	10	10
5	2-186	As identified in the CEL	10	11
6	187	OPC Cross Exhibit 26 - Application for Increase in Rates, Page 7 (w/o attachments)	113	127
7				
8	188	OPC Cross Exhibit 25 - Application and Deason Direct Comparison	115	127
9				
10	189	OPC Cross Exhibit 28 - UIF's Response to OPC's POD No. 40	152	
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				

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

2 CHAIRMAN CLARK: All right. Let's try this
3 again.

4 We will go ahead and call and convene this
5 hearing to order. It is February 2nd. It is now
6 10:45 a.m. I am going to ask staff if they would
7 to please read the notice.

8 MR. TRIERWEILER: By notice issued on
9 November -- I am sorry, January 11, 2021, this time
10 and place has been set for a hearing in Docket No.
11 20200139-WS. The purpose of the hearing is more
12 fully set out in the notice.

13 CHAIRMAN CLARK: All right. Thank you, Mr.
14 Trierweiler.

15 Let's begin by taking appearances.

16 UIF.

17 MR. FRIEDMAN: Yes. Thank you, Mr. Chairman.
18 This is Marty Friedman, attorney for Utilities,
19 Inc. of Florida.

20 MR. WHARTON: And also John Wharton also
21 representing Utilities, Inc.

22 CHAIRMAN CLARK: All right. Thank you very
23 much, UIF.

24 OPC.

25 MS. MORSE: Good morning, Mr. Chairman -- good

1 morning, Mr. Chairman, this is Stephanie Morse with
2 the Office of Public Counsel representing the
3 customers of UIF. I am also making an appearance
4 for Anastasia Pirrello and Charles Rehwinkel.

5 CHAIRMAN CLARK: All right. Thank you OPC.
6 Commission Staff.

7 MR. TRIERWEILER: Good morning. My name is
8 Walt Trierweiler, and I am also making a -- an
9 appearance for Bianca Lherisson and Jennifer
10 Crawford.

11 MS. CIBULA: Samantha Cibula, Advisor to the
12 Commission. I would also like to make an
13 appearance for Keith Hetrick, our General Counsel.

14 CHAIRMAN CLARK: All right. I believe that
15 catches everyone.

16 Are there any preliminary matters?

17 MR. TRIERWEILER: Yes, Chairman. There are a
18 handful of them.

19 First, State buildings are currently closed to
20 the public, and other restrictions on gatherings
21 remain in place due to COVID-19. Accordingly, this
22 prehearing is being conducted remotely, with the
23 parties participating by communication media
24 technology. Members of the public who want to
25 observe or listen to the prehearing may do so by

1 accessing the live video broadcast, which is
2 available from the Commission website. Upon
3 completion of the hearing, the archived video will
4 also be available.

5 Each person participating today needs to keep
6 their phone or device muted when they are not
7 speaking, and only unmute when they are called upon
8 to speak. If they do not keep their phone muted,
9 or put their phone on hold, they may be
10 disconnected from this proceeding and will need to
11 call back in.

12 Also, telephonic participants should speak
13 directly into the phone and not utilize the speaker
14 function.

15 Staff notes that the following witnesses have
16 been stipulate and excused from the hearing: UIF
17 witness Elicegui and D'Ascendis. OPC witnesses
18 Lewis and Garrett, and staff witnesses Dobiac and
19 Hicks.

20 In addition to the prefiled testimony and
21 exhibits of these stipulated witnesses, the
22 deposition transcripts of Garrett and D'Ascendis
23 will also be moved into the record. Staff
24 recommends that the testimonies and prefiled
25 exhibits for those witnesses be entered into the

1 record in the order of witness presentation
2 reflected in the prehearing order.

3 In addition to the proposed stips that were
4 captured in the prehearing order for Issues 5, 6,
5 7, 8, 10, 11, 25, 28, 34, 35, 36, 37, 38 and 39, as
6 reflected on pages 26 to 28 of the prehearing
7 order, after the issuance of that order, the
8 parties entered into a stipulation to Issues 19, 20
9 and 21.

10 Chairman, with your indulgence, I will read
11 those stips into the record at this time.

12 CHAIRMAN CLARK: Yes, please.

13 MR. TRIERWEILER: Issue 19: What is the
14 appropriate amount of customer deposits to include
15 in capital structure? Stipulation: \$248,501,
16 (0.17 percent the capital structure).

17 Issue 2: What is the appropriate cost rate
18 for short-term debt for the test year?
19 Stipulation: 4.04 percent.

20 Issue 21: What is the appropriate cost rate
21 for long-term debt for the test year? Stipulation:
22 5.78 percent.

23 Staff recommends it would be appropriate at
24 this time for the Commission to take up the
25 proposed stipulations at this time.

1 CHAIRMAN CLARK: All right. I will call for a
2 motion on the proposed Type 2 stipulations. Do I
3 have a motion? There is a motion from Commissioner
4 Brown.

5 Do I have a second?

6 COMMISSIONER BROWN: Yes, Mr. Chairman. Just
7 to be clear, though, I just want to say I would
8 move to approve the Type 2 stipulations on Issues 5
9 through 8:00, 10, 11, 19 through 21, 25, 28 and 34
10 through 39.

11 CHAIRMAN CLARK: All right. Thank you for
12 that clarification.

13 Do I have a second?

14 COMMISSIONER GRAHAM: Second.

15 CHAIRMAN CLARK: All right. A motion and a
16 second.

17 Any discussion on the stipulations?

18 All in favor say aye.

19 (Chorus of ayes.)

20 CHAIRMAN CLARK: Opposed?

21 (No response.)

22 CHARIMAN CLARK: The motion carries.

23 All right. Do the parties have any other
24 preliminary matters that need to be addressed?

25 Very good. Let's move on to exhibits, Mr.

1 Trierweiler.

2 MR. TRIERWEILER: Chairman, staff has prepared
3 a Comprehensive Exhibit List which includes the
4 prefiled exhibits attached to each witness's
5 prefiled testimony as well as the exhibits
6 identified by staff. The list has been provided to
7 the parties, Commissioners and the court reporter.

8 Staff requests that the list itself be marked
9 as Exhibit 1, and at this time -- at this time,
10 with all subsequent exhibits marked as indicated on
11 the list.

12 CHAIRMAN CLARK: All right. We will mark the
13 list as Exhibit 1. The other exhibits are be going
14 to be marked No. 2 through 186.

15 (Whereupon, Exhibit No. 1 - 186 were marked
16 for identification.)

17 MR. TRIERWEILER: Staff requests that Exhibit
18 No. 1 -- I think you just did -- you just marked
19 them, excuse me. Staff requests that Exhibit No. 1
20 be entered into the record at this time.

21 CHARIMAN CLARK: So ordered.

22 (Whereupon, Exhibit No. 1 was received into
23 evidence.)

24 MR. TRIERWEILER: It's staff's understanding
25 that the parties have no objections to the

1 stipulation of staff Exhibits No. 2 through 186.

2 CHAIRMAN CLARK: All right. Parties, is there
3 any objection to the exhibits that were mentioned,
4 2 through 186? Seeing no objections, then they are
5 moved into the record.

6 (Whereupon, Exhibit Nos. 2-186 were received
7 into evidence.)

8 CHAIRMAN CLARK: All right. We are going to
9 begin in just a second with opening statements. I
10 believe each party has agreed to three-minute
11 opening statements. We are going to begin with
12 UIF.

13 Let me give you a little bit of my plan
14 schedule for today before we begin. We are going
15 to break for lunch at 12:30. I know some -- most
16 of you are in, so we are going to take about an
17 hour for lunch starting at 12:30. I am going to
18 try to find a good stopping point. If we
19 haven't -- if we are not between witnesses, I will
20 consult with the parties to see if we are at a
21 point where they are comfortable with us breaking
22 and resuming that testimony after a short lunch
23 break.

24 We are going to run until somewhere between
25 5:00 and 6:00 this afternoon. We will find an

1 adequate appropriate stopping point somewhere in
2 that window of time, knock off for the evening. I
3 believe we are scheduled to reconvene at 9:00 a.m.
4 tomorrow morning.

5 If necessary, I mean, if you guys want to
6 knock this whole thing out this afternoon, that
7 would be just absolutely great, but assuming that
8 we will have to be back tomorrow, we will plan to
9 run the schedule to tomorrow, again through five
10 o'clock, assuming that we are not close enough to
11 wrap up within just a small amount of time, if we
12 are, a possibility we might be able to wrap up
13 tomorrow evening, so we do have Thursday reserved
14 on the schedule as well.

15 That is kind of my plan right now unless there
16 is some major objections to that. Without any
17 objection, I am going to open it to Mr. Friedman
18 for your opening statement.

19 MR. FRIEDMAN: Thank you, Mr. Chairman,
20 Commissioners.

21 This case is very much like the last UIF rate
22 case with two exceptions. First, in lieu of using
23 the leverage formula, UIF and OPC have presented
24 testimony regarding the return on equity, and that
25 testimony and parties have been stipulated and

1 entered into the record, along with the deposition
2 transcripts.

3 Second, even though it does not directly
4 impact the revenue requirement in this case, UIF is
5 asking the Commission to approve a Sewer and Water
6 Improvement Mechanism, known by the acronym of
7 SWIM. This program is intended to address the
8 serious problem that all water and wastewater
9 utility companies across the country to address
10 aging infrastructure. It is patterned after the
11 GRIP, which this commission has approved for FPU
12 for replacement of aging gas infrastructure, with
13 one exception. UIF proposals its annual rate
14 changes to be based upon actual infrastructure
15 replaced and not estimates with an annual out --
16 with an annual true-up as you approved for FPU's
17 GRIP.

18 This affords the staff and parties an
19 opportunity to review actual invoices before any
20 rate change is approved. These rates will
21 gradually increase on an annual basis instead of
22 having a fully litigated rate case with the
23 resulting rate shock in rate case expense.

24 As in the last case, UIF has included proforma
25 capital projects. All of the projects meet the

1 Commission's requirement that they be supported by
2 invoices for those projects that have been
3 completed and signed contracts for those that have
4 not, and that the projects will be completed within
5 24 months of the conclusion of the test year.

6 Documentation provided by Mr. Flynn in his prefiled
7 testimony provide that supporting documentation.

8 And short conclusion, although OPC and UIF
9 have substantial disagreement on many of the
10 issues, I would like to thank OPC, and particularly
11 Ms. Morse, on the professional manner in which they
12 have addressed these disagreements with us, which
13 is in sharp contrast with the last rate cast as the
14 ones who participated in that.

15 That's all we have. Thank you very much. We
16 look forward to the opportunity to present our
17 case.

18 CHARIMAN CLARK: Thank you very much, Mr.
19 Friedman.

20 Ms. Morse.

21 MS. MORSE: Good morning, Mr. Chairman and
22 Commissioners. My name is Stephanie Morse. I am
23 with the Office of Public Counsel, and we represent
24 the customers of Utilities, Inc. of Florida.

25 First as to quality of service. UIF has a

1 history of deficiencies. The utility is currently
2 under one consent order with the Florida Department
3 of Environmental Protection, and was subject to
4 numerous consent orders in the years immediately
5 preceding this case.

6 OPC's witness Sarah Lewis demonstrated well
7 over 100 customer complaints filed or pending, and
8 your docket is overflowing with complaints about
9 poor drinking water quality, customer service and
10 sewage spills by UIF in customers' neighborhoods.

11 OPC engineering expert, Frank Radigan, has
12 almost 40 years of experience in the utility
13 industry. UIF proposed 45 capital projects, but
14 failed to produce sufficient proof on at least
15 eight. Moreover, six other so-called projects
16 should be rejected because they are simply studies
17 unrelated to actual construction projects, thus
18 ineligible for plant in service. 14 of UIF's 45
19 projects fail. Another should be partially
20 disallowed for lack of evidence.

21 UIF originally requested \$29.3 million in
22 proforma plant items. Mr. Radigan reviewed
23 documentation UIF submitted, and also conducted
24 in-person site visits. After his investigation and
25 his careful review of the documents, he determined

1 the amount which is properly supported for cost
2 recovery is 19.9 million.

3 OPC's return on equity witness, Dave Garrett,
4 has over a decade of experience in utility
5 regulation both at a state commission and as an
6 independent analyst. UIF is asking for an 11.75
7 percent return on equity, which the evidence shows
8 is excessive in light of the low interest rates in
9 effect, not just today, but historically for many
10 years. The ROE requested by UIF is simply
11 unrealistic.

12 Additionally, given the pandemic impacts,
13 asking customers to bear a grossly inflated profit
14 unsupported by market data is a risk too far. It's
15 not fair or reasonable. 11.75 percent is viably
16 inconsistent with your own leverage formula of 9.69
17 percent. After careful analysis of both market
18 data and the data produced by UIF, OPC's expert
19 Garrett determined 9.5 percent ROE to be more
20 reasonable than UIF's exorbitant request.

21 OPC's accounting and revenue requirement
22 witness, Andrea Crane, is a utility accounting
23 expert with over 30 years of experience. She fully
24 analyzed UIF's original rate case filing, their
25 responses to discovery and the recommendations of

1 OPC's other witnesses.

2 UIF has requested an annual increase in water
3 revenues of approximately \$2.8 million, or 17
4 percent, but the evidence supports no more than 1.1
5 million, or 6.8 percent.

6 UIF also asked for an annual increase in
7 wastewater revenues of \$6.5 million, or 32.2
8 percent, but the evidence supports no more than 2.6
9 million, or 12.7 percent. It's OPC's position that
10 there is no need for the SWIM program.

11 Finally, Commissioners, the Florida Supreme
12 Court stated in Florida Power Corp. v. Cresse that
13 the, quote, "burdens of proof on a commission
14 proceeding is always on a utility seeking a rate
15 change," end quote. This is critical, and final
16 rates in this case should be based only on the
17 proforma projects and expenses which are fully and
18 properly supported by UIF's application.

19 UIF is seeking more money from the customers
20 than the evidence supports, or that is fair or
21 reasonable. We respectfully request that you apply
22 the adjustments recommended by OPC as you make your
23 final decision in this case.

24 Thank you.

25 CHAIRMAN CLARK: All right. Thank you very

1 much, Ms. Morse.

2 All right. Before we begin with the
3 witnesses, let me just remind them that friendly
4 cross is not allowed, and we are not going on
5 discovery missions here as well.

6 Witnesses are going to have three minutes to
7 summarize their testimony. Witnesses who are
8 offering rebuttal testimony are also going to be
9 given three minutes there as well.

10 I believe our first witness, we have -- our
11 first two witnesses are excused, stipulated and
12 excused.

13 (Whereupon, prefiled direct testimony of Shawn
14 M. Elicegui was inserted.)

15

16

17

18

19

20

21

22

23

24

25

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

DIRECT TESTIMONY

OF

SHAWN M. ELICEGUI

on behalf of

Utilities, Inc. of Florida

1 **I. INTRODUCTION AND BACKGROUND INFORMATION**

2 **Q. Please state your name, your position, your business**
3 **address and identify the party for whom you are providing**
4 **testimony.**

5 A. My name is Shawn M. Elicegui. I am the Executive Vice
6 President, Risk Management for Corix Infrastructure Inc.
7 ("CII"). I am based in Reno, Nevada and my business
8 address is 6160 Plumas Street, Suite 200, Reno, Nevada
9 89519. I am providing testimony in support of the
10 application filed by Utilities, Inc. of Florida (the
11 "Company"). The Company filed an application with the
12 Florida Public Service Commission (the "Commission")
13 requesting permission to change its annual revenue
14 requirement and the rates it charges for services provided
15 to the public. The results of operations are based on the
16 12-month period ending December 31, 2019 (the "Test
17 Year").

18 **Q. Please describe your responsibilities in your current**
19 **position.**

20 A. I joined CII in September 2019. I am responsible for,
21 among other things, developing, implementing and reporting
22 on CII-wide risk management strategy, actions and results.
23 I also provide executive oversight to several corporate
24 service functions including Health Safety and
25 Environmental ("HSE"), Legal, Insurance and Internal Audit

1 ("IA"). Finally, I provide testimony in regulatory
2 proceedings as needed to support company objectives.

3 **Q. Briefly describe your educational background and**
4 **professional experience.**

5 A. I have a Bachelor of Arts degree in International Affairs
6 and Political Science from the University of Nevada, Reno
7 and a Juris Doctor degree from the University of
8 California, Davis, King Hall School of Law. I practiced
9 law for nearly twelve years in Nevada, primarily
10 representing businesses and individuals before state and
11 federal administrative agencies. I was Associate General
12 Counsel for NV Energy from February 2009 until December
13 2013. In 2013, I became Vice President of Regulatory
14 Affairs and then held numerous management positions
15 involving regulation and strategic planning, customer
16 operations, and ultimately became Senior Vice President of
17 Business Plan, Regulatory and Legislative Strategy.

18 **Q. Have you ever testified before a state utility regulatory**
19 **agency?**

20 A. Yes. I have testified before the Public Utilities
21 Commission of Nevada and the Public Service Commission of
22 South Carolina. I also have submitted prepared testimony
23 to the Arizona Corporation Commission, North Carolina
24 Utilities Commission, the Kentucky Public Service
25 Commission, the Public Utility Commission of Texas and the

1 Virginia State Corporation Commission, Division of Public
2 Utility Regulation.

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

4 A. Yes. I sponsor the following exhibits:
5

Exhibit Name	Description	Confidential
SME-1 Confidential	Corix Cost Allocation Manual	Yes
SME-2	Organization Chart	No
SME-3	Agreement between Water Service Corp and Utilities, Inc. of Florida	No
SME-4	Comparison of 2019 Per-regulated Customer Costs to 2018 FERC Form 60 Data	No
SME-5	Summary of Management Consulting, Certified Public Accounting and IT Professional Costs	No
SME-6 Confidential	Report of Baryenbruch & Company, LLC regarding the necessity and reasonableness of charges from Water Services Corporation during the 12 months ended December 31, 2019	Yes, page 56

6 **II. PURPOSE OF TESTIMONY AND SUMMARY OF RECOMMENDATIONS**

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

8 A. My testimony:

- 9 • describes the relationship between and among CII, Water
10 Service Corporation ("WSC") and the Company;
- 11 • describes the corporate services CII provides to support
12 the Company's operations;
- 13 • describes how those corporate services are charged to
14 WSC and, ultimately, the Company;

- 1 • sponsors the Cost Allocation Manual (Exhibit SME-1
2 Confidential) that is used to allocate costs between and
3 among the Corix Group of Companies (defined below); and,
4 • demonstrates that corporate service and shared service
5 costs are necessary and reasonable.

6 **Q. Please summarize your recommendations for the Commission.**

7 A. I recommend that the Commission find:

- 8 • the shared and corporate service costs charged to the
9 Company are necessary costs incurred by the Company to
10 provide regulated water and wastewater services to its
11 customers; and,
12 • the costs for such services are reasonable and,
13 therefore, should be included in the Company's revenue
14 requirement.

15 **III. DESCRIPTION OF CII AND CORIX GROUP OF COMPANIES**

16 **Q. Please describe the relationship between and among CII,**
17 **WSC and the Company.**

18 A. CII is the ultimate parent corporation of the Company and
19 the operating companies that comprise the "Corix Group of
20 Companies". CII is a privately held corporation owned by
21 affiliates of the British Columbia Investment Management
22 Corporation. An organization chart illustrating CII's
23 relationship to the Corix Group of Companies, including
24 the Company and WSC, is attached as Exhibit SME-2. As
25 shown in Exhibit SME-2, both WSC and the Company are

1 subsidiaries of Corix Regulated Utilities (US), Inc
2 ("CRUUS").¹

3 **Q. What types of services does the Corix Group of Companies**
4 **provide?**

5 A. The Corix Group of Companies provides a variety of utility
6 services including district energy; electric distribution;
7 natural gas and propane distribution; water production,
8 treatment and delivery; and, wastewater collection,
9 treatment and disposal services. The CII executive
10 management team (the "Executive Team") works hard to
11 develop a culture that facilitates the rapid dissemination
12 of learnings to improve service quality and efficiency for
13 each member of the Corix Group of Companies.

14 **Q. What purpose drives CII?**

15 A. CII is a purpose-driven organization. As an organization,
16 we help people enjoy better lives and communities thrive.
17 By observing our core values—safety, integrity, connection
18 and excellence—we strive to deliver essential services to
19 our customers in a cost-effective way. Collectively, we
20 aim to leverage our resources to deliver to our customers
21 the highest quality service at reasonable prices.

22 **Q. What benefits does affiliation with CII provide?**

23 A. CII has access to capital that is not available to smaller

1 Corix Regulated Utilities (US) Inc. ("CRUUS") was previously known as Utilities, Inc. Utilities, Inc. changes its name in 2019. Corix Regulated Utilities (US) Inc. owns all of the Company's outstanding stock. WSC is a shared service corporation that provides services to CRUUS' operating subsidiaries.

1 organizations. CII's geographic diversity, scale and
2 scope provide advantages to the operating companies within
3 the Corix Group of Companies. Specifically, the customers
4 of the operating companies receive better service at a
5 lower cost than they would from a smaller, stand-alone
6 organization. Finally, CII possesses and shares technical
7 and industry expertise improves the quality of service to
8 customers of the operating companies.

9 **Q. Did the Company receive services from an affiliate during**
10 **the Test Year?**

11 A. Yes, the Company received services from WSC during the
12 Test Year.

13 **Q. Does WSC have a contract with the Company pursuant to**
14 **which it provides shared services in support of the**
15 **Company's public service operations?**

16 A. Yes. WSC and the Company have entered into an Agreement
17 dated December 19, 2007 (the "Agreement"), which is
18 attached to my testimony as Exhibit SME-3. Under the
19 Agreement, the Company may call on WSC to provide all day-
20 to-day services the Company needs to fulfill its public
21 service obligations to customers. The Agreement allows WSC
22 to retain employees and vendors as needed to provide the
23 shared support services and WSC receives corporate
24 services from CII ("Corporate Services"). These Corporate
25 Services help WSC serve the Company. I describe the

1 Corporate Services in Section IV of my testimony.

2 **Q. Are the services that WSC provides the Company necessary**
3 **for the Company to deliver regulated services to its**
4 **customers?**

5 A. Yes. The services that WSC provides allow the Company to
6 fulfill its obligations to deliver water and wastewater
7 service to its customers. The shared and Corporate
8 Services, which include but are not limited to accounting,
9 billing, customer service, environmental compliance, human
10 resource, legal, occupational health and safety, and
11 technology functions, are necessary services. Every public
12 utility incurs these functional costs in connection with
13 the delivery of the essential utility services regulated
14 by the Commission.

15 **Q. Are the costs charged to the Company for the shared and**
16 **Corporate Services reasonable?**

17 A. Yes. In Section V of my testimony, I support the
18 reasonableness of the price for such services by comparing
19 WSC's total shared and Corporate Service costs on a per-
20 regulated customer basis to the costs incurred by 33
21 service companies that file Form 60 with the Federal
22 Energy Regulatory Commission ("FERC"). These 33 service
23 companies are associated with the 24 utility holding
24 companies shown in Exhibit SME-4. Then, I compare the
25 hourly rates for the managerial consulting, accounting and

1 IT categories of shared and Corporate Service costs to
2 market benchmarks. Finally, I compare hourly rates of
3 certain Corporate Service employees to other market
4 benchmarks to buttress my conclusion that the shared and
5 Corporate Service costs charged to the Company are
6 reasonable.

7 In summary:

- 8 • WSC's 2019 per-regulated customer cost of \$74 falls 33 percent below the average per-regulated
9 customer cost of \$110 for the 24 organizations shown in Exhibit SME-4;
- 10 • WSC's 2019 average per-regulated customer cost was lower than 18 of the organizations shown in
11 Exhibit SME-4;
- 12 • On average, the hourly rates for outside service providers are 108% higher than comparable hourly
13 rates charged by WSC for shared and Corporate Services;
- 14 • If all of the managerial and professional services provided by WSC, as supported by CII, had been
15 outsourced during 2019, the customers served by the CRUUS utilities would have incurred more
16 than \$12.4 million in additional expenses; and,
- 17 • WSC charges for shared and Corporate Services do not include any markup.

18 It is important to note that it would be difficult to find
19 third-party service providers with the same specialized
20 knowledge as WSC and CII. WSC and CII personnel spend
21 substantially all of their time servicing operating
22 utility companies, the majority of which provide water and
23 wastewater service. This specialization brings unique
24 knowledge that most likely is not available from outside
25 service providers.

26 **Q. Did the Company obtain a third-party assessment of the**

1 **need for and the reasonableness of the total cost**
 2 **allocations from?**

3 A. Yes. My analysis is based on Exhibit SME-6 Confidential, which
 is a report prepared by
 4 Baryenbruch & Company, LLC, evaluating the necessity of
 5 services and reasonableness of charges from WSC. The
 6 report asks four questions to test the necessity of the
 7 "Corix/WSC support services" and four questions to test
 8 the reasonableness of the charges for those services.² B&C,
 9 LLC conducted a thorough investigation and concluded that
 10 the "Corix/WSC support services" are necessary; i.e., the
 11 services allow the Company to fulfill its obligation to
 12 the serve the public.³ B&C, LLC also concludes that the
 13 charges for such services are reasonable.⁴

14 **Q. Are the services provided by WSC to the Company in the**
 15 **public interest?**

16 A. Yes. The services that WSC provides to the Company,
 17 including the Corporate Services, provided are in the
 18 public interest because they improve the service that the
 19 Company provides to customers for a small portion of the
 20 overall expense incurred to provide the services. The
 21 centralization of shared and Corporate Services allows the
 22 Corix Group of Companies improvise efficiency and benefits
 23 the Company's customers.

2 Exhibit SME-6 Confidential at 1-2.

3 Id. at 2.

4 Id.

1 **IV. DESCRIPTION OF THE SHARED SERVICES AND CORPORATE SERVICES**

2 **Q. What services did WSC provide to the Company under the**
3 **Agreement?**

4 A. For the benefit of the Company's customers, WSC provided a
5 broad range of operational, back-office, support and
6 corporate services. WSC is the statutory employer the
7 people who provide water and wastewater service to the
8 Company's customers. Under the Agreement, WSC may furnish
9 to the Company all day-to-day services "including but not
10 limited to the following: executive, engineering,
11 operating, accounting, legal, billing, customer relations,
12 and construction." Additional services WSC provides to
13 the Company under the Agreement include, but are not
14 limited to, human resource ("HR"), health, safety and
15 environmental ("HSE"), informational technology ("IT"),
16 including cybersecurity and governance, and corporation
17 communications services.

18 **Q. What is the general nature of the Corporate Services CII**
19 **provided WSC to support the Company?**

20 A. Generally, Corporate Services are strategic and focus on
21 business oversight, enterprise-wide policies and ensuring
22 legal and regulatory compliance which are necessary
23 functions for the continuous and effective operation of
24 any responsibly run corporation and, therefore, benefit
25 customers. In the questions and answers that follow, I

1 provide a more detailed explanation of the human resource
2 HR, HSE, financial management, IA, tax, legal, IT,
3 corporate communication

4 **Q. Please describe the HR services CII provided WSC to**
5 **support the Company.**

6 A. WSC directly employs individuals to manage many day-to-day
7 personnel matters, such as recruiting, background checks,
8 onboarding training, payroll, complaints, investigations,
9 reviews, assisting employees with various benefit
10 questions and elections, for the Company. WSC relies on
11 the CII corporate HR group to provide enterprise-wide
12 direction and coordination for numerous activities. The
13 corporate HR group:

- 14 • creates and updates enterprise-wide policies, programs and practices for all aspect of the HR
15 function;
- 16 • provides overall guidance and direction;
- 17 • undertakes comprehensive compensation reviews;
- 18 • recruits and HR administration for executive positions;
- 19 • ensures timely and accurate reporting of HR information to the Human Resources and
20 Compensation committee and the Board of Directors;
- 21 • maintains talent management and succession planning functions;
- 22 • maintains a confidential compliance hotline for the anonymous reporting of ethical issues;
- 23 • investigates complaints made through the compliance hotline and other reporting;
- 24 • conducts employee engagement surveys;
- 25 • leverages scale to obtain enterprise-wide consulting services, when necessary;
- 26 • supports the administration and development of retirement and benefit plans; and,

- 1 • supports local business units with employee and labor relations issues;

2 **Q. Please describe the HSE services CII provides WSC to**
 3 **support the Company.**

4 A. A small corporate HSE team provides enterprise-wide
 5 planning and oversight functions to support and supplement
 6 local HSE staff, who ensure compliance and familiarity
 7 with local requirements, permits, and regulators. The
 8 corporate HSE team:

- 9 • ensures compliance with federal government mandates;
- 10 • develops and deploys enterprise-wide HSE policies, procedures, training manuals, forms and
 11 tools to ensure standardization across business units;
- 12 • supervises and supports incident reporting and investigation;
- 13 • partners with IA to complete safety and environmental audits;
- 14 • reports and disseminates learnings from safety and environmental incidents;
- 15 • facilitates the development of an enterprise-wide safety culture that ensures safety remains
 16 the number one priority; and,
- 17 • nurtures a culture of environmental stewardship.

18 **Q. Please describe the financial management services Corix**
 19 **provided WSC to support the Company.**

20 A. Corporate financial management services include corporate
 21 finance, accounting, treasury, tax and, until recently,
 22 IA.⁵ The corporate financial group provides general
 23 oversight to all financial professionals in all business
 24 units including guidance on the use of accounting

5 The internal audit function moved into the risk department effective January 1, 2020.

1 principles, the implementation of internal controls to
2 ensure spending and investing are in accordance with the
3 business strategy and budget and the appropriate
4 disclosure and presentation of financial and performance
5 indicators. The corporate finance team:

- 6 • is primarily responsible for external and internal financial reporting;
- 7 • oversee and support the independent audit of the consolidated financial
8 statements of the Corix Group of Companies;
- 9 • interacts with debt and equity markets to ensure access to capital at
10 reasonable terms and conditions;
- 11 • monitors compliance with budgets;
- 12 • provides strategic financial planning and modelling services;
- 13 • works closely with the risk department to identify and treat enterprise risk;
- 14 • provides corporate treasury services including long- and short-term capital
15 needs planning for both debt and equity;
- 16 • leads debt issuances by operating subsidiaries;
- 17 • provides corporate tax compliance services to WSC to support the Company's
18 operations;
- 19 • coordinates tax planning activities; and,
- 20 • directs tax compliance activities taking place in the business units and
21 oversees outside tax professionals who provide services to business units.

22 **Q. Please describe the IA services provided by CII to WSC to**
23 **support the Company?**

1 A. IA ensure compliance with laws, regulations, internal
2 controls and corporate policies and procedures. IA
3 conducts risk and fraud assessments and develops an
4 internal audit plan. In connection with its annual risk
5 assessment, IA interviews corporate and business unit
6 leaders to identify and assess inherent risk. Generally,
7 improvement opportunities identified in IA reports are
8 shared across the enterprise to improve operational
9 efficiency, mitigate risk and, ultimately, reduce the cost
10 of providing water and wastewater service to the Company's
11 customers.

12 **Q. Please describe the corporate legal services CII provided**
13 **WSC to support the Company.**

14 A. The CII corporate legal group coordinates all legal
15 services within the Corix Group of Companies. The
16 corporate legal team:

- 17 • makes certain annual corporate filings both in Canada and the U.S., creating
18 and maintaining viable companies that are legally authorized to conduct
19 business;
- 20 • drafts and reviews key institutional contracts such as credit facilities and note
21 purchase agreements;
- 22 • communicates legal risk to the CII Board and provides services to operating
23 companies, including the Company, to mitigate such risk;

- 1 • facilitates communications with the Executive Management team, finance, tax,
2 HSE, and other key groups within the organization to ensure effective
3 management of legal matters;
- 4 • provides strategic input into corporate-wide decisions to minimize cost and
5 exposure for customers; and,
- 6 • provides input and analysis to support economic and environmental regulatory
7 proceedings.

8 **Q. Please describe the corporate IT services CII provided WSC**
9 **to support the Company.**

10 A. While WSC directly employs individuals to provide day-to-
11 day IT services (such as general system operations and
12 maintenance, software maintenance, workstation acquisition
13 support and certain network administration), the CII
14 corporate IT Group has responsibility for developing our
15 corporate IT strategy. These services include:

- 16 • the design, implementation, and replacement of enterprise resource planning
17 systems;
- 18 • oversight of cybersecurity programs;
- 19 • operation, maintenance and monitoring of data storage and management;
- 20 • operation and maintenance of communication networks;
- 21 • development of enterprise-wide IT equipment strategies;
- 22 • coordination with other groups to prepare and implement enterprise policies
23 relevant to IT such as record retention;

- 1 • conducting security analyses and monitoring and investigating security alerts
2 and incidents;
- 3 • directing and overseeing third-party assessments of cybersecurity defense
4 systems and procedures;
- 5 • conducting security awareness training; and,
- 6 • continuously working to improve security in the environment including
7 identifying and implementing best practices to prevent incidents.

8 The current environment has necessitated some third-party
9 expenditure on cybersecurity to ensure we have an
10 appropriate framework for cybersecurity at all levels of
11 the business. Corporate IT is overseeing the
12 cybersecurity strategy and implementation across the Corix
13 Group of Companies and providing critical services to WSC
14 to support the Company. Examples of specific services
15 this group provides include:

- 16 • Management of the enterprise application portfolio – identifying what
17 applications will be used company-wide, ensuring they are reliable and
18 ensuring that the enterprise has one application portfolio;
- 19 • Enterprise security including constantly monitoring changes in legislation
20 for data privacy, changes in legislation for various security requirements for
21 contracts, establishing frameworks, parameters, setting requirements for
22 security, monitoring security alerts, and providing the businesses security
23 awareness training; and

- 1 • Focus on constant improvement to security in environment and proactive
2 work to secure assets and information; monitoring numerous reports on
3 vulnerability and working to standardize the program across the CII entities.

4 **Q. Please describe the corporate communications services CII**
5 **provided WSC to support the Company.**

6 A. While many communications functions are performed by WSC
7 employees or resident in the local business units, this
8 small group in corporate communications is responsible for
9 overall communications programs within the organization
10 including the development and maintenance of a company-
11 wide intranet and the establishment of communications
12 protocols for individual business unit branding and
13 websites. This group also monitors mainstream and social
14 media channels across North America to ensure we are aware
15 as an organization of emerging issues in the media from
16 stakeholders, customers, or others that we should be aware
17 of and potentially responsive to. This group also is
18 available to provide guidance to all business units and
19 assistance where significant crisis management may require
20 additional communication resources. Natural disasters
21 such as floods, hurricanes, earthquakes, and national and
22 local concerns with water quality issues are all examples
23 where these staff assist local management in communication
24 both internally and externally.

25 **Q. Please describe the services the CII EMT provides to**

1 **support the Company.**

2 A. The CII EMT provides corporate management services
3 necessary at the executive level for continued operations
4 in the short and long term. The Company provides critical
5 services—water and wastewater—to customers. Poor
6 management at any level of the organization could result
7 in significant negative impacts communities we serve.
8 Corporate executive management services ensure the
9 Company’s economic stability. The CII EMT provides
10 strategic direction, formulates corporate strategy and
11 ensures corporate goals and objectives are met for the
12 Corix Group of Companies. The CII EMT provides guidance to
13 operational leadership to optimize CII’s lines of business
14 and identify complementary aspects of CII’s businesses to
15 achieve synergies where possible for the benefit of
16 multiple stakeholders - including the customers of the
17 business units such as the Company. The CII EMT reviews
18 CII’s and its subsidiaries’ activities to foster the
19 corporate culture and values of safety, integrity,
20 connection and excellence.
21 In addition to strategic direction, the CII EMT also
22 ensures CII and its business units have systems in place
23 to manage their respective principal business risks;
24 develop strategies and goals for financial planning,
25 capital access, and organizational structure; and

1 establish effective company-wide governance models,
2 internal control standards, and procedures to drive
3 efficiencies and cost effectiveness. Examples of important
4 executive management functions that benefit the customer
5 include monthly executive management team meetings where
6 financial and operational reports and issues are discussed
7 at length; monitoring of overall financial reporting,
8 budgeting process, and monitoring internal control
9 performance; approving policies, procedures, and practices
10 as they relate to safe, reliable, and effective provision
11 of service; review of major projects with significant
12 input from the businesses to scrutinize cost and
13 effectiveness of proposed projects and initiatives and
14 their alignment with enterprise goals; capital and asset
15 planning including a formal process for review of
16 prioritizing capital expenditures, approving project
17 spending, and delivery and measuring outputs including
18 placement of effective controls over budgets through
19 business plans and individual capital projects through
20 appropriate authorization thresholds, management, and
21 reporting processes. The CII EMT also establishes capital
22 risk management strategies.

23 **Q. Please explain the differences between the management**
24 **services provided by the Company's regional management**
25 **team differ from those provided by the CII EMT.**

1 A. The regional management team for the Company focuses on
2 the administration and operations of the Company—at the
3 most local and granular level. The CII EMT focuses on
4 enterprise-wide management. The CII CEO sets overall
5 enterprise direction and strategy, interacts with the
6 shareholder to source capital, and at a high-level works
7 with corporate debt holders to provide assurance that an
8 appropriate governance structure exists overall and in
9 each operating unit. The Chief Operating Officer of
10 Regulated Utilities (a member of the CII EMT) works
11 closely with local leadership (such as the Company’s
12 regional team) to evaluate capital investment plans and
13 operating budgets and responding to customer concerns.

14 **Q. Please explain how the services provided by WSC employees**
15 **differ from the services provided by CII to support the**
16 **Company.**

17 A. The WSC employees are dedicated to the operations of the
18 affiliate operating business units such as the Company
19 while, as discussed above, the CII corporate services are
20 allocated among the CII business units and focus on
21 enterprise-wide strategies, policies and corporate
22 governance. The WSC workforce resident in the business
23 units is responsible for, among other things, ensuring
24 water supply, safe transmission and treatment of
25 wastewater, leak detection, community education on safe

1 water and wastewater service, servicing and reading
2 customer meters, installing and maintaining utility
3 infrastructure, right-of-way activities, engineering,
4 monthly financial variance analysis for the operating
5 business unit, annual report preparation for local
6 jurisdictions, state level monthly reporting, annual
7 operating budgets, local environmental compliance and
8 regulatory issues, local communications and community
9 outreach and generally safe operation of the water and
10 wastewater system on a daily basis.

11 WSC also directly employs individuals in shared services
12 to provide consolidated operational functions such as
13 customer service, billing and collections, and legal for
14 the business units. Accounting staff directly employed by
15 WSC shared services are dedicated to performing day-to-day
16 accounting tasks such as processing accounts payable,
17 payroll, preparing and supporting rate case filings, and
18 posting general ledger entries. As discussed herein,
19 these are clearly distinct functions from the CII
20 Corporate Services.

21 **Q. Are the CII Corporate Services WSC is receiving to support**
22 **the Company similar to services provided by other service**
23 **companies that benefit regulated utilities?**

24 **A.** Yes. The services are common and necessary activities
25 required for ongoing management of any responsibly and

1 effectively run corporate entity and are relevant to more
2 than any single operating entity within the Corix Group of
3 Companies. The related activities are performed in a
4 centralized manner on behalf of all the operating
5 entities, achieving economies of scale. CII operates
6 multiple business units in the water and wastewater sector
7 with various operating characteristics such that these
8 common activities can be shared, avoiding duplication
9 within the individual operating entities and maximizing
10 the use of resources dedicated to providing these
11 activities across many business units. In addition, the
12 access to expertise and ability to enjoy economies of
13 scale are critical to the Company's ability to continue to
14 provide safe and reliable service and keep up with
15 increasing needs in technology (such as cybersecurity as
16 one example) that would be cost-prohibitive on a stand-
17 alone basis.

18 **Q. Are the Corporate Services necessary for the Company's**
19 **provision of reliable and safe service to its customers?**

20 A. Yes. The shared and Corporate Services are consistent with
21 services provided by other utility service companies. The
22 functions provided by WSC and CII would be necessary if
23 the Company operated on a stand-alone basis.

24 **V. ALLOCATION, CONTROL AND REASONABLENESS OF COSTS**

25 **Q. How are the costs of the Corporate Services charged to WSC**

1 **and the CII business units?**

2 A. Corporate Services costs are allocated to the CII business
3 units and subsidiaries using the method set forth in
4 Exhibit SME-1 Confidential, which is the Corix Cost
5 Allocation Manual (the "Corix CAM"). The Corix CAM is
6 based on commonly used and accepted regulatory practices
7 for shared cost allocation. The Corix CAM was developed to
8 maintain allocation consistency across the Corix Group of
9 Companies and avoid subsidization of one group or unit by
10 another.

11 Under the Corix CAM, direct costs are identified up front
12 and directly assigned to the business units receiving the
13 exclusive benefit of the service. Corporate Service costs
14 are subject to a Tier 1 allocation between the business
15 units receiving services. The Tier 1 allocation for
16 corporate costs is based on the composite allocator
17 factoring 33.3% for each of the factors of gross revenue,
18 headcount, and gross property, plant and equipment to best
19 represent the size, scope and complexity of operating
20 business units.

21 **Q. Do the shared and Corporate Service costs included in the**
22 **revenue requirement for the Company have any mark-up?**

23 A. No. The charges included in the Company's revenue
24 requirement reflect the shared and Corporate Services
25 provided at cost with no mark-up or profit.

1 **Q. Has CII implemented mechanisms to control shared and**
2 **Corporate Service costs?**

3 A. Yes. Budgets are reviewed with the expectation that all
4 costs incurred must be necessary for the delivery of water
5 and wastewater service to customers. Budgets are also
6 reviewed and tested to ensure costs are reasonable.
7 Management is held accountable for expenses incurred
8 within their budget and a portion compensation is linked
9 to responsible cost management. Headcount mapping is
10 conducted in the CII budget process on an annual basis and
11 requires a demonstration of need. The budgeting process
12 begins in August and ends in December with budgets
13 undergoing rigorous internal review by the budget owners
14 and vice presidents with multiple levels of review at the
15 business unit level and at corporate, along with
16 presentations and question and answer sessions to test
17 proposed costs including headcount for each business unit
18 and department including in WSC shared and Corporate
19 Services. Following thorough review by the business units
20 and corporate teams, the budgets are then carefully
21 reviewed and sometimes further modified as appropriate by
22 the CFO, then the CEO, then the Executive Management Team,
23 before then going to the audit committee and the CII board
24 of directors. At each level, costs are heavily scrutinized
25 to evaluate efficiency of operations at all levels.

1 **Q. Has CII incurred any costs for services that are not**
2 **allocated to WSC for its support provided to the Company?**

3 A. Yes. For example, CII incurs costs for business
4 development. Those costs have been removed from the
5 Corporate Service costs.

6 **Q. Have you analyzed whether the costs WSC charges the**
7 **Company for shared and Corporate Services are reasonable?**

8 A. Yes. The 2019 shared and Corporate Service costs were
9 compared to the 2018 costs incurred by centralized service
10 companies providing similar services utility companies on
11 a per-regulated customer basis. This comparison shows that
12 the 2019 shared and Corporate service costs were 33
13 percent below the average per-regulated customer service
14 costs of the 24 organizations shown in Exhibit SME-4.

15 **Q. Were the shared and Corporate Service costs compared to**
16 **market benchmarks?**

17 A. Yes. Adjusted shared and Corporate Service costs,⁶ were
18 reduced to an hourly rate for three categories of
19 services: management consultants, certified public
20 accountants and IT professionals. The shared and Corporate
21 Service costs were then compared to market benchmarks. The
22 results are shown in Exhibit SME-5 and, for ease of
23 reference, set forth in the table below.

6 Travel expenses, outside services, non-service expenses, certain license expenses, business development costs, and accounts payable clerk costs were excluded from the hourly-rate calculation.

Cost Per-hour & Difference⁷

	Shared and Corporate Services	Outside Provider	Corix/WSC is Greater or (Lower) than Outside Provider
<i>Management Consultant</i>	\$137	\$293	\$(156)
<i>Certified Public Accountant</i>	\$95	\$164	\$(69)
<i>IT Professional</i>	\$73	\$196	\$(123)

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

Overall, the shared and Corporate Services costs were approximately 108 percent lower on a per-hour basis than services provided by consultants. The costs, in short, were lower than market.

Q. Are the charges included in the revenue requirement for the shared and Corporate Services provided to the Company competitive?

A. Yes. As described in detail above, the charges for shared and Corporate Services are lower than market and reasonable as compared to similar costs incurred by other shared service organizations serving utilities. Shared and Corporate Service costs are charge to the Company at cost.

Q Has the methodology for allocation of costs, and actual allocated costs about which are testifying been accepted in any other jurisdictions?

Yes, Tennessee and South Carolina have both accepted the methodology, and with minor changes the actual allocated

⁷ Exhibit SME-6, Confidential.

1 costs, although the actual allocated costs were based upon
2 a different Test Year than this case.

3 **V. CONCLUSION**

4 **Q. Are the costs allocated to the Company associated with**
5 **shared and Corporate Services and included in the revenue**
6 **requirement necessary and reasonable?**

7 A. Yes. The costs allocated to the Company for the Corporate
8 Services are necessary and reasonable. The cost
9 allocations reflect a reasonable cost allocation
10 methodology based on widely used and accepted regulatory
11 principles and lower the costs the Company would have
12 incurred had it obtained the services from an unaffiliated
13 third-party. The shared and Corporate Service costs
14 included in the revenue requirement are beneficial to
15 customers and in the public interest.

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

17 A. Yes, it does, however I reserve the right to supplement or
18 make corrections to this testimony. Thank you.

19

20

21

22

23

24

25

1 (Whereupon, prefiled direct testimony of Dylan
2 W. D'Ascendis was inserted.)

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

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

CORRECTED
DIRECT TESTIMONY

OF

DYLAN W. D'ASCENDIS, CRRA, CVA

on behalf of

Utilities, Inc. of Florida

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

TABLE OF CONTENTS

I.	INTRODUCTION	3
II.	SUMMARY	6
III.	GENERAL PRINCIPLES	7
	A. Business Risk	10
	B. Financial Risk	16
IV.	UTILITIES, INC. OF FLORIDA AND THE UTILITY PROXY GROUP	17
V.	CAPITAL STRUCTURE AND DEBT COST RATES	19
VI.	COMMON EQUITY COST RATE MODELS	20
	A. Discounted Cash Flow Model.....	20
	B. The Risk Premium Model.....	23
	C. The Capital Asset Pricing Model.....	31
	D. Common Equity Cost Rates for a Proxy Group of Domestic, Non-Price Regulated Companies Based on the DCF, RPM, and CAPM.....	35
VII.	INDICATED COMMON EQUITY COST RATE BEFORE ADJUSTMENT FOR COMPANY-SPECIFIC RISK	38
	A. Company-Specific Risk Adjustments	38
	1. Business Risk Adjustment	38
VIII.	CONCLUSION.....	42

1 **I. INTRODUCTION**

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

3 A. My name is Dylan W. D'Ascendis. I am a Director at ScottMadden, Inc. My business address
4 is 3000 Atrium Way, Suite 241, Mount Laurel, NJ 08054.

5 **Q. State briefly your educational background and experience.**

6 A. I have offered expert testimony on behalf of investor-owned utilities before 19 state regulatory
7 commissions in the United States, one Canadian province, and one American Arbitration
8 Association panel on rate of return issues including, but not limited to, common equity cost
9 rate, rate of return, valuation, capital structure issues, relative investment risk, and credit quality
10 issues.

11 On behalf of the American Gas Association (“AGA”), I calculate the AGA Gas Index,
12 which serves as the benchmark against which the performance of the American Gas Index
13 Fund (“AGIF”) is measured on a monthly basis. The AGA Gas Index and AGIF are a market
14 capitalization weighted index and mutual fund, respectively, comprised of the common stocks
15 of the publicly traded corporate members of the AGA.

16 I am a member of the Society of Utility and Regulatory Financial Analysts (“SURFA”).
17 In 2011, I was awarded the professional designation "Certified Rate of Return Analyst"
18 (“CRRRA”) by SURFA, which is based on education, experience, and the successful completion
19 of a comprehensive written examination.

20 I am also a member of the National Association of Certified Valuation Analysts
21 (“NACVA”) and was awarded the professional designation Certified Valuation Analyst
22 (“CVA”) in 2015.

23 I am a graduate of the University of Pennsylvania, where I received a Bachelor of Arts
24 degree in Economic History. I have also received a Master of Business Administration with
25 high honors and concentrations in Finance and International Business from Rutgers University.

1 The details of my educational background and expert witness appearances are shown
2 in Exhibit DWD-1.

3 **Q. On whose behalf are you presenting this testimony?**

4 A. I am presenting this testimony and appearing on behalf of Utilities, Inc. of Florida. (“UIF” or
5 the “Company”), the applicant for rate increase in the present docket.

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

7 A. The purpose is to provide testimony related to the return on investor-supplied capital, including
8 the appropriate return on common equity (“ROE”) which the Company should be afforded in
9 order to have the opportunity to earn a fair return on its property used and useful in the public
10 service. I am presenting testimony regarding the appropriate return on investor-supplied
11 capital associated with UIF’s operations because the Company does not believe that in this
12 case the use of the Florida Leverage Formula (the “FL ROE Formula”) accurately reflects the
13 return on equity necessary to afford it an opportunity to earn a fair return.

14 **Q. Are you aware of the FL ROE Formula?**

15 A. Yes. Our firm participated in Docket No. 20190006-WS and Ms. Pauline M. Ahern, CRRA
16 sponsored comments on behalf of UIF.

17 **Q. What would UIF’s indicated ROE be using the FL ROE Formula as specified in Order
18 No. PSC-2019-0267-PAA-WS?**

19 A. Given UIF’s 13-month common equity ratio of 49.39%¹ in this proceeding, the indicated ROE
20 using the FL ROE Formula would be 9.69%.²

21

22

¹ Excluding customer deposits and deferred tax liabilities.

² $ROE = 6.05\% + (1.80 / \text{Equity Ratio}) \rightarrow 9.69\% = 6.05\% + (1.80 / 49.39\%)$.

1 **Q. Does the 9.69% ROE produced by the FL ROE Formula reflect the cost of common**
 2 **equity of water utilities, specifically, UIF, at this time?**

3 A. No. As I will demonstrate throughout this testimony, an ROE of 9.69% understates the current
 4 investor-required return for both water and wastewater utilities generally and UIF specifically.

5 **Q. What is your recommended common equity cost rate?**

6 A. I recommend that the FL PSC authorize the Company the opportunity to earn an overall rate
 7 of return on common equity of 11.75%. My recommended ROE applied to the 13-month
 8 average balances of investor-supplied capital³ based on UIF's parent, CORIX Regulated
 9 Utilities, Inc.'s ("CRU-US" or the "Parent"), consisting of 45.58% long-term debt at an
 10 embedded cost rate of 5.78%, 5.03% short-term debt at an embedded cost rate of 4.04%, and
 11 49.39% common equity results in a return on investor-supplied capital of 8.63%, shown on
 12 page 1 of Schedule 1 and Table 1 below:

13 **Table 1: Summary of the Return on Investor-Supplied Capital**

<u>Type of Capital</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-Term Debt	45.58%	5.78%	2.63%
Short-Term Debt	5.03%	4.04%	0.20%
Common Equity	<u>49.39%</u>	11.75%	<u>5.80%</u>
Total	<u>100.00%</u>		<u>8.63%</u>

14 **Q. Have you prepared an exhibit that supports your recommended return on investor-**
 15 **supplied capital?**

16 A. Yes, I am sponsoring Exhibit DWD-2 which summarizes my analysis supporting the
 17 reasonable rate of return, which in my opinion applies to UIF in this rate case. Exhibit DWD-
 18 2, containing Schedules 1 through 8, was prepared by me or my staff under my supervision
 19 and control.

³ Includes long-term debt, short-term debt, and common equity and excludes customer deposits and accumulated deferred income taxes.

1 **II. SUMMARY**

2 **Q. Please summarize your recommended common equity cost rate.**

3 A. My recommended common equity cost rate of 11.75% is summarized on page 2 of Schedule
4 1. Because UIF’s common stock is not publicly traded, a market-based common equity cost
5 rate cannot be directly observed for the Company. Consequently, I have assessed the market-
6 based common equity cost rates of companies with relatively similar, but not necessarily
7 identical risk, *i.e.*, a proxy group, for insight into a recommended common equity cost rate
8 applicable to UIF. Using companies of relatively similar risk as proxies is consistent with the
9 principle of fair and reasonable rates of return required by the *Hope*⁴ and *Bluefield*⁵ decisions,
10 adding reliability to the informed expert judgment necessary to arrive at a recommended
11 common equity cost rate.

12 However, no proxy is completely identical in risk to any single entity. Accordingly, a
13 comparison of relative risk between UIF and a proxy group of publicly traded water utilities
14 (“Utility Proxy Group”), discussed in further detail later in this testimony, must be made to
15 determine whether any adjustments to the Utility Proxy Group’s indicated common equity cost
16 rate are justified or necessary.

17 In determining my recommended common equity cost rate, I applied several well-
18 recognized cost of common equity models (*i.e.*, Discounted Cash Flow (“DCF”) Risk Premium
19 Model (“RPM”), and Capital Asset Pricing Model (“CAPM”)) to the market data of a Utility
20 Proxy Group whose selection will also be discussed below. In addition, I applied the DCF
21 model, RPM, and CAPM to a proxy group of non-price regulated companies comparable in
22 total risk to the Utility Proxy Group (“Non-Price Regulated Proxy Group”). The results derived
23 from each model are summarized as follows:

⁴ *Federal Power Comm’n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

⁵ *Bluefield Water Works Improvement Co. v. Public Serv. Comm’n*, 262 U.S. 679 (1922).

Table 2: Summary of Common Equity Cost Rate

	<u>Utility Proxy Group</u>
Discounted Cash Flow Model	9.07%
Risk Premium Model	10.91%
Capital Asset Pricing Model	10.90%
Cost of Equity Models Applied to Non-Price Regulated Proxy Group	<u>11.48%</u>
Indicated Common Equity Cost Rate before Adjustment	10.75%
Business Risk Adjustment	<u>1.00%</u>
Recommended Common Equity Cost Rate	<u>11.75%</u>

After reviewing the cost rates based on these models, I conclude that the indicated common equity cost rate is 10.75% before any adjustment for business risks arising from UIF's greater unique business risks relative to the Utility Proxy Group as discussed in more detail below. Thus, the indicated common equity cost rate of 10.75% based solely on the Utility Proxy Group must be adjusted upward by 1.00% to reflect UIF's increased unique business risk, as noted above. The details of this adjustment will be discussed below. After adjustment, my recommended Company-specific risk-adjusted common equity cost rate applicable to UIF is 11.75%.

III. GENERAL PRINCIPLES

Q. What general principles have you considered in arriving at your recommended common equity cost rate?

A. The cost of common equity is the return investors require to make an equity investment in a given firm. From the firm's perspective, that required return, whether it is provided to debt or equity investors, has a cost. Collectively, the "cost of debt" and the "cost of equity" are referred to as the "cost of capital."

The cost of capital is based on the economic principle of "opportunity cost," meaning that investing in any asset or security implies a forgone opportunity to invest in alternative

1 assets or securities. The opportunity cost of an investment should equal the return available on
2 investments of comparable risk.

3 Although both debt and equity have costs, those costs differ fundamentally. The cost
4 of debt is often contractually defined and can be directly observed in the market as the interest
5 rate or yield on debt securities. In contrast, the cost of equity is not normally contractually
6 defined nor can it be directly observed in the market. Rather, because common equity investors
7 have a claim on a firm's cash flows only after debt holders are paid, it is the uncertainty (or
8 risk) associated with the equity investors' lower priority or junior position to receive those
9 residual cash flows compared to debt holders that determines the cost of equity. In other words,
10 because common equity investors bear this "residual risk," they require higher returns than
11 debt holders. In that sense, common equity and debt investors are distinct: they invest in
12 different securities, face different risks, and require different returns. That is not to say that the
13 risks facing debt and equity investors are completely separate and distinct; the two may share
14 common risks, but only to a point. Therefore, commentary from both debt and equity analysts
15 is instructive and helps inform the determination of the required return.

16 According to the basic financial principle of risk and return, the investor-required
17 return on investment is a function of the level of investor-perceived risk as reflected in the
18 market prices paid by investors. The higher/lower the investor-perceived risk, the higher/lower
19 the investor-required return. The investor-required return is forward-looking, or expectational,
20 as it is the return which investors expect to receive in the future for investing capital today and
21 is based on expected economic and capital market conditions.

22 In unregulated industries, the competition of the marketplace is the principal
23 determinant of the price of products or services. For regulated public utilities, like UIF,
24 regulation acts as a substitute for marketplace competition. A sufficient level of earnings is
25 required to assure that the utility can: (1) fulfill its obligation to provide safe and reliable service

1 at all times; (2) maintain the integrity of presently invested capital through future reinvestment
2 and (3) attract needed new capital at a reasonable cost and on reasonable terms in competition
3 with other firms of comparable risk. This is consistent with the previously noted rate of return
4 standard established by the Supreme Court in the *Hope* and *Bluefield* cases.

5 In rate base/rate of return regulation, the authorized return on common equity is defined
6 as the investor-required return. In turn, the investor-required return is defined as the return
7 required by the investor on the funds invested in the publicly traded common stocks of firms.
8 As stated previously, the cost of common equity is not directly observable in the capital markets
9 since there is no contractual basis or obligation on the part of a firm to provide a return to its
10 common shareholders, unlike the contractual coupon or interest rate on its debt obligations.
11 Therefore, the cost of common equity must be estimated from market (economic and financial)
12 data, using financial models developed for that purpose, such as the CAPM, DCF, and RPM.
13 Therefore, my recommended common equity cost rate is based on the marketplace data of a
14 proxy group of utilities that are as similar in risk as possible to UIF based on selection criteria
15 discussed below.

16 Because empirical financial models for determining the cost of common equity are
17 subject to limiting assumptions or other constraints, most finance texts recommend using
18 multiple approaches to estimate the cost of common equity. Because of this, generally,
19 regulatory commissions rely on multiple financial models in determining the allowed ROE for
20 regulated utilities. As a practical matter, no individual model is more reliable than all others
21 under all market conditions. The use of multiple common equity cost rate models adds
22 reliability to the estimation of the investor-required return.

23 Using both the market data of proxy groups of similar risk and multiple common equity
24 cost rate models adds reliability to the informed expert judgment used in estimating the
25 common equity cost rate. Therefore, it is prudent and appropriate to use multiple

1 methodologies to mitigate the effects of limiting assumptions and inputs associated with any
2 single approach.

3 **A. Business Risk**

4 **Q. Please define business risk and explain why it is important to the determination of a**
5 **reasonable rate of return.**

6 A. The investor-required return on common equity reflects investors' assessment of the total
7 investment risk of an individual firm. Total investment risk is often discussed in the context
8 of business risk and financial risk.

9 Business risk refers to the basic viability of a business, the question of whether a
10 company will be able to generate sufficient revenue to cover its operational expenses and cost
11 of capital. Financial risk is related to the company's ability to generate sufficient cash flow to
12 be able to make interest payments on financing or to meet other debt-related obligations.

13 Examples of the business risks generally faced by water utilities include, but are not
14 limited to, the legal and regulatory environment, mandatory environmental compliance
15 requirements, customer mix and concentration of customers, service territory economic
16 growth, declining per customer water use, risks and uncertainties of water supply limitations,
17 operations, capital intensity, size, the degree of operating leverage, and the like, all of which
18 have a direct bearing on earnings.

19 Although analysts, including rating agencies, may categorize business risks according
20 to individual categories, as a practical matter they are inter-related and are not wholly distinct
21 from one another. For determining an appropriate return on equity, the relevant issue is where
22 investors see the subject company as falling within a spectrum of risk. To the extent investors
23 view a company as being exposed to additional risk, the required return will increase.

24 For regulated water utilities, business risks are both long- and near-term in nature.
25 Whereas near-term business risks are reflected in the year-to-year variability in earnings and

1 cash flow brought about by economic or regulatory factors, long-term business risks reflect the
2 prospect of an impaired ability of investors to earn a return on and of their invested capital.
3 Moreover, because water utilities accept the obligation to provide safe, adequate, and reliable
4 water service at all times (in exchange for the opportunity to earn a fair and reasonable return
5 on their investment), they generally do not have the option to delay, defer, or reject required
6 long-term capital investments in order to comply with Safe Drinking Water Act (“SDWA”)
7 standards. Those investments are generally capital-intensive, and water utilities therefore
8 cannot choose to avoid raising external funds during periods of capital market distress.

9 Because water utilities invest in long-lived assets, long-term business risks are of
10 considerable concern to equity investors. That is, the risk of not recovering the return on and
11 of their investment extends far into the future. But, the timing and nature of events that may
12 lead to losses are also uncertain. Consequently, those risks and their implications for the
13 required return on equity tend to be difficult to quantify. That does not mean, however, that
14 the risk is of no consequence to investors. Analysts may apply, for example, simulation-based
15 methods to assess the potential risk, but in the final analysis (like the investors that commit
16 their capital) regulatory commissions, like the FL PSC, must review a variety of quantitative
17 and qualitative data, applying their reasoned judgment to determine how long-term risks weigh
18 in their assessment of the market-required return on equity.

19 **Q. What business risks does the water utility industry in general face today?**

20 A. Water is necessary for life and is the only utility product intended for customers to ingest.
21 Consequently, water quality is of paramount importance to the public health and well-being of
22 customers. As a result, water utilities are subject to additional and increasingly stringent public
23 health and safety regulations. Beyond health and safety concerns, customers also have
24 significant aesthetic (*e.g.* taste and odor) concerns regarding the water delivered to them, with
25 regulators paying close attention to these concerns because of the strong reactions they evoke

1 in consumers.

2 Increasingly stringent environmental standards necessitate additional capital
3 investment in the treatment and distribution of water, thereby increasing the pressure on water
4 utilities' free cash flow through increased capital expenditure for infrastructure, repair, and
5 replacement. In addition, the United States Environmental Protection Agency and individual
6 state and local environmental agencies continually monitor potential contaminants in the water
7 supply and promulgate or expand regulations when necessary. In the course of procuring water
8 supplies and treating water so that it complies with SDWA standards, water utilities have an
9 ever-increasing responsibility to be stewards of the environment from which supplies are
10 drawn in order to preserve and protect essential natural resources.

11 Water utilities are typically vertically engaged in the entire process of acquiring supply,
12 producing, treating, and distributing water, serving both a production function and a delivery
13 function. Accordingly, water utilities require significant capital investment, not only in
14 transmission and distribution systems, but also in sources of supply (surface and groundwater),
15 production (wells), treatment, and storage. Significant capital investment is necessary to serve
16 additional customers and to replace aging systems, creating a major risk factor for the water
17 utility industry.

18 *Value Line Investment Survey* ("*Value Line*") observes the following about the water
19 utility industry:

20 Until the past decade, or so, both municipal and investor-owned utilities didn't
21 sufficiently invest in keeping pipelines and other assets in proper condition. As
22 a result, the average age of pipelines in the U.S. is estimated to be between 50
23 and 75 years. Utilities and regulators have realized that more funds would have
24 to be allocated to replacing and modernizing large portions of the nation's water
25 infrastructure. That's why this group's construction budget is large, though
26 manageable. Authorities also realize that water bills were kept artificially low
27 for years, especially in relation to other vital utility services, and have to be
28 gradually raised.

29 ***

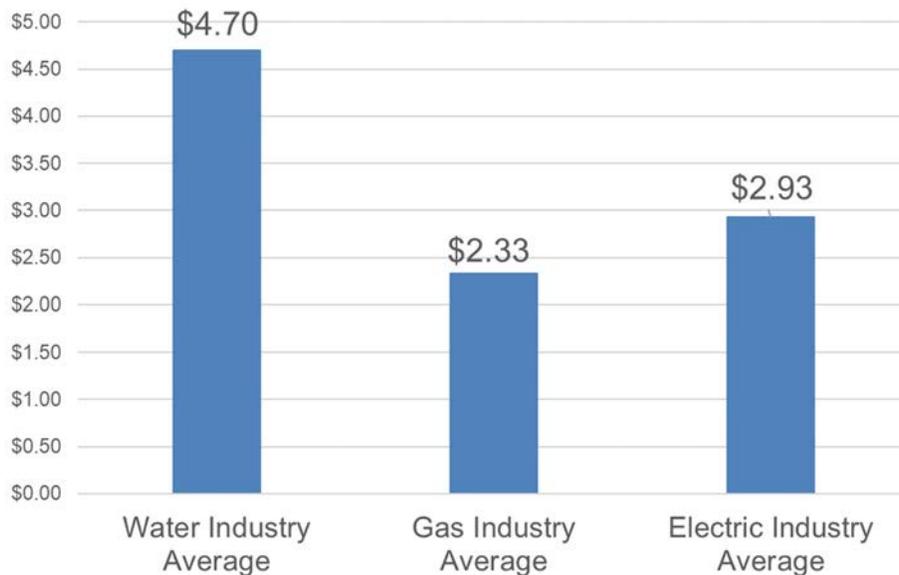
1 Probably the prime reason for water utility stocks performing so well over the
2 past five years has been due to constructive regulation. Unlike, electric utilities,
3 for example, both sides are basically in agreement that upgrades are required and
4 ratepayers[*] bills will have to [be] raised. Investors should be aware of what
5 can happen when authorities and utilities do not work as partners (i.e. the Electric
6 Utility Industry). As of now, we see no signs of rifts between the water group
7 and regulators.⁶

8 **Q. Please discuss the capital intensity of the water utility industry relative to other utility**
9 **industries.**

10 A. As a capital-intensive industry, water utilities require significantly greater capital investment
11 in the infrastructure required to produce a dollar of revenue than do other industries, including
12 electric and natural gas utilities. For example, as shown on Chart 1, below, it took \$4.70 of
13 net utility plant on average to produce \$1.00 in operating revenues in 2019 for the water utility
14 industry. In contrast, for the natural gas and electric utility industries, on average it took just
15 \$2.33 and \$2.93, respectively, to produce \$1.00 in operating revenues in 2019. As financing
16 needs have increased and will continue to increase, the competition for capital from traditional
17 sources has increased and continues to increase, making the need to maintain financial integrity
18 and the ability to attract needed new capital increasingly important.

⁶ *Value Line Investment Survey*, April 10, 2020. [clarification added]

1 **Chart 1:**
2 **Capital Intensity of the Water, Gas, and Electric Utility Industries⁷**



3
4 **Q. How will water utilities raise the capital required to fund necessary infrastructure**
5 **replacements?**

6 A. The water utility industry's high degree of capital intensity, coupled with the need for
7 substantial infrastructure capital spending, requires regulatory support in the form of adequate
8 and timely rate relief, including the allowance of a sufficient rate of return on investment.

9 Substantial water utility investment and expenditures require significant financing. The
10 three sources typically used for financing are debt, equity (common and preferred), and cash
11 flow from operations. All three are intricately linked to the opportunity to earn a sufficient rate
12 of return on investment and the ability to actually achieve that return. The return must be
13 sufficient to maintain credit quality and enable the water utility to attract necessary new capital,
14 be it debt or equity capital. If unable to raise debt or equity capital, the water utility must turn
15 to either retained earnings or free cash flow⁸, both of which are directly linked to earning a

⁷ SNL Financial, Company SEC Form 10-Ks.

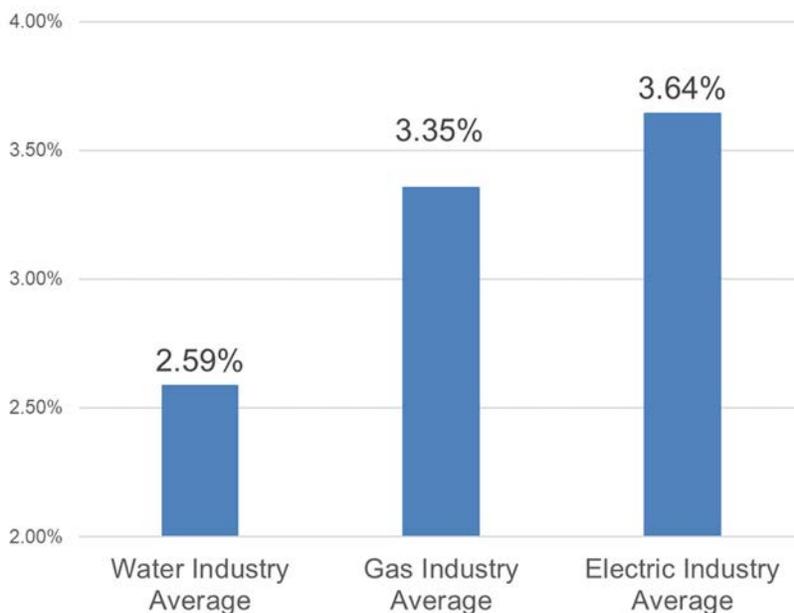
⁸ Operating cash flow (funds from operations) minus capital expenditures.

1 sufficient rate of return. The level of free cash flow represents the financial flexibility of a
2 firm, *i.e.*, its ability to meet the needs of its debt and equity holders. If either retained earnings
3 or free cash flows are inadequate, it will be nearly impossible for the water utility to attract the
4 new capital, at a reasonable cost and on reasonable terms, needed to invest in critical new utility
5 infrastructure. An insufficient rate of return can be financially devastating for water utilities
6 given their obligation to protect the public health by providing safe, adequate, and reliable
7 water service to their customers at all times.

8 **Q. Please continue your discussion of business risks.**

9 A. In addition to its capital-intensive nature, the water utility industry also experiences low
10 depreciation rates. Given that depreciation is one of the principal sources of internally-
11 generated cash flows for all utilities, low depreciation rates mean that utilities cannot rely on
12 depreciation as a source of cash like other industries do. Because utility assets have long lives
13 and, hence, long capital recovery periods, utilities face increased risk due to inflation, which
14 results in a significantly higher cost to replace a decades-old utility plant where original cost
15 was a small fraction of the cost of the plant to replace it. As shown on Chart 2, below, water
16 utilities experienced a depreciation rate of 2.59% for 2019. In contrast, in 2019, the natural
17 gas and electric utilities experienced average depreciation rates of 3.35% and 3.64%,
18 respectively. Low depreciation rates signify that the pressure on cash flow remains
19 significantly greater for water utilities than for other gas and electricity utilities, on average.

1 **Chart 2:**
 2 **Depreciation Rates of the Water, Gas, and Electric Utility Industries⁹**



3
 4 In view of the foregoing, the water utility industry's high degree of capital intensity
 5 and low depreciation rates, coupled with the need for capital spending to replace aging and
 6 failing water infrastructure, makes the need to maintain financial integrity and the ability to
 7 attract needed new capital, through the allowance of a sufficient rate of return, increasingly
 8 important in order for water utilities to be able to successfully meet the challenges and
 9 investment needs they face.

10 **B. Financial Risk**

11 **Q. Please define financial risk and explain why it is important to the determination of a fair**
 12 **rate of return.**

13 **A.** Financial risk is created by the introduction of senior capital, *i.e.*, debt and preferred stock, into
 14 the capital structure. As noted above, it is the additional risk that a company may not have
 15 sufficient cash flow to meet its financial obligations. The higher the proportion of debt in the

⁹ SNL Financial, Company SEC Form 10-Ks.

1 capital structure, the higher the financial risk which must be factored into the common equity
2 cost rate, consistent with the previously mentioned basic financial principle of risk and return,
3 *i.e.*, investors demand a higher common equity return as compensation for bearing higher
4 investment risk.

5 **Q. Can the combined business and financial risks (*i.e.*, investment risk) of an enterprise be
6 proxied by bond and credit ratings?**

7 A. Yes, but not entirely. Similar bond/issuer credit ratings reflect and are representative of similar
8 combined business and financial risks, *i.e.*, the total risk faced by bond investors. Although
9 specific business or financial risks may differ between companies, the same bond/credit rating
10 indicates that the combined risks are similar, albeit not necessarily equal (as the purpose of the
11 bond/credit rating process is to assess credit quality or credit risk and not common equity risk).

12 However, one must keep in mind that a long-term credit or bond issue rating is an
13 opinion regarding the particular company's overall financial capacity to pay its financial
14 obligations as they become due and payable. It is not an assessment of the risk faced by equity
15 investors. The claims of equity holders are subordinate to the claims of debt holders, including
16 bond holders, and are perpetual in life. As noted above, whereas bondholders can be assured
17 of the probability that a particular company will be able to meet its financial obligations (and
18 thus have higher credit/bond ratings), common equity holders bear the residual risk of
19 insufficient or volatile cash flows in perpetuity. For that fundamental reason, the risks of
20 owning common equity do not directly correspond to the risks of owning bonds.

21 **IV. UTILITIES, INC. OF FLORIDA AND THE UTILITY PROXY GROUP**

22 **Q. Have you reviewed financial data for UIF?**

23 A. Yes. UIF provides service to approximately 64,000 water and wastewater customers in ten
24 counties throughout Florida. UIF is an operating subsidiary of CRU-US. Neither entity is
25 publicly-traded.

1 **Q. Please explain how you chose the Utility Proxy Group.**

2 A. I chose the Utility Proxy Group by selecting those water companies that met the following
3 criteria:

- 4 1) They are included in the Water Utility Group of *Value Line's* Standard Edition (April
5 10, 2020);
- 6 2) They have 70% or greater of 2019 total operating income derived from, and 70% or
7 greater of 2019 total assets devoted to, regulated water operations;
- 8 3) They had not publicly announced involvement in any major merger or acquisition
9 activity (*i.e.*, one publicly-traded utility merging with or acquiring another) at the
10 time of the preparation of this testimony;
- 11 4) They have not cut or omitted their common dividends during the past five years or
12 through the time of the preparation of this testimony;
- 13 5) They have *Value Line* and Bloomberg adjusted Beta coefficients;
- 14 6) They have a positive *Value Line* five-year dividends per share (“DPS”) growth rate
15 projection and,
- 16 7) They have *Value Line*, Bloomberg, Zacks or Yahoo! Finance, consensus five-year
17 earnings per share (“EPS”) growth rate projections.

18 The following seven companies meet these criteria:

- 19 • American States Water Co. (“AWR”);
- 20 • American Water Works Co. Inc. (“AWK”);
- 21 • California Water Service Corp. (“CWT”);
- 22 • Essential Utilities, Inc. (“WTRG”);
- 23 • Middlesex Water Co. (“MSEX”);
- 24 • SJW Corporation (“SJW”); and
- 25 • York Water Co. (“YORW”).

26 **Q. Have you reviewed financial data for the utility proxy group?**

27 A. Yes. Page 1 of Schedule 2 contains comparative capitalization and financial statistics for the
28 Utility Proxy Group for the years 2015-2019. As shown on page 1, during the five-year period
29 ending 2019, the historically achieved average earnings rate on book common equity for the

1 group was 10.45%. The Utility Proxy Group had an average common equity ratio (including
2 short-term debt) during the years 2015-2019 of 51.09%. Total debt to earnings before interest,
3 taxes, depreciation, and amortization (“EBITDA”) for the years 2015-2019 ranged between
4 3.41 and 5.54 times, averaging 4.00 times. Funds from operations to total debt ranged from
5 14.49% to 25.81%, averaging 21.64%.

6 **V. CAPITAL STRUCTURE AND DEBT COST RATES**

7 **Q. What are the balances of investor-provided capital that you recommend be employed in**
8 **developing a return on investor-supplied capital applicable to UIF?**

9 A. In this instance, I recommend the use of UIF’s Parent’s 13-month average capital structure
10 ending December 31, 2019, which consists of 45.58% long-term debt, 5.03% short-term debt,
11 and 49.39% common equity.

12 **Q. How does UIF’s common equity ratio of 49.39% compare with the equity ratios**
13 **maintained by the Utility Proxy Group?**

14 A. UIF’s common equity ratio of 49.39% is reasonable and consistent with the range of common
15 equity ratios maintained, on average, by the utilities used for the derivation of ROE. As shown
16 on page 2 of Schedule 2, the range of equity ratios maintained by the Utility Proxy Group is
17 between 38.48% and 57.05%, with an average of 49.34%.

18 In my opinion, a capital structure consisting of 45.58% long-term debt, 5.03% short-
19 term debt, and 49.39% common equity is appropriate for ratemaking purposes for UIF in the
20 current proceeding because it is comparable to the average capital structure ratios (based on
21 total capital) maintained by the Utility Proxy Group on whose market data I base my
22 recommended common equity cost rate.

23 **Q. What cost rates for long-term and short-term debt are most appropriate for use in a cost**
24 **of capital determination for UIF?**

25 A. A long-term debt cost rate of 5.78% and a short-term debt cost rate of 4.04% are the most

1 appropriate for use in a cost of capital determination for UIF, as they are the actual average
2 debt cost rates incurred by UIF's Parent for the 13-months ended December 31, 2019.

3 **VI. COMMON EQUITY COST RATE MODELS**

4 **Q. Is it important that cost of common equity models be market-based?**

5 A. Yes. Public utilities, like UIF, must compete for equity in capital markets along with
6 all other companies with commensurate risk, which includes non-utilities. The cost of common
7 equity is thus determined based on equity market expectations for the returns of those
8 companies. If an individual investor is choosing to invest their capital among companies with
9 comparable risk, they will choose the company providing a higher return over a company
10 providing a lower return.

11 **Q. Are the cost of common equity models you use market-based models?**

12 A. Yes. The DCF model is market-based in that market prices are used in developing the
13 dividend yield component of the model. The RPM and CAPM are also market-based in that
14 the bond/issuer ratings and expected bond yields/risk-free rate used in the application of the
15 RPM and CAPM reflect the market's assessment of bond/credit risk. In addition, the use of
16 the Beta coefficient to determine the equity risk premium also reflects the market's assessment
17 of market/systematic risk, as Beta coefficients are derived from regression analyses of market
18 prices. Moreover, market prices are used in the development of the monthly returns and equity
19 risk premiums used in the Predictive Risk Premium Model ("PRPM"). Selection criteria for
20 the Non-Price Regulated Proxy Group are based on regression analyses of market prices and
21 reflect the market's assessment of total risk.

22 **A. Discounted Cash Flow Model**

23 **Q. What is the theoretical basis of the DCF model?**

24 A. The theory underlying the DCF model is that the present value of an expected future stream of
25 net cash flows during the investment holding period can be determined by discounting those

1 cash flows at the cost of capital, or the investors' capitalization rate. DCF theory assumes that
 2 an investor buys a stock for an expected total return rate which is derived from cash flows
 3 received in the form of dividends plus appreciation in market price (the expected growth rate).
 4 Mathematically, the dividend yield on market price plus a growth rate equals the capitalization
 5 rate (*i.e.*, the total common equity return rate expected by investors).

6 **Q. Which version of the DCF model do you use?**

7 A. I use the single-stage constant growth DCF model. The single-stage DCF model is expressed
 8 as:

$$9 \quad K = (D_1 / P_0) + g$$

10 Where:

11	K	=	Cost of Equity Capital
12	D ₁	=	Expected Dividend Per Share in one year
13	P ₀	=	Current Market Price
14	G	=	Expected Dividend Per Share Growth

15 **Q. Please describe the dividend yield used in your application of the DCF model.**

16 A. The unadjusted dividend yields are based on a recent (April 30, 2020) indicated dividend,
 17 divided by the average of closing market prices for the 60 days ending April 30, 2020, as shown
 18 in Column [1] on page 1 of Schedule 3.

19 **Q. Please explain the adjusted dividend yield shown in column [7] on page 1 of Schedule 3.**

20 A. Because dividends are paid quarterly, or periodically, as opposed to continuously (daily), an
 21 adjustment must be made to the dividend yield. This is often referred to as the discrete, or the
 22 Gordon Periodic, version of the DCF model.

23 DCF theory calls for the use of the full expectational growth rate, referred to as D₁, in
 24 calculating the dividend yield component of the model. However, since the various companies
 25 in the Utility Proxy Group increase their quarterly dividend at various times during the year, a
 26 reasonable assumption is to reflect one-half the annual dividend growth rate in the dividend

1 yield component, referred to as $D_{1/2}$. This is a conservative approach because it does not
2 overstate the dividend yield, which should be representative of the next 12-month period.
3 Therefore, the actual average dividend yields in Column [1] on page 1 of Schedule 3, have
4 been adjusted upward to reflect one-half the average projected growth rate shown in Column
5 [6].

6 **Q. Please explain the basis of the growth rates of the Utility Proxy Group used in your**
7 **application of the DCF model.**

8 A. Investors with more limited resources than institutional investors are likely to rely on widely
9 available financial information services, such as *Value Line*, Bloomberg, Zacks, and Yahoo!
10 Finance. Investors recognize that such analysts have significant insight into the dynamics of
11 the industries and individual companies they analyze, as well as an entity's historical and future
12 ability to effectively manage the effects of changing laws and regulations and ever-changing
13 economic and market conditions.

14 Over the long run, there can be no growth in DPS without growth in EPS. Thus, the
15 use of earnings growth rate forecasts in a DCF analysis provides a better matching between
16 investors' market price appreciation expectations and the growth rate component of the DCF.
17 Therefore, I have relied on security analysts' five-year forecasts of EPS growth in my
18 application of the DCF model.

19 **Q. Please summarize the DCF model results.**

20 A. As shown on page 1 of Schedule 3, the average result of the single-stage DCF model is 8.70%,
21 while the median result is 9.44%. I have averaged these two results in arriving at a conclusion
22 of a DCF-indicated common equity cost rate of 9.07% for the Utility Proxy Group. By doing
23 so, I have considered the DCF results for each company without giving undue weight to outliers
24 on either the high or the low side.

1 **B. The Risk Premium Model**

2 **Q. Please describe the theoretical basis of the RPM.**

3 A. The RPM is based on the basic financial principle of risk and return, namely, that investors
4 require greater returns for bearing greater risk. The RPM recognizes that common equity
5 capital has greater investment risk than debt capital, as common equity shareholders are last in
6 line in any claim on an entity's assets and earnings, as previously discussed. Therefore,
7 investors require higher returns from investment in common stocks than from investment in
8 bonds to compensate them for bearing the additional risk.

9 While it is possible to directly observe bond returns and yields, the investor-required
10 common equity return cannot be directly determined or observed. According to RPM theory,
11 one can estimate a common equity risk premium over bonds, either historically or
12 prospectively, and then use that premium to derive a cost rate of common equity. In summary,
13 according to the RPM, the cost of common equity equals the expected cost rate for long-term
14 debt capital plus a risk premium over that cost rate to compensate common shareholders for
15 the added risk of being unsecured and last-in-line for any claim on a corporation's assets and
16 earnings.

17 **Q. Please explain how you derived your indicated cost of common equity based on the RPM.**

18 A. I relied on the results of the application of two risk premium methods, as shown in Schedule 4.
19 The first method is the PRPM. The second method is a risk premium model using an adjusted
20 total market approach.

21 **Q. Please explain the PRPM.**

22 A. The PRPM, published in the *Journal of Regulatory Economics ("JRE")*¹⁰ and *The Electricity*

¹⁰ "A New Approach for Estimating the Equity Risk Premium for Public Utilities", Pauline M. Ahern, Frank J. Hanley and Richard A. Michelfelder, Ph.D. *The Journal of Regulatory Economics* (December 2011), 40:261-278.

1 Journal (“TEJ”),¹¹ was developed from the work of Robert F. Engle, who shared the Nobel
2 Prize in Economics in 2003, “for methods of analyzing economic time series with time-varying
3 volatility (“ARCH”)”¹² (with “ARCH” standing for autoregressive conditional
4 heteroskedasticity). Engle found that the volatility in market prices, returns, and equity risk
5 premiums cluster over time, making them highly predictable and available to predict future
6 levels of risk and risk premiums.

7 The PRPM estimates the risk/return relationship directly as the predicted equity risk
8 premium is generated by the predictability of volatility, or risk. Thus, the PRPM is not based
9 on an estimate of investor behavior, but rather on the evaluation of the actual results of that
10 behavior, *i.e.*, the variance of historical equity risk premiums.

11 The inputs to the model are the historical returns on the common shares of each publicly
12 traded utility in the Utility Proxy Group, minus the historical monthly yield on long-term U.S.
13 Treasury securities, through April 2020. Using a generalized form of ARCH, known as
14 GARCH, each water utility’s projected equity risk premium was determined using Eviews[®]
15 statistical software. When the GARCH model is applied to the historical return data, it
16 produces a predicted GARCH variance series¹³ and a GARCH coefficient.¹⁴ The forecasted
17 30-year U.S. Treasury Bond yield of 2.03% is based on consensus forecasts for the six quarters
18 ending with the third quarter 2021, derived from the May 1, 2020 *Blue Chip Financial*
19 *Forecasts (“Blue Chip”)*, averaged with the long-range forecasts for 2021 – 2025 and 2026 –
20 2030, from the December 1, 2019 *Blue Chip*. The average PRPM indicated common equity
21 cost rate is 11.66%, while the median is 10.96% for the Utility Proxy Group, as shown in

¹¹ “Comparative Evaluation of the Predictive Risk Premium Model™, the Discounted Cash Flow Model and the Capital Asset Pricing Model”, Pauline M. Ahern, Richard A. Michelfelder, Ph.D., Rutgers University, Dylan W. D’Ascendis, and Frank J. Hanley, The Electricity Journal (May, 2013).

¹² www.nobelprize.org

¹³ Illustrated in Columns [1] and [2] on page 2 of Schedule 4.

¹⁴ Illustrated in Column [4] on page 2 of Schedule 4.

1 Column [7] on page 2 of Schedule 4. Consistent with my use of the average of the mean and
2 median DCF results, I rely on the average of the mean and median PRPM results of 11.31% as
3 my conclusion of the PRPM equity cost rate, also shown in Column [7] on page 2 of Schedule
4 4.

5 **Q. Please explain the adjusted total market approach RPM.**

6 A. The adjusted total market approach RPM adds a prospective public utility bond yield to the
7 average of: (1) an equity risk premium derived from a beta-adjusted total market equity risk
8 premium and (2) an equity risk premium based on the S&P Utilities Index.

9 **Q. Please explain the basis of the adjusted prospective bond yield of 3.82% applicable to the**
10 **Utility Proxy Group, shown on line 5 on page 3 of Schedule 4.**

11 A. The first step in the adjusted total market approach RPM analysis is to determine the expected
12 bond yield. Because both ratemaking and the cost of capital, including the common equity
13 cost rate, are prospective in nature, a prospective yield on long-term debt, similarly rated to the
14 Utility Proxy Group, is essential. Since *Blue Chip* does not publish consensus yield forecasts
15 for the Moody's A-rated public utility bonds, I began with the May 1, 2020 *Blue Chip*
16 consensus forecast of about 50 economists of the expected yield on Aaa-rated corporate bonds
17 for the six calendar quarters ending with the third calendar quarter of 2021, averaged with the
18 long-range forecasts for 2021 – 2025, and 2026 – 2030, from the December 1, 2019 *Blue*
19 *Chip*.¹⁵ As shown on line 1 on page 3, the average expected yield on Moody's Aaa-rated
20 corporate bonds is 3.21%. In order to derive a prospective Moody's A-rated public utility bond
21 yield, an adjustment of 0.53%, or the average spread between Moody's Aaa-rated corporate
22 bond yields and Moody's A-rated public utility bond yields for the three months ending April
23 2020¹⁶ must be made to the average Aaa corporate bond yield, which results in a bond yield of

¹⁵ See pages 10 and 11 of Schedule 4.

¹⁶ See page 4 of Schedule 4.

1 3.74% applicable to a Moody's A-rated public utility bond.

2 Because the Utility Proxy Group average Moody's issuer rating is A2/A3, as shown on
3 page 5 of Schedule 4, an 0.08% upward adjustment to the prospective Moody's A-rated public
4 utility bond yield of 3.74% is necessary. The 0.08% represents one-sixth (1/6) of the average
5 spread of 0.46% between Moody's A-rated and Baa-rated public utility bonds for the three
6 months ending April 2020. This is necessary so that the prospective bond yield is consistent
7 with the Utility Proxy Group's average A2/A3 long-term issuer rating. Adding the 0.08% to
8 the 3.74% prospective Moody's A-rated public utility bond yield results in a 3.82% expected
9 bond yield for the Utility Proxy Group, as shown on line 5 on page 3 of Schedule 4.

10 **Q. Please explain the derivation of the beta-derived equity risk premium.**

11 A. The components of the beta-derived risk premium model are: (1) An expected market equity
12 risk premium over corporate bonds, and (2) the Beta coefficient. The derivation of the beta-
13 derived equity risk premium applied to the Utility Proxy Group is shown on lines 1 through 9
14 on page 8 of Schedule 4. The total beta-derived equity risk premium applied is based on an
15 average of three historical data-based equity risk premiums, two *Value Line*-based equity risk
16 premiums, and one Bloomberg-based equity risk premium. Each of these is described in turn.

17 **Q. How did you derive a market risk premium based on long-term historical data?**

18 A. To derive a historical market equity risk premium, I used the most recent holding period returns
19 for the large company common stocks from the 2020 SBBI® Yearbook: Stocks, Bonds, Bills,
20 and Inflation ("SBBI – 2020")¹⁷ less the average historical yield on Moody's Aaa/Aa-rated
21 corporate bonds for the period 1928 to 2019. The use of holding period returns over a very
22 long period of time is appropriate because it is consistent with the long-term investment horizon
23 presumed by investing in a going concern, *i.e.*, a company expected to operate in perpetuity.

¹⁷ SBBI – 2020 Appendix A Tables.

1 SBBI's long-term arithmetic mean monthly total return rate on large company common
2 stocks was 11.83% and the long-term arithmetic mean monthly yield on Moody's Aaa/Aa-
3 rated corporate bonds was 6.05%.¹⁸ As shown on line 1 on page 8 of Schedule 4, subtracting
4 the mean monthly bond yield from the total return on large company stocks results in a long-
5 term historical equity risk premium of 5.78%.

6 I used the arithmetic mean monthly total return rates for the large company stocks and
7 yields (income returns) for the Moody's Aaa/Aa corporate bonds, because they are appropriate
8 for the purpose of estimating the cost of capital as noted in SBBI – 2020.¹⁹ The use of the
9 arithmetic mean return rates and yields is appropriate because historical total returns and equity
10 risk premiums provide insight into the variance and standard deviation of returns needed by
11 investors in estimating future risk when making a current investment. If investors relied on the
12 geometric mean of historical equity risk premiums, they would have no insight into the
13 potential variance of future returns because the geometric mean relates the change over many
14 time periods to a constant rate of change, thereby obviating the year-to-year fluctuations, or
15 variance, which is critical to risk analysis.

16 **Q. Please explain the derivation of the regression-based equity risk premium.**

17 A. To derive the regression analysis-derived market equity risk premium of 9.12%, shown on line
18 2 on page 8 of Schedule 4, I used the same monthly annualized total returns on large company
19 common stocks relative to the monthly annualized yields on Moody's Aaa/Aa corporate bonds
20 as mentioned above. The relationship between interest rates and the market equity risk
21 premium was modeled using the observed monthly market equity risk premium as the
22 dependent variable, and the monthly yield on Moody's Aaa/Aa corporate bonds as the
23 independent variable. I used a linear Ordinary Least Squares ("OLS") regression, in which the

¹⁸ As explained in note 1 on page 8 of Schedule 4.

¹⁹ SBBI – 2020, at 10-22.

1 market equity risk premium is expressed as a function of the Moody's Aaa/Aa corporate bonds
2 yield:

$$3 \quad RP = \alpha + \beta (R_{Aaa/Aa})$$

4 **Q. Please explain the derivation of the PRPM equity risk premium.**

5 A. I used the same PRPM approach described previously to develop another equity risk premium
6 estimate. The inputs to the model are the historical monthly returns on large company common
7 stocks minus the monthly yields on Aaa/Aa corporate bonds during the period from January
8 1928 through April 2020.²⁰ Using the previously discussed generalized form of ARCH, known
9 as GARCH, the projected equity risk premium is determined using Eviews[®] statistical
10 software. The resulting PRPM predicted market equity risk premium is 11.95%.²¹

11 **Q. Please explain the derivation of a projected equity risk premium based on *Value Line***
12 **data for your RPM analysis.**

13 A. As noted previously, because both ratemaking and the cost of capital, including the cost rate
14 of common equity, are prospective, a prospective market equity risk premium is essential. The
15 derivation of the forecasted or prospective market equity risk premium can be found in note 4
16 on page 8 of Schedule 4. Consistent with my calculation of the dividend yield component in
17 my DCF analysis, this prospective market equity risk premium is derived from an average of
18 the three- to five-year median market price appreciation potential by *Value Line* for the 13
19 weeks ending May 1, 2020, plus an average of the median estimated dividend yield for the
20 common stocks of the 1,700 firms covered in *Value Line's* Standard Edition.²²

21 The average median expected price appreciation is 81%, which translates to a 15.99%
22 annual appreciation, and, when added to the average of *Value Line's* median expected dividend

²⁰ Data from January 1926-December 2019 is from SBBI – 2020. Data from January 2020 – April 2020 is from Bloomberg Professional Services.

²¹ Shown on line 3 on page 8 of Schedule 4.

²² As explained in detail in page 2, note 1 of Schedule 5.

1 yields of 2.72%, equates to a forecasted annual total return rate on the market of 18.71%. The
2 forecasted Aaa bond yield of 3.21% is deducted from the total market return of 18.71%,
3 resulting in an equity risk premium of 15.50%, shown on page 8, line 4 of Schedule 4.

4 **Q. Please explain the derivation of an equity risk premium based on the S&P 500 composite**
5 **index companies using *Value Line* data.**

6 A. Using data from *Value Line*, I calculate an expected total return on the S&P 500 using expected
7 dividend yields and long-term growth estimates as a proxy for capital appreciation. The
8 expected total return for the S&P 500 is 14.79%. Subtracting the prospective yield on Aaa
9 Corporate bonds of 3.21% results in an 11.58% projected equity risk premium.

10 **Q. Please explain the derivation of an equity risk premium based on the S&P 500 composite**
11 **index companies using Bloomberg data.**

12 A. Using data from Bloomberg Professional Services, I calculate an expected total return on the
13 S&P 500 using expected dividend yields and long-term growth estimates as a proxy for capital
14 appreciation, identical to the method described above relative to *Value Line* data. The expected
15 total return for the S&P 500 is 13.53%. Subtracting the prospective yield on Aaa Corporate
16 bonds of 3.21% results in a 10.32% projected equity risk premium.

17 **Q. What is your conclusion of the market equity risk premium for your total market**
18 **approach RPM?**

19 A. I give equal weight to all these market equity risk premiums in arriving at my conclusion of
20 market equity risk premium of 10.71%. After calculating the average market equity risk
21 premium of 10.71%, I adjust it by the Beta coefficient of the Utility Proxy Group to account
22 for the risk of the Group. As discussed below, the Beta coefficient is a meaningful measure of
23 prospective relative risk to the market as a whole and is a logical means by which to allocate a
24 company's or proxy group's share of the market's total equity risk premium, relative to
25 corporate bond yields. As shown on page 1 of Schedule 5, the average of the mean and median

1 Beta coefficients for the Utility Proxy Group is 0.71. Multiplying the Beta coefficient of the
2 Utility Proxy Group of 0.71 by the market equity risk premium of 10.71% results in a beta-
3 adjusted equity risk premium of 7.60% for the Utility Proxy Group.

4 **Q. How did you derive the equity risk premium based on the S&P utility index and Moody's**
5 **A-rated public utility bonds?**

6 A. I estimate three equity risk premiums based on the S&P Utility Index holding returns, and two
7 equity risk premiums based on the expected returns of the S&P Utilities Index, using *Value*
8 *Line* and Bloomberg data, respectively. Turning first to the S&P Utility Index holding period
9 returns, I derive a long-term monthly arithmetic mean equity risk premium between the S&P
10 Utility Index total returns of 10.74% and monthly A-rated public utility bond yields of 6.53%
11 from 1928 to 2019 to arrive at an equity risk premium of 4.21%.²³ I then use the same historical
12 data to derive an equity risk premium of 6.68% based on a regression of the monthly equity
13 risk premiums. The final S&P Utility Index holding period equity risk premium involves
14 applying the PRPM using the historical monthly equity risk premiums from January 1928 to
15 April 2020 to arrive at a PRPM-derived equity risk premium of 5.95% for the S&P Utility
16 Index.

17 I then derive expected total returns on the S&P Utilities Index of 10.50% and 8.97%
18 using data from *Value Line* and Bloomberg Professional Services, respectively, and subtract
19 the prospective A2-rated public utility bond yield (3.74%)²⁴, which results in risk premiums of
20 6.76% and 5.23%, respectively. As with the market equity risk premiums, I average all the
21 risk premiums to arrive at my utility-specific equity risk premium of 5.76%.

²³ As shown on line 1 on page 12 of Schedule 4.

²⁴ Derived on line 3 on page 3 of Schedule 4.

1 **Q. What is your conclusion regarding the appropriate equity risk premium for use in your**
 2 **adjusted total market approach RPM analysis?**

3 A. The equity risk premium applicable to the Utility Proxy Group is 6.68%, derived by averaging
 4 the beta-derived premium of 7.60% (line 9 on page 8 of Schedule 4) with the equity risk
 5 premium of 5.76% based on the holding period returns of public utilities with Moody's A-rated
 6 bonds (line 6 on page 12 of Schedule 4).

7 **Q. What is the RPM-based common equity cost rate based on the adjusted total market**
 8 **approach?**

9 A. It is 10.50% for the Utility Proxy Group as shown on line 7 on page 3 of Schedule 4.

10 **Q. What are the results of your application of the PRPM and the adjusted total market**
 11 **approach RPM?**

12 A. As shown on page 1 of Schedule 4, the indicated RPM-derived common equity cost rate is
 13 10.91%, derived by averaging the PRPM results (11.31%) with those based on the adjusted
 14 total market approach (10.50%).

15 **C. The Capital Asset Pricing Model**

16 **Q. Please explain the theoretical basis of the CAPM.**

17 A. CAPM theory defines risk as the co-variability of a security's returns with the market's returns
 18 as measured by the Beta coefficient (β). A Beta coefficient of less than 1.0 indicates lower
 19 variability while a Beta coefficient greater than 1.0 indicates greater variability than the market.

20 The CAPM assumes that all other risk, *i.e.*, all non-market or unsystematic risk, can be
 21 eliminated through diversification. The risk that cannot be eliminated through diversification
 22 is called market or systematic risk. In addition, the CAPM presumes that investors require
 23 compensation only for those systematic risks that are the result of macroeconomic and other
 24 events that affect the returns on all assets. The model is applied by adding a risk-free rate of
 25 return to a market risk premium, which is adjusted proportionately to reflect the systematic risk

1 of the individual security relative to the total market, as measured by Beta coefficient. The
 2 traditional CAPM model is expressed as:

3		R_s	=	$R_f + \beta(R_m - R_f)$
4	Where:	R_s	=	Return rate on the common stock
5		R_f	=	Risk-free rate of return
6		R_m	=	Return rate on the market as a whole
7		β	=	Adjusted beta (volatility of the security relative to the market
8				as a whole)

9 Numerous tests of the CAPM have measured the extent to which security returns and
 10 Beta coefficients are related, as predicted by the CAPM, confirming the CAPM's validity. The
 11 empirical CAPM ("ECAPM") reflects the reality that, while the results of these tests support
 12 the notion that the Beta coefficient is related to security returns, the empirical Security Market
 13 Line ("SML") described by the CAPM formula is not as steeply sloped as the predicted SML.
 14 Morin²⁵ states:

15 With few exceptions, the empirical studies agree that ... low-beta securities earn
 16 returns somewhat higher than the CAPM would predict, and high-beta securities
 17 earn less than predicted.

18 * * *

19
 20
 21 Therefore, the empirical evidence suggests that the expected return on a security
 22 is related to its risk by the following approximation:

$$23 \quad K = R_F + x \beta(R_M - R_F) + (1-x) \beta(R_M - R_F)$$

24 where x is a fraction to be determined empirically. The value of x that best
 25 explains the observed relationship $\text{Return} = 0.0829 + 0.0520 \beta$ is between 0.25
 26 and 0.30. If $x = 0.25$, the equation becomes:

$$27 \quad K = R_F + 0.25(R_M - R_F) + 0.75 \beta(R_M - R_F)$$

28
 29
 30 In view of theory and practical research, I have applied both the traditional CAPM and
 31 the ECAPM to the companies in the Utility Proxy Group and averaged the results.
 32
 33

²⁵ Roger A. Morin, New Regulatory Finance, Public Utility Reports, 2006, at 175, 190.

1 **Q. Please describe your selection of the Beta coefficient for your CAPM analysis?**

2 A. I relied on an average of the adjusted Beta coefficients published by *Value Line* and provided
3 by Bloomberg Professional Services. While both of those services adjust their calculated (or
4 “raw”) Beta coefficients to reflect the tendency of the Beta coefficient to regress to the market
5 mean of 1.00, *Value Line* calculates its Beta coefficients over a five-year period, while
6 Bloomberg’s calculation is based on two years of data.

7 **Q. Please describe your selection of a risk-free rate of return for your CAPM analysis.**

8 A. As shown in Column [5] on Schedule 5, the risk-free rate adopted for both applications of the
9 CAPM is 2.03%. The risk-free rate of 2.03% is based on the average of the consensus forecast
10 for the six quarters ending with the third quarter 2021, from the May 1, 2020 *Blue Chip*,
11 averaged with the long-range forecasts for 2021 – 2025 and 2026 – 2030, from the December
12 1, 2019 *Blue Chip*,²⁶ as detailed in note 2 on page 2 of Schedule 5.

13 **Q. Why is the yield on long-term U.S. treasury bonds appropriate for use as the risk-free
14 rate?**

15 A. The yield on long-term U.S. Treasury Bonds is almost risk-free and its term is consistent with:
16 (1) the long-term cost of capital to public utilities measured by the yields on A-rated public
17 utility bonds; (2) the long-term investment horizon inherent in utilities’ common stock and (3)
18 the long-term life of the jurisdictional rate base to which the allowed reasonable rate of return
19 (*i.e.*, cost of capital) will be applied. In contrast, short-term U.S. Treasury yields are more
20 volatile, and reflect a short-term investment horizon that is not consistent with the long-term
21 investment horizon, and life of the rate base to which the allowed rate of return is applied.

22 **Q. Please explain the estimation of the expected equity risk premium for the market.**

23 A. The basis of the market risk premium is explained in detail in note 1 on page 2 of Schedule 5.

²⁶ See pages 10 and 11 of Schedule 4.

1 As discussed previously, the market risk premium is derived from an average of three historical
2 data-based market risk premiums, two *Value Line* data-based market risk premiums, and one
3 Bloomberg data-based market risk premium.

4 The long-term income return on U.S. Government Securities of 5.09% was deducted
5 from the SBBI – 2020 monthly historical total market return of 12.10%, which resulted in a
6 historical market equity risk premium of 7.01%.²⁷ I applied a linear OLS regression to the
7 monthly annualized historical returns on the S&P 500 relative to historical yields on long-term
8 U.S. Government Securities from SBBI – 2020. That regression analysis yielded a market
9 equity risk premium of 10.26%. The PRPM market equity risk premium is 13.44% and is
10 derived using the PRPM relative to the yields on long-term U.S. Treasury securities from
11 January 1926 through April 2020.

12 The *Value Line*-derived forecasted total market equity risk premium is derived by
13 deducting the forecasted risk-free rate of 2.03%, discussed above, from the *Value Line*
14 projected total annual market return of 18.71%, resulting in a forecasted total market equity
15 risk premium of 16.68%. The S&P 500 projected market equity risk premium using *Value*
16 *Line* data is derived by subtracting the projected risk-free rate of 2.03% from the projected total
17 return of the S&P 500 of 14.79%. The resulting market equity risk premium is 12.76%.

18 The S&P 500 projected market equity risk premium using Bloomberg data is derived
19 by subtracting the projected risk-free rate of 2.03% from the projected total return of the S&P
20 500 of 13.53%. The resulting market equity risk premium is 11.50%.

21 These six measures, when averaged, result in an average total market equity risk
22 premium of 11.94%.

²⁷ SBBI – 2020: at Appendix A-1 (1) through A-1 (3) and Appendix A-7 (19) through A-7 (21).

1 **Q. What are the results of applying the traditional and empirical CAPM to the Utility Proxy**
2 **Group?**

3 A. As shown in Column [8] on page 1 of Schedule 5, the average and median CAPM/ECAPM
4 equity cost rate is 10.90%.

5 **D. Common Equity Cost Rates for a Proxy Group of Domestic, Non-Price Regulated**
6 **Companies Based on the DCF, RPM, and CAPM**

7 **Q. Why do you also consider a proxy group of domestic, non-price regulated companies?**

8 A. In the *Hope* and *Bluefield* cases, the U.S. Supreme Court did not specify that comparable risk
9 companies had to be utilities. Since the purpose of rate regulation is to be a substitute for
10 marketplace competition, non-price regulated firms operating in the competitive marketplace
11 make an excellent proxy if they are comparable in total risk to the Utility Proxy Group being
12 used to estimate the cost of common equity. The selection of such domestic, non-price
13 regulated competitive firms theoretically and empirically results in a proxy group which is
14 comparable in total risk to the Utility Proxy Group, since all of these companies compete for
15 capital in the exact same markets.

16 **Q. How did you select non-price regulated companies that are comparable in total risk to**
17 **the Utility Proxy Group?**

18 A. In *order* to select a proxy group of domestic, non-price regulated companies similar in total
19 risk to the Utility Proxy Group, I relied on the Beta coefficients and related statistics derived
20 from *Value Line* regression analyses of weekly market prices over the most recent 260 weeks
21 (*i.e.*, five years). These selection criteria resulted in a proxy group of 12 domestic, non-price
22 regulated firms comparable in total risk to the Utility Proxy Group. Total risk is the sum of
23 non-diversifiable market risk and diversifiable company-specific risks. The criteria used in
24 selecting the domestic, non-price regulated firms was:

25 1) They must be covered by *Value Line Investment Survey* (Standard Edition);

- 1 2) They must be domestic, non-price regulated companies, *i.e.*, not utilities;
 2 3) Their Beta coefficients must lie within plus or minus two standard deviations of the
 3 average unadjusted Beta coefficients of the Utility Proxy Group; and
 4 4) The residual standard errors of the *Value Line* regressions which gave rise to the
 5 unadjusted Beta coefficients must lie within plus or minus two standard deviations of
 6 the average residual standard error of the Utility Proxy Group.

7 Beta coefficients measure market, or systematic, risk, which is not diversifiable. The
 8 residual standard errors of the regressions measure each firm's company-specific, diversifiable
 9 risk. This is demonstrated clearly by Jack C. Francis on page 273 of Investments: Analysis
 10 and Management, where he states "Total risk can be measured by the variance of returns,
 11 denoted $\text{Var}(r)$. This measure of *total risk is partitioned into its systematic and unsystematic*
 12 *components.*"²⁸ Essentially, companies that have similar betas and standard errors of
 13 regression have similar total investment risk.

14 **Q. Have you prepared a schedule which shows the data from which you selected the 12**
 15 **domestic, non-price regulated companies that are comparable in total risk to the Utility**
 16 **Proxy Group?**

17 A. Yes, the basis of my selection and both proxy groups' regression statistics are shown in
 18 Schedule 6.

19 **Q. Did you calculate common equity cost rates using the DCF model, RPM, and CAPM for**
 20 **the Non-Price Regulated Proxy Group?**

21 A. Yes. Because the DCF model, RPM, and CAPM have been applied in an identical manner as
 22 described above, I will not repeat the details of the rationale and application of each model.
 23 One exception is in the application of the RPM, where I did not use public utility-specific
 24 equity risk premiums, nor did I apply the PRPM to the individual non-price regulated

²⁸ Jack C. Francis, Investments: Analysis and Management 5th (McGraw-Hill, 1991) at 273 (italics in original).

1 companies.

2 Page 2 of Schedule 7 derives the constant growth DCF model common equity cost rate.
3 As shown, the indicated common equity cost rate, using the constant growth DCF for the Non-
4 Price Regulated Proxy Group comparable in total risk to the Utility Proxy Group, is 8.41%.

5 Pages 3 through 5 of Schedule 7 contain the data and calculations that support the
6 13.12% RPM common equity cost rate. As shown on line 1, page 3 of Schedule 7, the
7 consensus prospective yield on Moody's Baa-rated corporate bonds for the six quarters ending
8 in the third quarter of 2021, and for the years 2021 – 2025 and 2026 – 2030, is 4.55%.²⁹ When
9 the beta-adjusted risk premium of 8.57%³⁰ relative to the Non-Price Regulated Proxy Group is
10 added to the prospective Baa2-rated corporate bond yield of 4.55%, the indicated RPM
11 common equity cost rate is 13.12%.

12 Page 6 of Schedule 7 contains the inputs and calculations that support my indicated
13 CAPM/ECAPM common equity cost rate of 11.83%.

14 **Q. What is the cost rate of common equity based on the Non-Price Regulated Proxy Group?**

15 A. As shown on page 1 of Schedule 7, the results of the common equity models applied to the
16 Non-Price Regulated Proxy Group -- which group is comparable in total risk to the Utility
17 Proxy Group -- are as follows: 8.41% (DCF), 13.12% (RPM), and 11.83% (CAPM). The
18 average of the mean and median of these models is 11.48%, which I used as the indicated
19 common equity cost rate for the Non-Price Regulated Proxy Group.

²⁹ *Blue Chip Financial Forecasts*, December 1, 2019, at page 14 and May 1, 2020, at page 2.
³⁰ Derived on page 4 of Schedule 7.

1 **VII. INDICATED COMMON EQUITY COST RATE BEFORE ADJUSTMENT FOR**
 2 **COMPANY-SPECIFIC RISK**

3 **Q. What is the indicated common equity cost rate based on the cost of common equity model**
 4 **results?**

5 A. It is 10.75%, based on the common equity cost rates resulting from the application of cost of
 6 common equity models to the Utility Proxy Group and the Non-Price Regulated Proxy Group
 7 summarized in Table 2 above and on page 2 of Schedule 1. As discussed above, I employ
 8 multiple cost of common equity models as primary tools in arriving at my recommended
 9 common equity cost rate because:

- 10 1) No single model is so inherently precise that it can be relied on solely to the
 11 exclusion of other theoretically sound models;
 12 2) All of the models are market-based;
 13 3) The use of multiple models adds reliability to the estimation of the common equity
 14 cost rate; and
 15 4) The prudence of using multiple cost of common equity models is supported in both
 16 the financial literature and regulatory precedent.

17 Based on these common equity cost rate results, I conclude that a common equity cost
 18 rate of 10.75% is indicated for the Utility Proxy Group before determining if there need to be
 19 any Company-specific adjustments.

20 **A. Company-Specific Risk Adjustments**

21 **1. Business Risk Adjustment**

22 **Q. Does UIF's smaller size compared with the Utility Proxy Group increase its business risk?**

23 A. Yes. UIF's smaller size relative to the Utility Proxy Group companies indicates greater relative
 24 business risk for the Company because, all else being equal, size has a material bearing on risk.

25 Size affects business risk because smaller companies generally are less able to cope
 26 with significant events that affect sales, revenues and earnings. For example, smaller

1 companies face more risk exposure to business cycles and economic conditions, both nationally
 2 and locally. Additionally, the loss of revenues from a few larger customers would have a
 3 greater effect on a small company than on a bigger company with a larger, more diverse,
 4 customer base.

5 As further evidence illustrates that smaller firms are riskier, investors generally demand
 6 greater returns from smaller firms to compensate for less marketability and liquidity of their
 7 securities. Duff & Phelps 2019 Valuation Handbook Guide to Cost of Capital - Market Results
 8 through 2018 (“D&P - 2019”) discusses the nature of the small-size phenomenon, providing
 9 an indication of the magnitude of the size premium based on several measures of size. In
 10 discussing “Size as a Predictor of Equity Premiums,” D&P - 2019 states:

11 The size effect is based on the empirical observation that companies of smaller
 12 size are associated with greater risk and, therefore, have greater cost of capital
 13 [sic]. The “size” of a company is one of the most important risk elements to
 14 consider when developing cost of equity capital estimates for use in valuing a
 15 business simply because size has been shown to be a *predictor* of equity returns.
 16 In other words, there is a significant (negative) relationship between size and
 17 historical equity returns - as size *decreases*, returns tend to *increase*, and vice
 18 versa. (footnote omitted) (emphasis in original)³¹

19 Furthermore, in “The Capital Asset Pricing Model: Theory and Evidence,” Fama and
 20 French note size is indeed a risk factor which must be reflected when estimating the cost of
 21 common equity. On page 14, they note:

22 . . . the higher average returns on small stocks and high book-to-market stocks
 23 reflect unidentified state variables that produce undiversifiable risks
 24 (covariances) in returns not captured in the market return and are priced
 25 separately from market betas.³²

26 Based on this evidence, Fama and French proposed their three-factor model which
 27 includes a size variable in recognition of the effect size has on the cost of common equity.

³¹ Duff & Phelps 2019 Valuation Handbook Guide to Cost of Capital - Market Results through 2018, Wiley 2018, at 4-1.

³² Eugene F. Fama and Kenneth R. French, “The Capital Asset Pricing Model: Theory and Evidence,” *Journal of Economic Perspectives*, Volume 18, Number 3, Summer 2004, at 25-43.

1 Also, it is a basic financial principle that the use of funds invested, and not the source
 2 of funds, is what gives rise to the risk of any investment.³³ Eugene Brigham, a well-known
 3 authority, states:

4 A number of researchers have observed that portfolios of small-firms (sic) have
 5 earned consistently higher average returns than those of large-firm stocks; this is
 6 called the “small-firm effect.” On the surface, it would seem to be advantageous
 7 to the small firms to provide average returns in a stock market that are higher
 8 than those of larger firms. In reality, it is bad news for the small firm; **what the**
 9 **small-firm effect means is that the capital market demands higher returns**
 10 **on stocks of small firms than on otherwise similar stocks of the large firms.**
 11 (emphasis added)³⁴

12 Consistent with the financial principle of risk and return discussed above, increased
 13 relative risk due to small size must be considered in the allowed rate of return on common
 14 equity. Therefore, the Commission’s authorization of a cost rate of common equity in this
 15 proceeding must appropriately reflect the unique risks of UIF’s, including its small size, which
 16 is justified and supported above by evidence in the financial literature.

17 **Q. Is there a way to quantify an adjustment to compensate UIF for greater business risk due**
 18 **to its smaller size relative to the Utility Proxy Group?**

19 A. Yes. UIF has greater relative risk than the average utility in the Utility Proxy Group because
 20 of its smaller size compared with the Utility Proxy Group, as measured by an estimated market
 21 capitalization of common equity for UIF.

³³ Brealey, Richard A. and Myers, Stewart C., Principles of Corporate Finance (McGraw-Hill Book Company, 1996), at 204-205, 229.

³⁴ Brigham, Eugene F., Fundamentals of Financial Management, Fifth Edition (The Dryden Press, 1989), at 623.

**Table 3: Size as Measured by Market Capitalization for UIF
and the Utility Proxy Group**

	<u>Market Capitalization*</u> (\$ Millions)	<u>Times Greater Than The Company</u>
UIF	\$196.004	
Utility Proxy Group	\$5,657.608	28.9x

*From page 1 of Schedule 8.

UIF's estimated market capitalization was \$196.004 million as of April 30, 2020,³⁵ compared with the market capitalization of the average company in the Utility Proxy Group of \$5.657 billion as of April 30, 2020. The average company in the Utility Proxy Group has a market capitalization 28.9 times the size of UIF's estimated market capitalization.

As a result, it is necessary to upwardly adjust the indicated common equity cost rate of 10.75% to reflect UIF's greater risk due to their smaller relative size. The determination is based on the size premiums for portfolios of the New York Stock Exchange, American Stock Exchange, and NASDAQ listed companies ranked by deciles for the 1926 to 2019 period as shown on the bottom half of page 1 of Schedule 8. The average size premium for the Utility Proxy Group with a market capitalization of \$5.7 billion falls in the 4th decile, while the Company's estimated market capitalization of \$196.004 million places it in the 10th decile. The size premium spread between the 4th decile and the 10th decile is 4.20% as shown on the top half of page 1 of Schedule 8. Even though a 4.20% upward size adjustment is indicated, I applied a size premium of 1.00% to the Company's indicated common equity cost rate.

³⁵ \$196.004M = \$122.446M (book equity from UIF 2019 Annual Report to the FL PSC) * 49.39% (requested common equity ratio from page 1 of Schedule 1) * 324.1% (market-to-book ratio of the Utility Proxy Group) as demonstrated on page 2 of Schedule 8.

1 **Q. Did you evaluate UIF's parent, CRU-US's estimated market capitalization compared to**
 2 **the proxy group?**

3 A. Yes. Even though I do not think it is applicable,³⁶ I looked at CRU's common equity balance
 4 at December 31, 2019. I then adjusted it by the proxy group market-to-book ratio and
 5 compared it with the proxy group. CRU-US's estimated market capitalization, \$944.372
 6 million,³⁷ would fall in the 8th decile, which would indicate a 0.80% size premium over the
 7 average proxy group company.

8 **Q. Does the FL ROE Formula allow for adjustments for increased risks of small utilities?**

9 A. Yes, it does. Order No. PSC-2019-0267-PAA-WS states the following:

10 A private placement premium of 50 basis points is added to reflect the difference
 11 in yields on publicly-traded debt and privately placed debt, which is illiquid.
 12 Investors require a premium for the lack of liquidity of privately placed debt.

13 A small utility risk premium of 50 basis points is added because the average
 14 Florida WAW [water and wastewater] utility is too small to qualify for privately
 15 placed debt and smaller companies are considered by investors to be more risky
 16 than larger companies. [clarification added]

17 In view of the all of the above, and especially given CRU-US's debt was privately
 18 placed, my 1.00% upward adjustment to reflect the increased risk of UIF relative to the Utility
 19 Proxy Group is both reasonable and conservative.

20 **VIII. CONCLUSION**

21 **Q. What is your recommended return on investor-supplied capital for UIF?**

22 A. Given the Company's 13-month average balances of investor-supplied capital ending
 23 December 31, 2019 which consists of 45.58% long-term debt at an embedded debt cost rate of
 24 5.78%, 5.03% short-term debt at an embedded debt cost rate of 4.04%, and 49.39% common
 25 equity at my recommended ROE of 11.75%, I conclude that an appropriate return on investor-

³⁶ It is Mr. D'Ascendis' opinion that the parent company's size is irrelevant in setting rates for one of its jurisdictional subsidiaries. Regulation is required to look at each operating utility as a stand-alone company since they can only set rates for that particular utility and no other operating subsidiary outside of their jurisdiction.

³⁷ \$291.383M (CRU-US book equity) * 324.1% (market-to-book ratio of the Utility Proxy Group) = \$944.372M

1 supplied capital for the Company is 8.63%. A common equity cost rate of 11.75% is consistent
2 with the *Hope* and *Bluefield* standard of a just and reasonable return which ensures the integrity
3 of presently invested capital and enables the attraction of needed new capital on reasonable
4 terms. It also ensures that UIF will be able to continue providing safe, adequate and reliable
5 water service to the benefit of customers. Thus, it balances the interests of both customers and
6 the Company.

7 **Q. Does that conclude your direct testimony?**

8 A. Yes

9

1 CHARIMAN CLARK: I believe the next one up
2 would be Mr. Deason, UIF, Mr. Friedman.

3 MR. WHARTON: Thank you, Mr. Chair. We would
4 call Mr. Deason.

5 CHARIMAN CLARK: I am sorry, Mr. Wharton, you
6 are in my bottom left corner. I had you covered
7 with a piece of paper. I am sorry.

8 MR. FRIEDMAN: I must have been a large piece
9 of paper.

10 MR. WHARTON: We call Mr. Deason now, Mr.
11 Chairman.

12 Sir, would you state your name and business
13 address for the record?

14 CHAIRMAN CLARK: Let me -- let me swear the
15 witness in first. I need to find him. I am not
16 seeing him anywhere.

17 Mr. Deason, are you there?

18 THE WITNESS: Yes, I am. I am just turning on
19 my camera. There we go.

20 CHARIMAN CLARK: There he is, okay.

21 Whereupon,

22 JARED DEASON

23 was called as a witness, having been first duly sworn to
24 speak the truth, the whole truth, and nothing but the
25 truth, was examined and testified as follows:

1 THE WITNESS: Yes.

2 CHARIMAN CLARK: Thank you very much, sir.

3 Your witness, Mr. Wharton.

4 MR. WHARTON: Thank you, Mr. Chairman.

5 EXAMINATION

6 BY MR. WHARTON:

7 Q Sir, please state your name and business
8 address for the record.

9 A My name is Jared Deason. My business address
10 is 200 Weathersfield Avenue in Altamonte Springs,
11 Florida.

12 Q Did you cause prefiled direct testimony to be
13 filed in this case?

14 A Yes, I did.

15 Q And if I asked you the same questions in your
16 prefiled direct testimony, would your answers today be
17 the same?

18 A Yes.

19 Q So there are no corrections or modifications
20 to your testimony?

21 A No, there are not.

22 Q All right. Did you sponsor any additions --
23 or any exhibits, rather?

24 A Yes. I am sponsoring two exhibits. No. 1 is
25 the billing analysis schedules contained in the MFR

1 Volume II, also referred to as the E schedules. And I
2 also provided the allocation schedules required by
3 Commission rules.

4 **Q Okay. Sir, would you briefly limit it to**
5 **three minutes to summarize your testimony?**

6 A Yes, I will.

7 CHAIRMAN CLARK: Mr. Deason, before we -- we
8 are having a little bit of trouble understanding
9 both of you guys. You are going to get a little
10 closer to the mic, talk a little bit slower, and a
11 little bit more -- a little bit louder if you will.

12 BY MR. WHARTON:

13 **Q Let me try again.**

14 **Mr. Deason, will you summarize your testimony?**

15 A Yes, I will.

16 I said before, I am providing three main areas
17 in my prefiled testimony. No. 1, the billing analysis.
18 No. 2, the operating agreement with WSC Water Service
19 Corp, which is in the allocation schedules, and also the
20 proposed Sewer and Water Improvement Mechanism.

21 The SWIM proposal is a capital recovery
22 mechanism that is very similar to the GRIP mechanism
23 that has been approved for the natural gas utilities in
24 Florida. We are proposing that the additional revenues
25 associated with SWIM be recovered by combining it with

1 our annual index filing. Therefore, the revenue
2 requirement for the program and the index mechanism will
3 be included together to calculate the percentage
4 increase in rates.

5 We believe that by combining with the annual
6 index and pass-through mechanism this method is a more
7 efficient method of implementing, instead of having a
8 stand-alone tariff filed year-over-year, such as what is
9 done with the GRIP program.

10 The annual filings would also provide the
11 Commission the opportunity to review and audit all SWIM
12 eligible projects. They will be able to provide over --
13 continuous oversight on the effectiveness, as well as
14 the prudence, as well as the impact, rate impact to our
15 customers.

16 **Q Does that conclude your summary?**

17 **A** Yes, it does.

18 **MR. WHARTON:** Mr. Chairman, I would move Mr.
19 Deason's prefiled direct testimony into the record
20 as though read.

21 **CHAIRMAN CLARK:** So ordered.

22 (Whereupon, prefiled direct testimony of Jared
23 Deason was inserted.)

24

25

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

DIRECT 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. State briefly your educational background and experience.**

5 A. I have a Bachelors Degree in Economics from Florida State University. I have
6 approximately 10 years of experience in the utility industry, the last five years of which
7 has been with Utilities, Inc. of Florida (UIF). I joined UIF in June 2015 as a Financial
8 Analyst. I am currently the Regulatory Manager. I was previously employed by the
9 Florida Public Service Commission in the years 2007 to 2011 as a Regulatory Analyst IV
10 assigned to the water and wastewater section of the former Division of Economic
11 Regulation. In that role I was lead analyst in many water and wastewater rate
12 proceedings. Additionally, I am a current member of the Society of Utility and
13 Regulatory Financial Analysts and I am a Certified Rate of Return Analyst (CRRA).

14 **Q. On whose behalf are you presenting this testimony?**

15 A. I am presenting this testimony and appearing on behalf of UIF, the applicant for rate increase
16 in the present docket.

17 **Q. What is the purpose of your direct testimony?**

18 A. The purpose of my direct testimony is to sponsor the billing analysis, allocation schedules,
19 and to address UIF's proposal for cost recovery for its proposed Sewer and Water
20 Improvement Mechanism ("SWIM").

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

22 A. Yes, I am sponsoring 2 exhibits; the billing analysis schedules contained in MFR Volume II
23 and the allocation schedules required by Commission Rule 25-30.436(4)(h), which are
24 contained on a USB drive provided to the Commission Clerk.

25 **Q. Were these Exhibits prepared by you and your staff under your supervision and**

1 **control?**

2 A. Yes, they were.

3 **Q. Would explain UIF's proposal to recover the capital costs of the implementation of**
4 **SWIM?**

5 A. The revenue requirement would be inclusive of the return on investment as calculated
6 using the equity and debt components of the weighted average cost of capital from UIF's
7 prior rate case and depreciation expense (calculated using the Commission prescribed
8 depreciation rates), grossed up for federal and state income taxes. UIF proposes the
9 additional revenues associated with the SWIM be recovered by combining it with the
10 annual index filing. Therefore, the revenue requirements for the Program and the index
11 mechanism will be included together to calculate the percentage increase in rates. The
12 Program, as proposed by UIF, would require an annual filing in conjunction with the
13 index and pass-through filings. The filing would detail the investments made, revenue
14 requirement associated with the investments, and a projection of the next two years of
15 scheduled investments with estimated revenue requirements. The annual filings would
16 also provide for Commission review and audit of the program as well as continuous
17 oversight of the effectiveness and rate impacts to customers. A true-up would be filed
18 with the Commission on an annual basis that would show the actual replacement costs,
19 actual index revenues, and over or under recovery amount for the 12-month historical
20 period from January 1 through December 31 of the year prior to UIF's annual SWIM
21 petition. This true up would occur annually prior to April 30th in conjunction with the
22 index filings.

23 **Q. Does that conclude your direct testimony?**

24 A. Yes

25

1 addition to sponsoring the billing analysis schedules
2 and allocation schedules, you are also sponsoring the
3 SWIM idea that you bring to the Commission, is that
4 right?

5 A That is correct.

6 Q And it says you are the regulatory manager for
7 Utilities, Inc. of Florida, is that correct?

8 A That is correct.

9 Q And that means you are the only one?

10 A I am the only regulatory manager for the
11 Utilities, Inc. of Florida.

12 Q Okay. In that role, you have responsibility
13 for being familiar with the overall filing that the
14 company made in this case, is that right?

15 A Yes.

16 Q And you would agree with me that UIF has the
17 burden of proof to convince the Commission that it
18 should adopt this SWIM idea, is that right?

19 A Yes. That is correct.

20 Q Okay. I know in your summary, you state --
21 you reference something about GRIP, is that right?

22 A Yes. We were opening to have a mechanism
23 similar to the GRIP program.

24 Q Okay. But there is nothing in your direct
25 testimony that mentions GRIP, is there?

1 A I don't believe there is. No.

2 Q Okay. And I believe you also mentioned the
3 Commission could review and audit this proposal, is
4 that -- is that right?

5 A Yes. We would want the Commission to review
6 all invoices expended for SWIM eligible projects.

7 Q But there is nothing in your direct testimony
8 about reviewing and auditing, is there -- oh, there is,
9 I apologize.

10 MR. REHWINKEL: I withdraw that question, Mr.
11 Chairman.

12 BY MR. REHWINKEL:

13 Q Mr. Deason, I think in opening statement, Mr.
14 Friedman said that this project doesn't have a bearing
15 on the revenue requirements requested in this case, or
16 the revenue increase or revenue requirements, is that
17 right?

18 A It has no bearing on the revenue requirement
19 in this rate case.

20 Q Okay. And I am just going to ask this
21 question before I go into lengthy cross-examination on
22 your direct and rebuttal.

23 Is the company willing to just withdraw this
24 request before we go forward?

25 A Could you please repeat that, Charles?

1 Q Yes. I am asking if the company is willing to
2 withdraw the SWIM request at this time?

3 A No, we are not.

4 Q Okay. If approved, the SWIM idea would allow
5 the company to start collecting the revenue requirement
6 associated with certain capital expenditures between
7 your general base rate filings, is that correct?

8 A It would be between general rate case filings,
9 such as this filing we are having right now.

10 Q Okay. Between this one and the next one?

11 A Whenever that occurs. Yes.

12 Q And isn't it also true that this concept is
13 not something that -- the SWIM concept is not something
14 that is already an established policy that has been
15 implemented specifically in the water and wastewater
16 industry?

17 A That is correct, that the SWIM has not been
18 approved for us or any other utility in Florida.

19 Q Okay. In your direct testimony, am I correct
20 that the actual discussion of your SWIM concept is
21 limited to one Q&A and 17 lines consisting of the eight
22 sentences found in answer on page three, between lines
23 five and 22?

24 A Yes.

25 Q Okay. And isn't it true that, as filed on

1 June 30, 2020, these eight sentences in 17 lines are the
2 sole substantive testimony and evidence offered by UIF
3 in support of your SWIM idea?

4 A It is the only thing in the direct testimony
5 regarding the SWIM in my prefiled testimony.

6 Q Okay. If the Public Counsel had chosen not to
7 file testimony challenging the SWIM idea, you would have
8 not been able to file any rebuttal testimony on this
9 issue, right?

10 A Repeat that, Charles.

11 Q Yes. If the Public Counsel had chosen not to
12 file testimony challenging the SWIM idea, you would not
13 have been able to file any rebuttal testimony on this
14 issue, is that correct?

15 MR. WHARTON: Mr. Chair, we object. That
16 calls for a legal conclusion at a minimum.

17 MR. REHWINKEL: Can I be heard on that?

18 CHAIRMAN CLARK: Yeah, Mr. Rehwinkel.

19 MR. REHWINKEL: Mr. Deason, I think he
20 testifies, he worked for the staff and for UIF for
21 10 years. He is very familiar with the regulatory
22 process and what direct and rebuttal testimony is,
23 and I think if he knows, he can give his answer on
24 that.

25 CHAIRMAN CLARK: I agree.

1 If you know the answer, that's fine; if not,
2 it may require a legal conclusion.

3 Do you know the answer, Mr. Deason?

4 THE WITNESS: I will certainly give you my
5 opinion on it.

6 CHARIMAN CLARK: Sure.

7 THE WITNESS: If -- okay. If OPC had not
8 provided -- asked any discovery questions or
9 tendered a witness regarding, there would have been
10 no rebuttal. However, I would state that if PSC
11 staff had asked discovery on the matter, there
12 would have been more information regarding the SWIM
13 program provided to them through that process.

14 BY MR. REHWINKEL:

15 **Q Thank you. Thank you, Mr. Deason.**

16 **You would agree with me that the 17 lines of**
17 **testimony in your direct testimony do not contain a**
18 **single fact, would you not?**

19 A I don't think I would agree with that, that
20 it's untrue, because I think that's what you are asking
21 me. You are asking me to tell you that what I provided
22 is untrue essentially, and I would disagree with that.

23 **Q That's a fair response, and that was not my**
24 **intent.**

25 **What you have in your eight lines of**

1 testimony -- I mean your 17 lines of testimony are the
2 request of UIF for the Commission to approve this
3 mechanism, isn't that correct?

4 A Yes.

5 Q Okay. And if Miriam Webster defined the fact
6 of something that has actual existence, an actual
7 occurrence, a piece of information presented as having
8 objective reality, there are no facts in here that
9 support this, this is just your request; isn't that
10 right?

11 MR. WHARTON: I -- I object to the -- to the
12 question. The testimony speaks for itself with
13 regard to whether it contains any facts or not,
14 whichever way that phrase is meant.

15 CHAIRMAN CLARK: Mr. Rehwinkel, I think you
16 can make your point here. There is no -- are there
17 any specifics in here -- could you readdress that
18 question?

19 MR. REHWINKEL: Yes. I -- I think -- I think
20 I made my point and I will move on, Mr. Chairman.

21 BY MR. REHWINKEL:

22 Q Can you show me in the 17 lines of testimony
23 on page three where you testify as to the Commission's
24 authority for your SWIM idea?

25 A I did not testify anything regarding authority

1 in the prefiled testimony. I did in rebuttal.

2 Q Okay. So the answer there is no, you cannot.

3 Can you show me in the 17 lines where you
4 discuss any Commission precedent that supports the
5 implementation of the SWIM idea?

6 A No, but I did in rebuttal.

7 Q Was that a no?

8 A It was a no, but I did in rebuttal.

9 Q Okay. And can you show me in those 17 lines
10 where you explained the benefits that customers would
11 receive from the SWIM idea?

12 MR. WHARTON: I -- I object, Mr. Chairman.
13 This entire line of questioning is about what the
14 witness didn't testify to. It seems, therefore,
15 outside the scope of direct at a minimum.

16 CHAIRMAN CLARK: I disagree --

17 MR. REHWINKEL: I object to the objection, Mr.
18 Chairman.

19 CHAIRMAN CLARK: -- it's overruled.

20 MR. REHWINKEL: Thank you.

21 Would you like me to repeat the question?

22 CHAIRMAN CLARK: Please.

23 BY MR. REHWINKEL:

24 Q Can you show me in those 17 lines where you --
25 where you explain the benefits that customers would

1 receive from the SWIM idea?

2 A They do not contain the benefits, but I did
3 address that in my rebuttal.

4 Q Can you show me in these 17 lines where you
5 explain the policy reasons supporting the proposed
6 change in the rate-making that is this SWIM idea?

7 A No, but I did in rebuttal.

8 Q Can you show me in those 17 lines where you
9 have demonstrated that the SWIM idea would be
10 cost-effective if approved?

11 A No, but I did in rebuttal.

12 Q Can you show me in those 17 lines where you
13 conducted a study or analysis that demonstrates that
14 there will be savings to customers if your SWIM idea
15 were to be adopted?

16 A No, but I addressed that in my rebuttal.

17 Q In those -- in the testimony on page three,
18 you stated that you envisioned an annual filing for --
19 for SWIM, is that right?

20 A That is correct.

21 Q And I think you said that -- or someone said,
22 either you or Mr. Friedman, that you envisioned
23 contemporaneous recovery, by which you were proposing
24 that the annual SWIM factor be set to recover projects
25 completed within the same year?

1 A The way I envision it is the filing to be at
2 the beginning of the year addressing all expenditures
3 that are verifiable with an invoice for the prior
4 calendar year.

5 Q Okay. In your testimony on page three, you
6 mention a true-up mechanism. Does your 17 lines of
7 direct testimony on SWIM explain what exactly would be
8 trued up under your proposal?

9 A It does not go into the specifics.

10 Q Does your direct testimony reveal whether you
11 are proposing to true-up actual plant completed versus
12 projected plant, or actual revenues received versus
13 estimated revenues?

14 A It will all be passed on actual expenditures,
15 verifiable with invoices.

16 Q What about -- would there be any revenue
17 true-ups?

18 A I think the revenue would be a fallout of the
19 capital true-up associated with it.

20 Q Does your direct testimony reveal whether you
21 are proposing that, under the SWIM idea, you would
22 include carrying costs on over or under recoveries, and
23 if so, at what rate?

24 A I do not envision that.

25 Q Does your direct testimony reveal whether the

1 costs that are recovered under the SWIM idea will be
2 rolled into base rates each time there is a base rate
3 case?

4 A Yeah, it would be kind of self-correcting to
5 the rate case process. It will already be in there, so
6 to speak. When you have a general rate case such as
7 this one, and you have a revenue increase, you know, it
8 will be increased on what the rates have been previously
9 included with the true increases.

10 Q Is that inclu -- is that concept described in
11 your direct testimony, for 230 what I call the roll in?

12 A Well, it's -- it's implied in there because
13 that's the same way it operates with -- we are proposing
14 that be done with the index and pass-through
15 mechanisms -- pass-through mechanism. So because it's
16 being done the same way, and rates are being embedded in
17 your rates. It's operating the same way that does.

18 Q Okay. And what if you had a limited
19 proceeding that was less than a full rate case but was
20 seeking certain plant adjustments, for example?

21 A I believe they would operate in the same way,
22 but I do not -- I do not envision having limited
23 proceedings on top of the SWIM program.

24 Q That's not addressed in any of the proposals,
25 is it?

1 A No, it is not.

2 Q In your direct testimony, you do not provide
3 any testimony or exhibits regarding the specific
4 projects that the company proposes to recover pursuant
5 to the SWIM idea, do you?

6 A No.

7 Q And in your direct testimony, you do not
8 provide any estimate of the impact of the SWIM idea on
9 ratepayers, did you?

10 A I did not in the prefiled direct testimony.
11 However, through the discovery process, there were
12 questions relating to that, and I did provide responses.

13 Q You do not provide a proposed SWIM tariff
14 anywhere in the filing, did you?

15 A As far as having a separate tariff filing
16 specifically to address SWIM?

17 Q Yes.

18 A No, I am proposing that it be done in
19 conjunction with the index and pass-through mechanism,
20 not as a separate stand-alone. However, you know, we
21 would be agreeable to that if staff feels that that's a
22 better way of processing this mechanism.

23 Q Does your direct testimony reveal whether the
24 SWIM idea would apply just to UIF, or would it apply to
25 all 131 water and wastewater companies that the

1 **Commission says on its website that it regulates?**

2 A No, we are just asking this for ourselves.
3 This is kind of a legal question, so I am just giving
4 you my -- my opinion.

5 I think that each individual water or sewer
6 company would have to individually request this kind of
7 mechanism. It wouldn't just be blanket, apply to
8 everybody. So if the Commission were to approve it in
9 this rate case, it would apply just to UIF.

10 **Q Okay. Mr. Deason, were these 17 lines of**
11 **testimony, did you take those from the application that**
12 **was filed, or did the application take them from your**
13 **testimony?**

14 A I don't think I understand the nature of the
15 question. Do you mind repeating that?

16 **Q Well, let me do this.**

17 MR. REHWINKEL: Mr. Chairman, I would like to
18 ask for us to try to access a cross-examination
19 exhibit, and this would be OPC 26. Actually, if --
20 if folks could open up 25 and 26, I can ask it more
21 efficiently that way.

22 BY MR. REHWINKEL:

23 **Q Do you have access to those, Mr. Deason?**

24 A I believe I do. Can you please repeat to me
25 which -- which one you are referring to?

1 Q Yes. 25 -- 26 and 25. So I want to ask you
2 about 26 first, but also go ahead and get 25.

3 26 is the application for the increase in
4 rates. And it's just the seven pages without all the
5 attachments. And 25 is a comparison between the
6 application and your direct testimony that I prepared.

7 A It would be under my confidential section?

8 Q Yes, sir.

9 A I am trying to pull it up. It's not coming up
10 for me. Can you bear with me for a second? I am having
11 a little bit of technical difficulty on my end, if
12 that's okay.

13 Q Yeah.

14 MR. REHWINKEL: This would be our first time.
15 I am fine with it, Mr. Chairman.

16 COMMISSIONER BROWN: Did you say Exhibit 25,
17 cross-examination Exhibit 25?

18 MR. REHWINKEL: 25 and 26 together, yes.

19 COMMISSIONER BROWN: Thank you.

20 MR. FRIEDMAN: You should be able to open this
21 up. You are logged in. You double click and it
22 doesn't open?

23 THE WITNESS: My computer doesn't seem to want
24 to open it up. I am going to see if there is
25 another computer.

1 MR. REHWINKEL: Are you on Google Chrome?

2 THE WITNESS: Let me see. Just one second.

3 MR. FRIEDMAN: If you click on it and it pops
4 up in the bottom corner, pull it up.

5 THE WITNESS: I do not see that, I am sorry.
6 John, do you mind turn yours around? Either one.

7 MR. FRIEDMAN: Here's 26.

8 THE WITNESS: Okay. Do you want to look at 25
9 or 26 first, Charles?

10 BY MR. REHWINKEL:

11 Q Let's go to 26 first.

12 A Okay. I am looking at that.

13 Q Okay. If you could turn on 26 to Bates 935,
14 which is page three of the application?

15 A Okay. Okay.

16 Q And would you agree with me that the last line
17 on page three corresponds to the beginning of the
18 sentence on page five of your testimony?

19 A Could you repeat the sentence again, please?

20 Q The last line on page three.

21 A Last line of three.

22 Q Of exhibit --

23 MR. REHWINKEL: Mr. Chairman, I should give
24 this a hearing -- ask you to give this a hearing
25 exhibit number. I apologize.

1 CHAIRMAN CLARK: One second. I think it's
2 187.

3 MS. CIBULA: Yes, 187.

4 CHAIRMAN CLARK: I guessed right. Mark this
5 Exhibit No. 187.

6 MR. REHWINKEL: Okay. And this is just UIF's
7 application.

8 (Whereupon, Exhibit No. 187 was marked for
9 identification.)

10 BY MR. REHWINKEL:

11 Q I guess, Mr. Deason, my question to you is
12 if -- if this -- if the first sentence in your testimony
13 corresponds with the sentence that starts with the
14 revenue requirement on page three, and it continues on
15 to the word taxes on page four of the application?

16 A I would agree that they correspond.

17 Q Okay. And then if we skip on down in the --
18 on page four of the application, or Exhibit 187, you see
19 about six or seven lines down, it says: UIF proposes
20 the additional revenue?

21 A It says: UIF proposes the additional revenue
22 associated with the SWIM be recovered by combining it
23 with the annual index and pass-through filing. Is that
24 what you are referring to?

25 Q Yes, sir. From there on down to the end of

1 page four, that's the rest of your testimony from that
2 second sentence all the way down, wouldn't you agree?

3 A Yes.

4 Q Okay. So I guess my question was, did your
5 testimony come out of the petition or the application,
6 or the application borrowed from your testimony?

7 A I think the application borrowed from my
8 testimony.

9 Q Okay. So if you will turn -- do you have
10 Exhibit 25?

11 A One second. I believe I do. No, I don't.
12 It's being pulled up for me. Hold for just one second.
13 It's being pulled up for me on a separate laptop.

14 Q We might be able to do it without referencing
15 that document. Let's try it without it, and we can just
16 have one less exhibit.

17 MR. FRIEDMAN: Which one was it? 25?

18 THE WITNESS: We are pulling it up right now,
19 Charles.

20 MR. REHWINKEL: Okay. 25. And I called
21 this -- Mr. Chairman, since we are getting it, this
22 will be 188 for identification.

23 CHAIRMAN CLARK: All right. Mark it No. 188.

24 MR. REHWINKEL: And I called this Application
25 and Deason Direct Comparison.

1 (Whereupon, Exhibit No. 188 was marked for
2 identification.)

3 THE WITNESS: Okay.

4 BY MR. REHWINKEL:

5 Q And what I have done on this, my
6 representation to you, is on Bates 931 is just taking
7 the SWIM portion of the application, and I put in yellow
8 what I represent is what's in your testimony as well as
9 the application, and in red is what's in the application
10 that's not in your testimony in that section.

11 A Okay.

12 Q Can you -- can you accept that subject to
13 check?

14 A I can accept that subject to check.

15 Q Okay. So what I am -- so if we look at the
16 red section, it starts with the primary goal, do you see
17 that?

18 A I do see that.

19 Q Okay. And it ends with the phrase mechanism
20 for customers and UIF, do you see that?

21 A Yes, I do.

22 Q Okay. Now, when I read this, it says: The
23 primary goal of accelerating the replacement of this
24 infrastructure and treatment plant is to proactively
25 respond to the growing concerns regarding aging

1 infrastructure and treatment plant reliability and
2 safety. The program will minimize impact to customers,
3 but at the same time, allow UIF to accelerate its
4 replacement of program eligible infrastructure and
5 treatment plant. Absent the proposed program, UIF's
6 rate of return would deteriorate over time, assuming
7 implementation of the accelerated program, and it would
8 soon require the need for general rate case relief from
9 the Commission, a much more costly mechanism for
10 customers and UIF.

11 Did I read that right?

12 A You read it correctly.

13 Q Okay. Now, if the -- if the application
14 borrowed from your testimony, would it be fair to say
15 that this -- this was something you considered putting
16 in your testimony but didn't on direct?

17 A I am not going to disagree with what it's
18 saying. I fully agree with it, but it's not something I
19 had when I put together my direct testimony.

20 Q But you would agree that this application was
21 filed on the same day your testimony was filed, right?

22 A Yes. I gave it to my attorney, and my
23 attorney filed it with the Commission.

24 Q So you chose not to put this type of
25 information in the direct testimony that you wanted the

1 Commission to consider on your direct case in deciding
2 whether to grant your request for this SWIM proposal, is
3 that fair?

4 A It was not included with my direct, but it was
5 in the application.

6 Q Okay. Thank you, Mr. Deason, those are all
7 the questions I have for you on your direct. Thank you
8 very much.

9 MR. REHWINKEL: Thank you, Mr. Chairman.

10 CHAIRMAN CLARK: Thank you, Mr. Rehwinkel.
11 Staff.

12 MS. LHERISSON: Bianca Lherisson on behalf of
13 staff. Mr. Chairman, staff does not have any cross
14 questions for this witness.

15 CHARIMAN CLARK: All right. Commissioners, do
16 you have any questions for Mr. Deason on direct?

17 I am trying to find you guys down here. I'm
18 sorry. There you are.

19 Commissioner Brown.

20 COMMISSIONER BROWN: Thank you, Mr. Chairman.

21 And I appreciate Mr. Rehwinkel asking the
22 majority of my questions in a very thorough and
23 more articulate way. So with that, I just have a
24 couple of follow-up to some of your responses that
25 you gave to Mr. Rehwinkel.

1 You kept stating that you addressed the items
2 he asked about in your rebuttal testimony rather
3 than in your direct. Why did you not address this
4 in the direct, because as it is the utility's
5 burden to prove all the -- (inaudible) -- justify
6 in the direct.

7 THE WITNESS: Because I wanted to see what --
8 I wanted to lay out the general format there and
9 then allow staff and OPC an opportunity to ask
10 specific questions so I could therefore answer
11 those specific questions. I thought that was just
12 a more efficient way of getting the information out
13 there.

14 COMMISSIONER BROWN: Well, often, you know,
15 the testimony -- the prefiled testimony in these
16 type of proceedings speaks for itself, but in the
17 direct, it doesn't really tell us the need or the
18 purpose of the program on the direct; nor does it
19 tell us the Commission's authority to implement a
20 new cost recovery program, which only seems
21 legislative in format; nor does it talk about the
22 reason or the comparison to the GRIP program, which
23 was developed over years of federal mandates
24 changing out cast iron pipes, infrastructure.

25 I just don't -- I don't know the -- the need

1 here. And again, this is your direct testimony, so
2 I am giving you an opportunity to address that to
3 the Commission.

4 THE WITNESS: Okay. As far as the need, I
5 think it's very well-known that the water and
6 wastewater industry as a whole, not just is
7 Florida, but nationwide, is falling -- is falling
8 behind in the need to replace aging infrastructure,
9 infrastructure that is either near or beyond its
10 useful service life.

11 We can see there are -- there are many
12 instances happening all the time, and I point to
13 one specifically in my rebuttal about line breaks
14 leading to things such as raw sewage -- millions of
15 gallons of raw sewage spilling into -- into our
16 environment.

17 The purpose of this is to provide an efficient
18 mechanism to promote the recovery of the millions
19 and millions of dollars in assets that utilities in
20 Florida is spending.

21 As you may recall, during the last rate case
22 four years ago, there was a substantial amount of
23 proforma plant and capital expenditures regarding
24 aging infrastructure and replacements. Since that
25 time to -- to this rate case, including the

1 proforma period, there is an additional \$70 million
2 in infrastructure, and the majority of our increase
3 is associated with that, and it's leading to a
4 substantial amount of rate shock.

5 If you look beyond, we are already looking at
6 around \$40 million in replacements two years beyond
7 the -- the end of this rate case. So I feel there
8 is a need for an efficient method of recovery of
9 those that, at the same time, provides a benefit to
10 customers in the form of reduced rate shock and
11 less rate case expense, and also solving the
12 problem of regulatory lag that we usually deal with
13 for these big projects.

14 COMMISSIONER BROWN: Thank you.

15 And I -- I agree, there is -- there is a
16 national problem with aging infrastructure. Again,
17 but the bulk of that is not provided, what you just
18 said, in your direct testimony, and it's something
19 that should have been addressed on direct, and the
20 purpose of this cost recovery mechanism, along with
21 data and substantiation for it, and I don't see
22 that.

23 I think it's pretty -- I mean, I was really
24 shocked that it was three pages to support such a
25 major deviation in policy that, quite frankly,

1 probably requires legislative approval, and it
2 would have to be -- it would have to be equitable
3 among all of the utilities.

4 One final question regarding the affiliate
5 that you used to operate and manage your business,
6 WMS, is that the right -- is it WS?

7 THE WITNESS: Are you referring to WC -- WSC,
8 Water Service Corporation?

9 COMMISSIONER BROWN: Yes. That's a UIF
10 affiliate, correct?

11 THE WITNESS: That is a sister entity that
12 houses various services that are provided to, not
13 only Utilities, Inc. of Florida, but also to sister
14 entities and parent company. We house our billing
15 department there, customer service, legal and other
16 departments such as that.

17 COMMISSIONER BROWN: So I recalled the
18 billing, so in this direct you talk -- I think you
19 spoke about invoices, or you spoke about invoices
20 and the efficiency that this type of SWIM program
21 would provide, and there would be actual invoices
22 rather than a true-up mechanism like GRIP, we have
23 projected costs and then we true it up, you know,
24 annually.

25 Would WSC be involved in the invoice process

1 at all? And would they be performing any of the
2 proposed projects in your SWIM?

3 THE WITNESS: No, it's all for replacing aging
4 infrastructure and improvements here in Florida.
5 The only involvement ITWSC has as far as billing
6 and our accounting department, ultimately they
7 house all of the invoices there with them. I do
8 have access to that, and I would tap into their --
9 what we call our fusion system now, in order to
10 extract those invoices to provide that, and then
11 turn around and provide that documentation to PSC
12 staff.

13 COMMISSIONER BROWN: Thank you.

14 And just to clarify. Also you stated earlier
15 that the SWIM program would be needing proforma
16 projects for aging infrastructure after, I think
17 you stated two years after the test near that you
18 anticipate \$40 million worth of costs associated
19 with that, is that correct?

20 THE WITNESS: Well, right now, we are
21 projecting about \$40 million, which would be both
22 2022 and 2023.

23 COMMISSIONER BROWN: So those costs would also
24 be in addition to this base rate case proceeding,
25 correct?

1 THE WITNESS: They are -- that -- those
2 numbers are beyond the proforma period in this rate
3 case.

4 COMMISSIONER BROWN: And then how do you
5 anticipate the Commission scrutinize, other than
6 seeing an invoice and scrutinizing and making sure
7 that there isn't rate shock, and that there is a
8 transparent process that affords ample due process
9 to all parties -- interested parties, and that they
10 are accurate and clear?

11 THE WITNESS: Yes. I believe that those are
12 very important things, and -- and I would be
13 agreeable to work with staff in every way possible
14 to make sure that they have all the documentation
15 necessary to not only show what was actually spent,
16 but also the prudence and the need of those
17 specific projects.

18 Ultimately, the PSC would have say-so in that
19 regard. They would have the ability to, you know,
20 accept, reject or even change, modify what we've
21 done if they feel that it's lacking in -- in proper
22 documentation or either prudence or necessity.

23 COMMISSIONER BROWN: Okay. And would it be
24 notice to the customers as well of these massive
25 projects?

1 THE WITNESS: Yes. If it was done as I was
2 proposing, with the index and pass-through filing,
3 we also send out notices for that. We would have
4 to work with the PSC to come up with a proper
5 notice that would go out to all customers that
6 would -- that would include that. So, yes, there
7 would be noticing for that before any rates go into
8 effect.

9 COMMISSIONER BROWN: You were at the
10 Commission years ago, correct? You worked on
11 technical staff?

12 THE WITNESS: That is correct.

13 COMMISSIONER BROWN: Were you here at the time
14 that the Commission ultimately adopted the GRIP
15 program for the gas utilities?

16 THE WITNESS: I believe that was in 2012, and
17 my time with the PSC ended in November of 2011. So
18 I don't -- I don't think they coincided.

19 COMMISSIONER BROWN: Did you have any
20 experience in, from a staff perspective, in the
21 rationale and the reasoning that led up to that?
22 Because I know it -- it was a very thought -- it
23 was drawn out over many years prior to the
24 implementation in 2012.

25 THE WITNESS: Yes. I worked solely in the

1 water and wastewater side of things, and so I
2 didn't work on anything in electric or natural gas,
3 so I guess I was kind of separated from those who
4 were working on that.

5 However, you know, in working on many, many
6 water and wastewater rate cases for the Commission,
7 I did notice there were some inefficiencies that
8 were occurring, which led to, as I talked about
9 before, rate shock, in some cases a lot of rate
10 case expense, and I think in looking
11 after-the-fact, after GRIP was implemented, I saw
12 some -- some similarities there that I think would
13 lead to some efficiencies on the water and sewer
14 side, and that's what ultimately led to us
15 proposing the SWIM mechanism.

16 COMMISSIONER BROWN: I can't -- I can't say
17 that it's not a novel concept, or a novel ask. It
18 is unusual that there is not a lot of justification
19 for it in your direct. And it's really unclear the
20 process of how it would be rolled out, and the
21 authority is not really clear also. And you really
22 are the key witness here for the SWIM, so I am
23 trying to extract some of it.

24 I assume -- I suppose on cross, on your
25 rebuttal, there will be more questions from our

1 staff and others. Thank you for your testimony.

2 THE WITNESS: Okay. Thank you.

3 CHARIMAN CLARK: Thank you, Commissioner
4 Brown.

5 Other Commissioners have questions?

6 All right. Seeing none, redirect, Mr.
7 Wharton.

8 MR. WHARTON: Very briefly, Mr. Chairman.

9 FURTHER EXAMINATION

10 BY MR. WHARTON:

11 Q Mr. Deason, did you know with certainty when
12 you filed the prefiled testimony that OPC would oppose
13 the program?

14 A I did not.

15 Q And did UIF supply information in the form of
16 interrogatory responses and your rebuttal prefiled
17 testimony that furnished information on the categories
18 that Mr. Rehwinkel pointed out were not in your direct
19 testimony?

20 A Yes, it did.

21 Q And were you available for deposition in this
22 case?

23 A Yes, I was.

24 Q Was your deposition taken?

25 A Nobody chose to take my deposition on this

1 matter.

2 MR. WHARTON: Okay. That's all we have, Mr.
3 Chairman.

4 CHAIRMAN CLARK: All right. I believe that
5 concludes all for Mr. Deason.

6 Exhibits?

7 MR. TRIERWEILER: OPC, do you want to move in
8 your 187 and 188 at this time?

9 MR. REHWINKEL: Yeah -- yes, Mr. Chairman. I
10 would move 187 and 188.

11 CHAIRMAN CLARK: All right. Without
12 objection, these are entered into the record.

13 (Whereupon, Exhibit Nos. 187 & 188 were
14 received into evidence.)

15 CHAIRMAN CLARK: Anything else?

16 All right. We will call our next witness, Mr.
17 Wharton.

18 MR. TRIERWEILER: Chairman, can I ask
19 indulgence of a five-minute comfort break, please?

20 CHAIRMAN CLARK: All right. Yes, sir. We are
21 going to take a five-minute recess. We will resume
22 in five minutes.

23 (Brief recess.)

24 CHAIRMAN CLARK: All right. Mr. Wharton, you
25 can call your next witness.

1 MR. WHARTON: Yes. We would call Mr. Frank
2 Seidman.

3 CHAIRMAN CLARK: There you are, Mr. Seidman.
4 All right. Would you raise your right hand and
5 repeat after me, please?

6 Whereupon,

7 FRANK SEIDMAN
8 was called as a witness, having been first duly sworn to
9 speak the truth, the whole truth, and nothing but the
10 truth, was examined and testified as follows:

11 THE WITNESS: I do.

12 CHARIMAN CLARK: All right. Thank you very
13 much.

14 Mr. Seidman -- Mr. Wharton.

15 EXAMINATION

16 BY MR. WHARTON:

17 Q Sir, please state your name and business
18 address for the record.

19 A My name is Frank Seidman. I am with
20 Management and Regulatory Consultants in North Palm
21 Beach, Florida.

22 Q Did you cause prefiled direct testimony to be
23 filed in this case?

24 A Yes, I did.

25 Q And if I asked you the questions in your

1 **prefiled direct testimony today, would your answers be**
2 **the same?**

3 A Yes, they would.

4 Q **So you have no corrections or changes to your**
5 **testimony at this time?**

6 A No.

7 Q **Did you sponsor any exhibits in this case?**

8 A Yes. I sponsored three exhibits with my
9 direct testimony.

10 Q **Could you identify those for the record?**

11 A Yes. The first one is my Exhibit FS-1, which
12 I think has been identified as Exhibit 58, FS-2, which
13 has been identified as Exhibit 59. FS-3, which has been
14 identified as Exhibit 60.

15 MR. WHARTON: I move Mr. Seidman's prefiled
16 direct testimony into the record as though read.

17 CHAIRMAN CLARK: So ordered.

18 (Whereupon, prefiled direct testimony of Frank
19 Seidman was inserted.)

20

21

22

23

24

25

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for increase in water and) Docket No. 20200139-WS
Wastewater rates in Charlotte, Highlands,)
Lake, Lee, Marion, Orange, Pasco, Pinellas,)
Polk and Seminole Counties by Utilities, Inc.)
Of Florida.)
_____)

DIRECT TESTIMONY

OF

FRANK SEIDMAN

on behalf of

Utilities, Inc. of Florida

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

2 A. My name is Frank Seidman, dba as Management and Regulatory
3 Consultants, consultants in the utility regulatory field. My address is 36
4 Yacht Club Dr., North Palm Beach, FL 33408.

5
6 **Q. State briefly your educational background and experience.**

7 A. I hold the degree of Bachelor of Science in Electrical Engineering from
8 the University of Miami. I have also completed several graduate level
9 courses in economics at Florida State University, including public utility
10 economics. I am a Professional Engineer, retired status, in the state of
11 Florida. I have over 50 years of experience in utility regulation,
12 management, and consulting. This experience includes nine years as a
13 staff member of the Florida Public Service Commission (FPSC), two years
14 as a planning engineer for a Florida telephone company, four years as
15 Manager of Rates and Research for a water and sewer holding company
16 with operations in six states, and three years as Director of Technical
17 Affairs for a national association of industrial users of electricity. I have
18 been providing rate and regulatory consulting services in Florida for over
19 30 years. Specifically, with regard to the water and wastewater industry, I
20 have participated in the preparation and presentation of numerous rate
21 cases, most of which were considered by the Florida Public Service
22 Commission. I have also prepared cases before the Sarasota County
23 Commission. Many of the cases before the FPSC were made final through
24 the Proposed Agency Action procedures; others went to public hearing in
25 which I presented direct and/or rebuttal testimony. I have prepared or

1 participated in the preparation of all phases of water and wastewater
2 financial, rate and engineering sections of the Minimum Filing
3 Requirements (MFRs), including used and useful. I have also participated
4 in most of the water and wastewater rulemaking procedures before the
5 FPSC. I have also prepared several original cost studies accepted by this
6 Commission in setting rates.

7

8 **Q. On whose behalf are you presenting this testimony?**

9 A. I am presenting this testimony and appearing on behalf of the applicant,
10 Utilities, Inc. of Florida (UIF).

11

12 **Q. For what purpose were you retained by the applicant?**

13 A. I was retained to prepare the used and useful analyses for each of the
14 systems through which UIF provides service and the required schedules in
15 the MFRs pertaining to used and useful. These are identified in the MFRs
16 as the “F” schedules.

17

18 **Q. What is the purpose of your direct testimony?**

19 A. The purpose of my direct testimony is to present the results of my Used
20 and Useful analyses of the individual systems that make up Utilities, Inc.
21 of Florida and to sponsor the Engineering Schedule Section of Volume I
22 of the Minimum Filing Requirements, also known as the “F” Schedules. .

23

24

25

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

2 A. Yes. I am sponsoring Exhibit (FS-1)_____ which is a summary of my
3 education and my experience as it pertains to water and wastewater
4 regulation. I am also sponsoring Exhibit (FS-2)_____ which is a summary
5 of the Used and Useful, Excess Unaccounted for Water (UAW) and
6 Excess I&I percentages of all the individual systems included in this
7 filing. As previously stated, I am also sponsoring the Engineering Section
8 of Volume I which is Exhibit (FS-3)_____.

9

10 **Q. Would you please summarize the results of your used and useful
11 analyses?**

12 A. Yes. As previously stated, the results of the used and useful analyses are
13 contained in the “F” schedules section of each of the MFRs for the various
14 systems. For convenience, I have prepared Exhibit (FS-2)_____, which
15 summarizes the results for all of the systems.

16

17 **Q. Does that conclude your direct testimony?**

18 A. Yes, it does.

19

1 BY MR. WHARTON:

2 Q Mr. Seidman, will you give a brief synopsis of
3 your direct prefiled?

4 A Yes, very brief.

5 Good day, Commissioners, wherever you are. I
6 am Frank Seidman of Management and Regulatory
7 Consultants. I prepared on behalf of the applicant the
8 engineering, or F schedules, of the minimum filing
9 requirements including the used and useful analysis for
10 each of the utility systems.

11 The F schedules are filed in my prefiled
12 Exhibit 60.

13 A summary of the used and useful for each
14 system, as well as any excess unaccounted for water or
15 excess inflow infiltration is found in my prefiled
16 Exhibit 59. And as you can see in my Exhibit 59, I
17 concluded that all the water treatment plant, water
18 storage, water distribution and wastewater collection
19 are 100 percent used and useful. This is consistent
20 with Commission findings in prior rate cases, and also
21 found the wastewater treatment plants to be 100 percent
22 used and useful with the following exceptions, the Lake
23 Groves, the Marion County Crownwood plant and the
24 purchase capacity of the Sandalhaven system, which were
25 found to be less than 100 percent used and useful. The

1 percentages are shown in my exhibit.

2 And finally, I found excess unaccounted for
3 water in five systems and excess inflow infiltration in
4 three exhibits as shown in the exhibit.

5 That concludes my statement.

6 MR. WHARTON: We would tender the witness, Mr.
7 Chairman.

8 CHARIMAN CLARK: All right. OPC.

9 MS. PIRRELLO: We are having a bit of a hard
10 time hearing you, Mr. Seidman. If you could maybe
11 get a little closer to the mic.

12 CHAIRMAN CLARK: Yeah, I had a lot of trouble
13 as well. It's kind of -- you guys are going to
14 have to remember to stay closer to your mics. Mr.
15 Wharton, you lean back and I start losing you
16 occasionally as well. So if you guys will try to
17 remember to stay right on top of your mics, please.

18 Ms. Morse.

19 MS. PIRRELLO: Thank you.

20 EXAMINATION

21 BY MS. PIRRELLO:

22 Q Good morning, Mr. Seidman. My name is
23 Anastacia Pirrello, and I want to ask you a couple of
24 questions this morning.

25 A Okay.

1 Q If you could turn to Exhibit 60 to the CEL?

2 A Could you repeat that?

3 Q Exhibit 60. It's your Exhibit FS-3, and if
4 you could turn to page 24?

5 A The Labrador system?

6 Q Yes, sir.

7 A Okay, I have got it.

8 Q All right. So this is the F-6 schedule for
9 the Labrador wastewater treatment plant, correct?

10 A Excuse me?

11 Q This is the schedule F-6 for the Labrador
12 wastewater treatment plant?

13 A Yes, it is, page one.

14 Q Would you please read the sentence in the
15 second -- or I am sorry, you would please read the
16 second sentence in the note block that begins with "a
17 plant"?

18 A A plant constructed to serve full occupancy of
19 the MHP alone at design flows of 280 gallons per day for
20 ERC would require 250,000 gallons assuming 90 percent --
21 95 percent occupancy.

22 CHAIRMAN CLARK: Okay, let's hold up one
23 second. I see my court reporter. That means
24 things aren't good. She is not able to understand.

25 (Discussion off the record.)

1 THE WITNESS: The seconds sentence on FS-6,
2 page one, I am sorry, FS-3, page -- I am on the
3 wrong page. Would you give me the page number
4 again?

5 BY MS. PIRRELLO:

6 Q Page 24, sir.

7 A Page 24, okay. Yeah, I got the right one.
8 The second sentence reads: A plant
9 constructed to serve full occupancy of the MHP, which is
10 the mobile home park, alone at design flows of 280
11 gallons per day for ERC would require 250,000 gallons
12 per day capacity.

13 Q And isn't it true that the design flow for the
14 Labrador plant is 280 gallons per day?

15 A The design flow for what?

16 Q For the Labrador plant?

17 MR. WHARTON: The Labrador plant.

18 THE WITNESS: I believe so, yes.

19 BY MS. PIRRELLO:

20 Q But isn't it also true that the actual flows
21 for that system range between 75 and 78 gallons per day?

22 A Yes.

23 Q Okay. On that same page, you state that in
24 Docket 20160101-WS the Commission refused to assign
25 Labrador a 100 percent U&U rate because there was an

1 11.6 acre parcel within the service area which was not
2 yet developed, correct?

3 A Correct.

4 Q Let's turn to your Exhibit FS-3, page 29.

5 A Okay.

6 Q This is the F-10 schedule for Labrador, is
7 that correct?

8 A Yes.

9 Q Isn't it true that the average growth for
10 Labrador has been 8 ERCs over five years?

11 A And so we are looking at the water one now,
12 the FS schedule -- Schedule F-9?

13 Q Schedule F-10, sir.

14 A F-10, okay. And repeat your question.

15 Q Isn't it true that the average growth for
16 Labrador has been 8 ERCs over five years?

17 A Are you seeing that somewhere?

18 Q Yes, at the bottom of the page, sir, it says:
19 Five-year growth 8 ERCs?

20 A Yes, okay. I see that.

21 Q But UIF contends that the growth rate over the
22 next five years will be 36 units more than the historic
23 growth due to the development of that last parcel, is
24 that correct?

25 A Yes.

1 Q And isn't it true that the growth value
2 impacts the calculation of the U&U for the Labrador
3 system?

4 A I am having trouble understanding you. Isn't
5 it true that?

6 Q Isn't it true that the growth value impacts
7 the calculation of the used and useful rate for the
8 Labrador system?

9 A That's correct.

10 Q So subject to check, do you agree that if I
11 added the new known growth to the historic growth, the
12 calculated U&U for Labrador would be 40.2 percent?

13 A I don't know. I show 38.9 percent used and
14 useful. Is that what you are asking?

15 Q I was suggesting that it would be 40.2
16 percent.

17 A I don't have that number in front of me, so I
18 can't agree with it. It's higher than nine, but
19 that's -- (inaudible) --

20 MS. PIRRELLO: That's all the questions I
21 have, Mr. Chairman.

22 CHAIRMAN CLARK: All right. Thank you very
23 much.

24 Staff.

25 MR. TRIERWEILER: Staff doesn't have anything

1 for this witness.

2 CHAIRMAN CLARK: All right. Commissioners,
3 questions from Commissioners? None.

4 Mr. Wharton, redirect.

5 Did I miss somebody?

6 Mr. Wharton?

7 MR. WHARTON: No -- no questions, Mr.
8 Chairman.

9 CHAIRMAN CLARK: All right. Any exhibits?
10 Seeing none --

11 MR. WHARTON: Yes, we will move --

12 MS. PIRRELLO: We have no exhibits.

13 CHAIRMAN CLARK: Okay. Thank you.

14 I keep hearing somebody talking when I ask a
15 question, I stop and I have to look up again. I am
16 sorry.

17 MR. WHARTON: We would move 58, 59 and 60.

18 MS. LHERISSON: He has Exhibits 58, 59 and 60.

19 CHAIRMAN CLARK: They are already in the
20 Comprehensive -- am I correct?

21 MR. TRIERWEILER: Yes, that's correct.

22 CHARIMAN CLARK: Those don't need to be
23 entered again, right?

24 MR. TRIERWEILER: Correct.

25 CHAIRMAN CLARK: Those are in the

1 comprehensive exhibit list. They are covered.

2 All right. Anything else for this witness?

3 All right. This witness is excused. We will
4 take up the next witness, Patrick Flynn.

5 Mr. Wharton, is Mr. Flynn on the line? We are
6 not hearing you, Mr. Wharton.

7 MR. WHARTON: Now you should be.

8 CHARIMAN CLARK: We got you now.

9 Mr. Flynn, is he available?

10 MR. WHARTON: I believe he is, and Mr.
11 Friedman is going to take the testimony.

12 CHAIRMAN CLARK: All right. Let me swear you
13 in, Mr. Flynn.

14 Would you raise your right hand?

15 Whereupon,

16 PATRICK C. FLYNN

17 was called as a witness, having been first duly sworn to
18 speak the truth, the whole truth, and nothing but the
19 truth, was examined and testified as follows:

20 THE WITNESS: Yes, sir.

21 CHARIMAN CLARK: All right. Mr. Friedman.

22 EXAMINATION

23 BY MR. FRIEDMAN:

24 Q Thank you.

25 Would you state your name and business

1 address, please?

2 A Patrick Flynn. Address is 200 Weathersfield
3 Avenue, in Altamonte Springs, Florida.

4 Q And, Mr. Flynn, did you prefile any direct
5 testimony in this case?

6 A I did.

7 Q And if I asked you the questions in your
8 prefiled testimony, would your answers be the same?

9 A Yes.

10 Q And you don't have any changes to your
11 prefiled testimony at this time?

12 A No.

13 Q Did you sponsor any exhibits?

14 A I did.

15 Q Could you identify briefly what those exhibits
16 are?

17 A Primarily Exhibits PCF-1 through 45, I think
18 it was, or 46, reflecting proforma projects.

19 Q And what other exhibit -- did you sponsor one
20 other exhibit?

21 A Yeah. There was an exhibit having to do with
22 the SWIM.

23 Q Okay. Mr. Flynn, would you, at this time,
24 give a brief summary of your testimony?

25 A Certainly.

1 So in my current role as Vice-President of
2 Operations, I am responsible for the execution of the
3 capital plan, including the proforma projects identified
4 in my prefiled testimony. I am also responsible for the
5 operation of the -- of the utility's day-to-day
6 operations through my staff distributed across the state
7 of Florida in the various counties where we operate our
8 systems.

9 I am, in this current role for the last 15, 17
10 years, familiar with our systems. Could be responsive
11 to any questions you might have with respect to how we
12 developed our capital plan and implemented it, and are
13 implementing it as we speak, as well as any operation
14 issues we might have.

15 I am also familiar with the quality of service
16 aspects of the rate case with our track record with
17 respect to the relationship with DEP over the course of
18 many years. And again, I will be able to provide
19 answers to the questions associated with that topic.

20 That summarizes my testimony.

21 MR. FRIEDMAN: Mr. Flynn is tendered for
22 cross-examination, Mr. Chairman.

23 CHAIRMAN CLARK: Thank you, Mr. Friedman.

24 OPC?

25 EXAMINATION

1 BY MS. PIRRELLO:

2 Q Good morning, Mr. Flynn.

3 Isn't it true that when you filed your
4 testimony, it listed 45 proforma capital projects which
5 you propose be included in rate base?

6 A Yes.

7 Q Subject to check, would you agree that at the
8 time UIF filed this case, about 38 of those projects had
9 not yet been completed?

10 A Subject to check, yes, that's about right.

11 Q Above documentation requested on the
12 construction projects in this proceeding, and I just
13 want to spend a few minutes with you going over what
14 they are and the process that UIF uses to get a project
15 from its inception to completion.

16 So if you would please find hearing Exhibit
17 14, it's Exhibit PCF-13 to your direct testimony.

18 A Is there an exhibit you want me to bring up?

19 Q Yes, hearing Exhibit 14 on the CEL.

20 A Let me see if I can get that open. Hang on a
21 minute. Yes, looking for 14 here.

22 MR. FRIEDMAN: It didn't open up?

23 THE WITNESS: Exhibit 26 is showing up.

24 That's not the correct one. Bear with me.

25 MR. REHWINKEL: Are you looking at the CEL or

1 the Public Counsel's cross files?

2 MR. FRIEDMAN: We are looking at Public
3 Counsel's cross files.

4 MR. REHWINKEL: No. I think she's asking for
5 your PCF-13, which is CEL Exhibit 14, is that
6 correct?

7 MS. PIRRELLO: Yes.

8 MR. FRIEDMAN: Oh, okay. I am sorry.

9 THE WITNESS: So where is that, Marty?

10 MR. FRIEDMAN: No, it's just in the --
11 (inaudible) --

12 THE WITNESS: Okay.

13 What's your question?

14 BY MS. PIRRELLO:

15 Q Are you ready, sir?

16 A Go ahead.

17 Q All right. So after the cover page for this
18 document, there are two pages titled "Business Case
19 Form", is that correct?

20 A Yes.

21 Q Isn't it true that this form is an internal
22 UIF form?

23 A Yes, it's our standard -- standard project
24 form.

25 Q So on the first page of this exhibit, we see a

1 project number, project name, the name of the entity
2 proposing the project, a description of the project and
3 the estimated cost; is that correct?

4 A Yes.

5 Q And isn't it true that the second page
6 contains information on four topics, the justification
7 and benefits, risk evaluation, alternatives considered
8 and the type of review summary?

9 A Yes.

10 Q Now, the next two pages of this document show
11 bid documentation from an outside engineering firm
12 Kimley-Horn, which shows the engineering services in the
13 amount of \$47,000, right?

14 A Correct.

15 Q And the \$47,000 engineering big goes into the
16 engineering cost on the business case form, right?

17 A Correct.

18 Q Now let's turn to OPC cross Exhibit 27, it's
19 also CEL Exhibit 141?

20 A 27, you say?

21 Q Yes. OPC 27, or CEL 141.

22 A I am sorry, that won't open up. Is that a
23 different subset?

24 COMMISSIONER FAY: That won't open for me
25 either.

1 MS. PIRRELLO: The CEL won't open, or the
2 cross?

3 COMMISSIONER FAY: Cross.

4 MR. WHARTON: So we've got them. We weren't
5 able to get them off the website, but we have a
6 hard copy of them.

7 BY MS. PIRRELLO:

8 Q Okay. Whenever you are ready, let me know,
9 please.

10 A Yes, ma'am. What's the question?

11 Q This is UIF's response to staff's POD 1. If
12 you could find the response for PCF-13, please.

13 A Hang on a second. John, where's the index? I
14 got to scroll down. Hang on a second.

15 MR. FRIEDMAN: You just got to scroll down
16 until you get to your Exhibit 13.

17 MR. WHARTON: Are they paginated?

18 MR. FRIEDMAN: Well, yeah.

19 MR. WHARTON: Yeah, I just have to use your --
20 (inaudible) --

21 THE WITNESS: Bear with me, we will scroll on
22 down.

23 MR. WHARTON: I will find it.

24 MS. PIRRELLO: If you will open it as 141 to
25 the staff hearing exhibits, and then attachments,

1 all of the bids are separate there.

2 MR. WHARTON: We are on the right document.
3 We are just having to find the exhibit. It's just
4 a long --

5 MR. REHWINKEL: Mr. Chairman, while they are
6 doing that, we road tested the exhibits yesterday
7 and downloaded them all, but I had the same problem
8 that the witness and Commissioner Fay had. So I
9 logged out and logged back in, and I was able to
10 access 27 right away. So that -- I just would say
11 if we run into a glitch like that, that it may be
12 you may have to reset it.

13 MR. WHARTON: We can either take five and do
14 that or we will do it in between witnesses.

15 CHAIRMAN CLARK: Are you not able to find the
16 document still, is that correct? UIF?

17 MR. WHARTON: It's just a long -- we are
18 actually pulling up a copy we have on our hard
19 drive so that cross can proceed. We are having the
20 same problem opening it on the website as some
21 others are.

22 COMMISSIONER FAY: And, Mr. Chairman, Mr.
23 Rehwinkel is correct. I just logged out and logged
24 back in on my end and was able to pull up Exhibit
25 27 of the cross, so I don't know if that would help

1 UIF.

2 THE WITNESS: Maybe we should try that.

3 MR. FRIEDMAN: I don't know how to do that.

4 John -- (inaudible) -- log in and log out.

5 MR. WHARTON: Yeah.

6 COMMISSIONER FAY: Or just log in even if you
7 are not using the confidential exhibits, it still
8 seems to pull up.

9 Thank you, Mr. Chair.

10 CHARIMAN CLARK: Yes, sir. Thank you.

11 MR. WHARTON: What's the password? 123 --
12 password 123 --

13 MR. FRIEDMAN: Password, capital P,
14 password -- I just refreshed it and was able to get
15 it done. Instead of logging in and logging out, I
16 just refreshed the page.

17 COMMISSIONER FAY: And for the members of the
18 public, that was not a real password that was read.

19 MR. FRIEDMAN: -- (inaudible) -- go with it.

20 MR. WHARTON: Haul your computer over here so
21 we can move on. We will figure out -- (inaudible)
22 -- it's not taking --

23 MR. FRIEDMAN: Okay. Well, here's.

24 THE WITNESS: Could we -- could we take a
25 technical break? Maybe that would be helpful.

1 MR. FRIEDMAN: Well, wait -- what happened to
2 that?

3 CHAIRMAN CLARK: All right. We are going to
4 take another break. This is going to be -- unless
5 he has the document. Do you have it right now?

6 THE WITNESS: No, sir.

7 CHARIMAN CLARK: No, sir, okay.

8 MR. FRIEDMAN: I have -- I have Exhibit 27.
9 Is that -- cross-examination Exhibit 27, is that
10 what we are talking about?

11 MS. PIRRELLO: Yes.

12 MR. FRIEDMAN: All right. We at least have it
13 open.

14 CHAIRMAN CLARK: Mr. Friedman, do you have all
15 of the exhibits for this witness that you are
16 comfortable to proceed, or can I call a lunch break
17 and give you time to get everything together and
18 let's reconvene?

19 MR. FRIEDMAN: We were just trying to relog
20 back in to the -- to the exhibits on the PSC
21 website, but I was able to do it on my computer by
22 the -- (inaudible) -- so he does have that one
23 exhibit in front of him if you want to go ahead
24 with that part.

25 CHARIMAN CLARK: I can't understand you, Mr.

1 Friedman. I am sorry.

2 THE WITNESS: I have Exhibit 27 open on a
3 different laptop.

4 CHAIRMAN CLARK: All right. We are going to
5 go and try to wrap up this witness before the lunch
6 break.

7 OPC, you may proceed.

8 BY MS. PIRRELLO:

9 Q So on Exhibit 27, or PCF-13, this response
10 shows bids from two different bidders, North Lake
11 Electric with a bid of approximately \$482,000 and Danus
12 Utilities with a bid of 333,000, is that correct?

13 A Yes, ma'am.

14 Q And isn't it true that the rest of this
15 document shows those bids and the related bid documents?

16 A Yes, those are the two bids received for that
17 project.

18 Q And Danus Utilities' bid was selected for this
19 project, correct?

20 A Danus was picked, yes.

21 Q So Danus Utilities' bid of 333,000 was entered
22 on the business case form in Exhibit PCF-13 to your
23 direct testimony, is that correct?

24 A Yes.

25 MS. PIRRELLO: Mr. Chairman, I would like to

1 turn to OPC cross Exhibit 28 and request that it be
2 given hearing Exhibit No. 189.

3 CHAIRMAN CLARK: So ordered.

4 (Whereupon, Exhibit No. 189 was marked for
5 identification.)

6 BY MS. PIRRELLO:

7 **Q Please let he let me know when you have the**
8 **exhibit available.**

9 A Okay. Stand by.

10 MR. FRIEDMAN: 28?

11 THE WITNESS: 28.

12 MR. FRIEDMAN: Let's see, is it on your
13 computer? Here it is -- (inaudible) --

14 THE WITNESS: Thank you.

15 All right. I have 28 in front of me.

16 BY MS. PIRRELLO:

17 **Q All right. The exhibit is UIF's response to**
18 **OPC's POD No. 40. Starting on Bates page 950, this**
19 **response shows the executed contract between UIF and**
20 **Danus Utilities, is that correct?**

21 A Yes.

22 **Q And Section A of this contract states that the**
23 **contract documents include the contract, the**
24 **contractor's bid, a notice to proceed, any technical**
25 **specifications, change orders, work change directives**

1 and field orders issued on or after the effective date
2 of this agreement, right?

3 A Yes.

4 Q And Section C states that the contractor shall
5 begin work within 10 days after the issuance of a
6 written notice to proceed, and shall substantially
7 complete the work within 156 calendar days from the date
8 of the notice to proceed, correct?

9 A Yes.

10 Q The work shall be finally complete and ready
11 for final payment within 30 calendar days from the
12 actual date of substantial completion, isn't that
13 correct?

14 A Yes.

15 Q And isn't it true that while the time to
16 complete this project is 156 days, that varies from
17 project to project?

18 A Correct.

19 Q On that same exhibit, let's turn to page 953.
20 This is the notice to proceed, correct?

21 A Yes.

22 Q And this notice contains the name of the
23 project, the contractor, and provides start and end
24 dates for the project, correct?

25 A It does.

1 Q And isn't it true that this document must be
2 executed by both parties to be an effective notice to
3 proceed?

4 A Yes.

5 Q And isn't it true that the contractor cannot
6 begin construction until this notice has been issued and
7 he acknowledges it by signing it?

8 A That is the routine methodology, correct.

9 Q I would like to ask you a series of questions
10 about the proforma projects at issue in this case.

11 Isn't it true that when you filed your
12 testimony on June 30th, 2020, you expected the
13 Commission to rely on this testimony?

14 A Yes. To the extent we had information
15 available at that date, then that's what we provided in
16 our -- in my testimony.

17 Q Isn't it true that when you filed your
18 testimony, PCF-14 was scheduled to be completed by
19 December 31st, 2020?

20 A For -- for which one? Are you talking about
21 the same project?

22 Q No. PCF-14, it's on page nine, line 25 of
23 your direct testimony.

24 A Right. The Mid-County Lift Station project.

25 Q And that was scheduled to be completed by

1 **December 31st, 2020?**

2 A That was the original estimate -- date,
3 correct.

4 Q **And isn't it true that UIF has not provided**
5 **documentation to the Commission or the OPC that a notice**
6 **to proceed has been properly executed?**

7 A I believe the notice to proceed documentation
8 is provided in my rebuttal testimony. It was not
9 available at the point of the direct testimony date.

10 Q **All right. If we could, turn to your updated**
11 **exhibit PCF-14, which has been identified as hearing**
12 **Exhibit 108.**

13 A Bear with me. Let me see if we can pump it
14 up. I am sorry, which exhibit number is that one?

15 Q **108 on the CEL.**

16 MR. FRIEDMAN: On the CEL.

17 THE WITNESS: Where is that one, Marty?

18 MR. FRIEDMAN: Are you talking about in his
19 rebuttal testimony?

20 MS. PIRRELLO: Yes.

21 THE WITNESS: You are talking about -- you are
22 talking about rebuttal testimony?

23 MS. PIRRELLO: Yes, the updated exhibit.

24 MR. FRIEDMAN: Why are you asking questions --
25 I am sorry, I object.

1 THE WITNESS: Are you asking questions about
2 the rebuttal testimony, not the direct testimony?

3 MS. PIRRELLO: I am asking about the updated
4 exhibit that was provided, yes.

5 MR. FRIEDMAN: Commissioner, I object to that
6 line of questioning because it relates to his
7 rebuttal testimony.

8 CHAIRMAN CLARK: Is it related to the exhibit
9 or is it related to the testimony itself?

10 MS. PIRRELLO: The exhibit.

11 CHAIRMAN CLARK: Stand by.

12 MS. CIBULA: 108 has been entered into the
13 record already, but it goes to his rebuttal
14 testimony, so I guess we have to hear what the
15 question is about.

16 CHAIRMAN CLARK: Repeat your question, Ms.
17 Pirrello.

18 BY MS. PIRRELLO:

19 Q If you could turn to page 25. This is the
20 notice to proceed, is that correct?

21 CHAIRMAN CLARK: No, I said would you repeat
22 your question so that we can make a ruling, Ms.
23 Pirrello?

24 MS. PIRRELLO: I hadn't asked the question
25 yet, Mr. Chairman.

1 CHAIRMAN CLARK: Okay. I will allow the
2 question -- Mr. Friedman. Oh, I am sorry, I am
3 going to allow the question, and we will make a
4 ruling afterwards.

5 Go ahead.

6 BY MS. PIRRELLO:

7 **Q So on page 25, this is the notice to proceed,**
8 **is that correct?**

9 MR. WHARTON: Okay, what exhibit is it?

10 THE WITNESS: Which exhibit number again,
11 please?

12 MS. PIRRELLO: 108.

13 THE WITNESS: 109.

14 MR. FRIEDMAN: Which is PCF-14 on the rebuttal
15 testimony.

16 THE WITNESS: Bear with us, please. We will
17 look it up.

18 MR. WHARTON: Almost there.

19 COMMISSIONER BROWN: Anyone else hungry at
20 this time?

21 CHAIRMAN CLARK: Go ahead.

22 THE WITNESS: So I am looking at the notice to
23 proceed form, page -- or page seven of 10? I am
24 sorry, it's the wrong one. Hang on. PCF-14.

25 BY MS. PIRRELLO:

1 Q Yes, page 25.

2 A Yep. I will scroll down to that momentarily.

3 Okay, I am looking at it.

4 Q Okay. So this document is signed by Patrick
5 Flynn on behalf of UIF, is that correct?

6 A Correct.

7 Q But isn't it true that the contractor,
8 Kamminga & Roodvoets, has not signed the form presented
9 in this exhibit?

10 A That's correct.

11 Q And you stated earlier that the notice must be
12 signed by both parties to be effective, correct?

13 A That's correct.

14 Q Isn't it true that this project is the result
15 of a preliminary design report which was mandated by
16 DEP?

17 A No, it's not.

18 Q Isn't it true that when you filed your
19 testimony on June 30th, 2020, UIF did not provide
20 documentation of an award form for PCF-16?

21 A For PCF-14?

22 Q 16.

23 A 15, which is the generator --

24 Q I am sorry, 16.

25 A I am just scrolling down to it.

1 So this is a project we didn't have a notice
2 to proceed form. It wasn't a project of such scale and
3 size that it required that kind of form be utilized. We
4 offered that -- we signed off on the proposal provided
5 by the contractor and proceeded with the work.

6 **Q All right. But isn't it true that when you**
7 **filed your testimony, there was no award form filed**
8 **with -- for this project?**

9 MR. FRIEDMAN: I am sorry, when he filed which
10 testimony? His -- his initial or rebuttal?

11 MS. PIRRELLO: His initial.

12 THE WITNESS: So at the time of the initial
13 filing of my direct testimony. The -- I have to
14 look to check, but we didn't actually have a notice
15 to proceed form for this particular project to
16 execute.

17 BY MS. PIRRELLO:

18 **Q I am only asking about the award form. Had**
19 **you selected a bid for this project?**

20 A Right. We did not use an award form for every
21 project necessarily.

22 **Q Isn't it true that this project involves**
23 **multiple contractors?**

24 A This is primarily one contractor with multiple
25 work. It may have been some ancillary work by a

1 contractor for landscaping.

2 Q And this is for the Mid-County Curlew Creek
3 I&I remediation?

4 A Yeah, Curlew Creek I&I project had multiple
5 contracts. This is correct. Different aspects of the
6 project required different contractors to be involved.

7 Q Okay. So isn't it true that in your updated
8 exhibit, PCF-16, which is also hearing Exhibit 110,
9 there is only one notice to proceed?

10 A Correct, with Insituform.

11 Q So you will agree that UIF has not provided
12 documentation to the Commission or OPC of a notice to
13 proceed for each contractor that's involved in this
14 project?

15 A Correct. We didn't utilize a notice to
16 proceed form for the contractors working on -- on minor
17 aspects of the project relative to the Insituform
18 project amount.

19 Q Isn't it true that when you filed your
20 testimony on June 30th, 2020, UIF did not provided award
21 form for PCF-17?

22 A The Mid-County Headworks project?

23 Q Yes.

24 A Yes, that's correct.

25 Q And isn't it true that UIF has not provided

1 **documentation that a notice to proceed has been issued?**

2 A In my -- I would have to look at my rebuttal
3 testimony to identify whether we provided the notice to
4 proceed form at that time.

5 Q **All right. Let's turn to your updated Exhibit**
6 **PCF-17.**

7 A Okay, I am looking at it.

8 Q **So on the first page, we see the business case**
9 **form, and that takes up the first two pages?**

10 A Again, you are talking about my PCF-17 updated
11 exhibit?

12 Q **Yes, sir.**

13 A Right. I am looking at page -- page 10 of
14 18 -- or I am sorry, page 11 of 18?

15 Q **I was just starting at the beginning of the**
16 **document, but --**

17 A Okay. Okay, page one.

18 Q **Yes. So do you agree, pages one and two are**
19 **the business case form?**

20 A Correct.

21 Q **And then page three, there is just a chart**
22 **with a transaction and project names?**

23 A Correct.

24 Q **And pages four through eight are -- or I am**
25 **sorry, four through 10 are the contract from**

1 **Kimley-Horn?**

2 A Correct.

3 Q **And then 11 is the notice of award form?**

4 A Correct.

5 Q **12 is an agreement form?**

6 A Correct.

7 Q **As are 13 and 14.**

8 Do you agree that page 15 shows a performance
9 bond?

10 A Correct.

11 Q **And that performance bond goes through the end
12 of this exhibit?**

13 A Correct.

14 Q **So would you agree now that UIF has not
15 provided documentation that a notice to proceed has been
16 issued?**

17 A That we -- we provided notice of award. I did
18 not provided notice -- a notice to proceed document with
19 this particular exhibit.

20 Q **Isn't it true that when you filed your
21 testimony on June 30th, UIF did not provide
22 documentation of an award form for PCF-20?**

23 A This is the Sandalhaven SCADA project?

24 Q **Yes.**

25 A That's correct.

1 **Q And isn't it true that UIF has not provided**
2 **documentation that an award form has been issued?**

3 A No. That particular project did not require
4 the utilization of the notice to proceed document. It
5 was simply a straightforward authorization of the work
6 by -- excuse me, the proposal.

7 **Q All right. Let's pull up that updated exhibit**
8 **to PCF-20, it's also hearing Exhibit 114.**

9 A I am looking at PCF-20.

10 **Q Yes, sir.**

11 MR. FRIEDMAN: Is that rebuttal PCF-20?

12 THE WITNESS: Is that rebuttal PCF-20, PCF-20
13 update?

14 BY MS. PIRRELLO:

15 **Q Yes.**

16 A I am looking at it.

17 **Q And we see the business case form, a bid from**
18 **Barney's Pumps, Inc., and a bid from the Sanders**
19 **Company; is that correct?**

20 A Sanders Company was purchased by Barney's
21 Pumps, so Barney's Pumps was the successor to Sanders.

22 **Q Okay, but you didn't provide proof of an award**
23 **form in the updated exhibit, is that correct?**

24 A No, as I said a minute ago, this project did
25 not require utilization of the notice to proceed form,

1 we simply signed off on the proposal by the contractor,
2 accepted their proposal to initiate the work.

3 Q So you don't issue a award form either, you
4 just sign the bid?

5 A Correct.

6 Q Isn't it true that when you filed your
7 testimony on June 30th, UIF did not provide
8 documentation of an award form for PCF-23?

9 A 23 is the Sanlando Wekiva Headworks project.
10 That's correct.

11 Q And isn't it true that UIF has not provided
12 documentation that a notice to proceed has been signed
13 by the contractor, Florida Environmental Construction?

14 A Just bear with me, I am pulling up the
15 rebuttal testimony exhibit. I got it. Yeah, we -- page
16 14 has a notice of award and page 15 of 16 has the
17 notice to proceed.

18 Q And that notice to proceed has not been signed
19 by the contractor, correct?

20 A That's correct.

21 Q Isn't it true that when you filed your
22 testimony in June, UIF did not provide documentation of
23 an award form for PCF-28?

24 A PCF-28 is the utility EE Williamson Utility
25 Relocations project. That's correct.

1 Q And isn't it true that UIF has not provided
2 documentation that a notice to proceed has been issued?

3 A That's correct.

4 Q Isn't it true that when you filed your
5 testimony in June, PCF-31 was scheduled to be completed
6 by November 30th of 2020?

7 A That was the original date, correct.

8 Q And isn't it true that UIF has not provided
9 documentation that an award form has been issued?

10 A Again, that was a project of not sufficient
11 scale and size or complexity that required the use of a
12 notice to proceed form.

13 Q Isn't it true that when you filed your
14 testimony on June 30th, UIF did not provide
15 documentation of an award form for PCF-33?

16 A I would have to look. Stand by, let me scroll
17 down to it.

18 MR. FRIEDMAN: Are you looking at rebuttal
19 testimony?

20 THE WITNESS: Yeah. So as far as the June
21 2020 direct testimony, I would have to look it up.
22 I don't have it in front of me. I don't have the
23 rebuttal testimony in front of me.

24 MR. FRIEDMAN: 33?

25 THE WITNESS: 33. Let me see if I can open

1 it.

2 BY MS. PIRRELLO:

3 **Q In your direct testimony, it appears on page**
4 **14, line 16.**

5 A I am having trouble opening that direct
6 testimony and exhibit. Hang on a second.

7 MR. FRIEDMAN: Scroll -- scroll down.

8 THE WITNESS: That's correct.

9 BY MS. PIRRELLO:

10 **Q And isn't it true that UIF has not provided**
11 **documentation that a notice to proceed has been issued**
12 **for this project?**

13 A That's correct. The project has been
14 completed, though.

15 **Q Was a notice to proceed issued after the date**
16 **that your rebuttal testimony was filed?**

17 A No, we did not have a notice to proceed form
18 utilized in that project.

19 **Q If we could return for a second to PCF-31, I**
20 **would just like to clarify.**

21 A PCF-31 of the direct or the rebuttal update?

22 **Q Direct.**

23 A Okay, I am looking at 31.

24 **Q You stated that you didn't issue a notice to**
25 **proceed in this project because it was not necessary**

1 based on the size. Isn't it true that you also did not
2 issue an award form?

3 A Correct.

4 Q Let's turn now to project PCF-6. You don't
5 need to open the exhibit. If you could just refer to
6 your direct testimony, page six, line 11.

7 A For -- again, this is for number PCF-6?

8 Q Yes, sir.

9 CHAIRMAN CLARK: Ms. Pirrello, while he is
10 looking that up, any idea about how much longer
11 your line of questioning is going to be?

12 MS. PIRRELLO: I have a couple more pages, but
13 this would be a good stopping point if you would
14 like to stop now.

15 CHAIRMAN CLARK: All right. Then let's
16 just -- let's go ahead and stop, and we are going
17 go to resume at 1:45 if that works for everybody.

18 Commissioner Brown, you -- I am sorry, I
19 thought you said something. It's good with you.
20 Is that good with my Commissioners? Let me start
21 there. Everybody happy with that?

22 COMMISSIONER BROWN: I am happy.

23 CHAIRMAN CLARK: All right. Very good. All
24 right. Everybody else okay, we will resume at
25 1:45.

1 All right. Thank you. We will see you then.

2 (Lunch recess.)

3 (Transcript continues in sequence in Volume

4 2.)

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, DEBRA KRICK, Court Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 15th day of February, 2021.



DEBRA R. KRICK
NOTARY PUBLIC
COMMISSION #HH31926
EXPIRES AUGUST 13, 2024