

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** April 8, 2021

**TO:** Office of Commission Clerk (Teitzman)

**FROM:** Division of Accounting and Finance (Norris, D. Andrews, Bennett, Blocker, D. Buys, Cicchetti, Osorio, Thurmond) [ALM](#)  
Division of Economics (Bethea, Bruce, Hudson, Sibley) [JGH](#)  
Division of Engineering (Doehling, Ellis, King, Kistner, Knoblauch, Maloy, Ramos, Thompson) [TB](#)  
Office of the General Counsel (Trierweiler, Lherisson) [JSC](#)

**RE:** 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.

**AGENDA:** 04/20/21 – Special Agenda – Post-Hearing Decision – Participation is Limited to Commissioners and Staff

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Fay

**CRITICAL DATES:** 04/30/21 (8-Month Effective Date)

**SPECIAL INSTRUCTIONS:** None

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### Acronym Table

The following abbreviations used herein are listed below for reference purposes:

AA	Accumulated Amortization
AC	Asbestos Cement
ADIT	Accumulated Deferred Income Tax
AFUDC	Allowance for Funds Used During Construction
ARCH	Autoregressive Conditional Heteroskedasticity
BFC	Base Facility Charge
BR	Brief
CAPM	Capital Asset Pricing Model
CIAC	Contributions in Aid of Construction
CIP	Capital Improvement Plan
CIPP	Cured-in-place Pipe
CRU-US	Corix Regulated Utilities (U.S.), Inc.
CWIP	Construction Work in Progress
DBP	Disinfection Byproducts
DCF	Discounted Cash Flow
DEP	Department of Environmental Protection
ECAPM	Empirical Capital Asset Pricing Model
EPS	Earnings Per Share
ERC	Equivalent Residential Connection
ERP	Equity Risk Premium
EUW	Excessive Unaccounted for Water
EWD	Englewood Water District
EXH	Exhibit
F.A.C.	Florida Administrative Code
FDOT	Florida Department of Transportation
FM	Force Main
FMV	Fair Market Value
F.S.	Florida Statutes
GARCH	Generalized Form of Autoregressive Conditional Heteroskedasticity
GDP	Gross Domestic Product
GRIP	Gas Reliability Infrastructure Program
GSM	Gravity Sewer Mains
GST	Gravity Storage Tank
I&I	Infiltration and/or Inflow
IDC	Interest During Construction
IRS	Internal Revenue Service
KWRU	KW Resorts Utilities Corp.
LUSI	Lake Utility Services, Inc.
MFRs	Minimum Filing Requirements
NARUC	National Association of Regulatory Utility Commissioners
O&M	Operation and Maintenance
OPC	Office of Public Counsel

PAA	Proposed Agency Action
PCF	UIF Witness Flynn's Exhibits
PFAS	Polyfluoroalkyl Substances
PRPM	Predicted Risk Premium Model
PVC	Polyvinyl Chloride
RAFs	Regulatory Assessment Fees
RAS	Return Activated Sludge
RPM	Risk Premium Model
RRA	Regulatory Research Associates
ROE	Return on Equity
RTU	Remote Terminal Unit
SCADA	Supervisory Control & Data Acquisition
SWIM	Sewer and Water Improvement Mechanism
TOTI	Taxes Other than Income
TR	Transcript
U&U	Used and Useful
UIF	Utilities, Inc. of Florida
USOA	Uniform System of Accounts
WACC	Weighted Average Cost of Capital
WM	Water Mains
WSC	Water Service Corporation
WTP	Water Treatment Plant
WWTP	Wastewater Treatment Plant

## Case Background

Utilities, Inc. of Florida (UIF or Utility) is a Class A utility providing water and wastewater service to 27 systems in the following counties: Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole. UIF is a wholly-owned subsidiary of Utilities, Inc. (UI). The Utility's last rate proceeding, processed in Docket No. 20160101-WS, utilized a historic December 31, 2015, test year.<sup>1</sup> That proceeding culminated in Order No. PSC-2017-0361-FOF-WS, issued September 25, 2017, as amended by Order No. PSC-2017-0361A-FOF-WS, issued October 4, 2017. On remand from the First District Court of Appeal, Order No. PSC-2019-0363-PAA-WS was issued on August 27, 2019. Additionally, the Commission approved a single, consolidated rate structure.

In 2019, the Utility recorded total company operating revenues of \$16,396,327 for water and \$20,840,529 for wastewater, respectively. UIF reported net operating income for 2019 of \$3,726,366 for water and \$5,185,175 for wastewater. In 2019, UIF had 33,736 water and 23,885 wastewater customers for its combined systems.

On July 13, 2020, UIF filed an application for approval of interim and final water and wastewater rate increases. By letter dated August 5, 2020, staff advised the Utility that its Minimum Filing Requirements (MFRs) had deficiencies. The Utility filed its response on August 24, 2020. A second deficiency letter was issued on August 28, 2020. The Utility filed a response to Commission staff's second deficiency letter on August 31, 2020, correcting its remaining deficiencies, and thus, August 31, 2020, became the official filing date pursuant to Sections 367.081 and 367.083, Florida Statutes (F.S.).

The Utility's application for increased interim and final water and wastewater rates is based on the historical 13-month average period ended December 31, 2019. The requested final rates include adjustments for pro forma projects. UIF requested final rates designed to generate additional revenues of \$2,812,445, or 16.94 percent, for water operations and \$6,521,686, or 32.12 percent, for wastewater operations.

Upon its request, the Office of Public Counsel (OPC) was added as an interested person to this docket on April 20, 2020. The intervention of the OPC was acknowledged by Order No. PSC-2020-0259-PCO-WS, issued July 24, 2020, in this docket.

On April 21, 2020, UIF filed a Petition for Variance or Waiver of a specific provision from Rule 25-30.437, Florida Administrative Code (F.A.C.), to waive the requirement to provide additional detailed billing analyses for each rate change period in the test year. By Order No. PSC-2020-0211-PAA-WS, issued June 26, 2020, the Commission approved the Utility's petition.

By Order No. PSC-2020-0322-PCO-WS, issued September 21, 2020, the Commission authorized the collection of interim water and wastewater rates, subject to refund, pursuant to

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<sup>1</sup> *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.*

Section 367.082, F.S. The approved interim revenue requirements represented an increase of \$918,223 for water and \$1,051,222 for wastewater operations.<sup>2</sup>

Five customer service hearings were held via teleconference over the following dates: December 3, 2020, December 10, 2020, and January 6-7, 2021.

A formal evidentiary hearing was held on February 2-3, 2021. At the hearing, the Commission approved Type II stipulations for Excessive Unaccounted for Water (EUW), Excessive Infiltration and/or Inflow (I&I), Used and Useful (U&U) – Water Treatment, U&U – Storage, U&U – Wastewater Treatment, U&U – Wastewater Collection Lines, U&U – Wastewater Distribution, Rate Case Expense, Operating Expense Amortizations, Water Rate Structure, Wastewater Rate Structure, Private Fire Protection Charges, Reuse Rates, Customer Deposits, Guaranteed Revenue Charges, Customer Deposits Included in Capital Structure, Cost Rates for Short-Term Debt, and Cost Rates for Long-Term Debt.<sup>3</sup> The Parties filed post-hearing briefs on February 23, 2021.

This recommendation addresses the remaining issues concerning the Utility's final requested rates. As need, individual systems within the consolidated Utility will be referred to as its former name as follows: Cypress Lake Utilities, Inc. (Cypress Lakes), Utilities, Inc. of Eagle Ridge (Eagle Ridge), Labrador Utilities, Inc. (Labrador), Lake Placid Utilities, Inc. (Lake Placid), Lake Utility Services, Inc. (LUSI), Utilities, Inc. of Longwood (Longwood), Mid-County Services, Inc. (Mid-County), Utilities, Inc. of Pennbrooke (Pennbrooke), Utilities Inc. of Sandalhaven (Sandalhaven), Sanlando Utilities Corporation (Sanlando), Tierra Verde Utilities, Inc. (Tierra Verde), and Utilities, Inc. of Florida (UIF-Marion, UIF-Pinellas, UIF-Orange, UIF-Pasco, and UIF-Seminole. The Commission has jurisdiction pursuant to Section 367.081, F.S.

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<sup>2</sup> Order No. PSC-2020-0322-PCO-WS, issued September 21, 2020, in Docket No. 20200139-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.*

<sup>3</sup> OPC takes no position on these issues nor does it have the burden of proof related to them. As such, OPC represents that it will not contest or oppose the Commission taking action approving a proposed stipulation between the Company and another party or staff as a final resolution of these issues. No person is authorized to state that OPC is a participant in, or party to, a stipulation on these issues, either in this docket, in an order of the Commission, or in a representation to a Court.

## Discussion of Issues

**Issue 1:** Is the overall quality of service provided by the Utility satisfactory, and, if not, what systems have quality of service issues and what action should be taken by the Commission?

**Recommendation:** Yes, staff recommends that UIF's overall quality of service is satisfactory. However, the quality of service for the Pennbrooke, Sanlando (Wekiva Hunt Club), and Mid-County systems should be deemed marginal, with no penalty. The reductions to the Utility's ROE from prior quality of service determinations should be removed. Further, staff recommends the secondary water quality reporting and testing requirements, pursuant to Order No. PSC-16-0505-PAA-WS for Summertree be discontinued. (Maloy, Ramos)

### **Position of the Parties**

**UIF:** The quality of service is satisfactory for all systems.

**OPC:** No. Systems have quality of service issues, including Lake Utility Services, Inc. (LUSI), Wekiva Hunt Club/Sanlando Utilities, Mid-County Services, Inc. and Pennbrooke. The Commission should reduce the ROE for LUSI, Mid-County Services, Inc. and Pennbrooke by at least 50 basis points and 100 basis points for Wekiva Hunt Club/Sanlando Utilities.

### **Staff Analysis:**

## PARTIES' ARGUMENTS

### **UIF**

UIF asserted the quality of service for all its systems is satisfactory and most customers that attended one of the five virtual customer service hearings addressed the rate increase, not quality of service. UIF acknowledged that the Commission evaluates quality of service based on three components: quality of the utility's product, operating conditions, and attempts to address customer satisfaction. The Utility stated that OPC did not outline its arguments in these three categories; but instead, its arguments are directed to systems with current or past Consent Orders with the DEP. UIF argued this relates to the operating category and not the water quality customers receive. UIF noted that according to OPC the quality of service for LUSI, Sanlando Utilities (Wekiva Hunt Club), and the Mid-County systems is unsatisfactory. (UIF BR 1)

In its brief, UIF separately addressed the three components noted above. The Utility argued the quality of the Utility's product (water) is satisfactory and specifically addresses the Summertree, LUSI, Sanlando, and Pennbrooke systems. (UIF BR 2-3) UIF contended Summertree has had the most improvement since the last rate case with the completion of the interconnection with Pasco County in 2016. UIF stated water quality complaints have declined, and the DEP has received no water quality complaints since the system was interconnected. The Utility stated that LUSI was determined to be marginal in the last rate case due to an open Consent Order regarding disinfection byproducts (DBP) exceedances. The Utility argued it should now be considered satisfactory because there were no customer complaints about water quality and DEP considers this system to be in compliance. (UIF BR 2) For the Sanlando system, the main complaint of the customers that testified at the service hearings was the magnitude of the rate increase; however,

while there were some comments related to water quality, none of them indicated “that there were systemic water quality issues.” (UIF BR 2) The Utility stated that the DEP records do not indicate any water quality complaints since 2017, and only a half dozen before that. (UIF BR 2) Regarding Pennbrooke, UIF stated that three customers testified at the service hearings regarding aesthetics and hardness. In addition, OPC witness Lewis testified that she made contact with two residents in Pennbrooke who did not like the water quality and purchased filtration systems. UIF noted that neither of these customers had ever contacted the Utility to complain about water quality. (UIF BR 3) Moreover, the DEP has found this system to be in compliance and reported one water quality complaint in 2017. (UIF BR 2-3)

Next, the Utility addressed operating conditions and argued that all systems are in compliance, except the Mid-County and Sanlando wastewater systems (Wekiva Hunt Club). The Utility specifically addressed both systems and the LUSI system. UIF countered OPC witness Lewis’ recommendation that the Mid-County system be found unsatisfactory with a 50-basis point reduction, by stating the Consent Order was due to not having submitted final paperwork and the Consent Order was closed on December 21, 2020. (UIF BR 3) The Utility also refuted witness Lewis’s recommendation that the Sanlando wastewater system (Wekiva Hunt Club) should be found not satisfactory and a 50-basis point reduction should be applied due to current and past Consent Orders. The Utility asserted that since two pro forma projects are being requested in this docket, the compliance issue related to unauthorized discharges will be resolved and because UIF is taking the necessary “steps to meet the requirements of the Consent Order,” a penalty should not be imposed. (UIF BR 3) The Utility stated that witness Lewis recommended a marginal or unsatisfactory determination for the LUSI system due to a Consent Order from the DEP relating to DBP. UIF argued the system is in compliance with the DEP and the prior issues related to DBP exceedances have been resolved. (UIF BR 3)

Last, in order to address customer satisfaction, the Utility contended it improved customer service and communications by creating a new position, Director of External Affairs, which Mr. Snow holds. UIF argued that based on the records, UIF timely addressed customer service issues; therefore, the Utility’s attempt to address customer satisfaction should be considered satisfactory. The Commission has logged fewer complaints during this rate case’s analyzed 5-year period compared to the same relative time of the Utility’s last rate case. (UIF BR 3) Twelve of the 18 water quality complaints recorded with DEP were for two of UIF’s largest systems, Sanlando and LUSI. The Utility argued that the DEP considers no water system out of compliance because of secondary water quality standards. (UIF BR 4) Additionally, UIF reorganized its Customer Experience department to respond to the customers by their preferred method of communication and has expanded its platform for customer feedback and information to social media and its application, MyUtilityConnect. (UIF BR 4) OPC witness Lewis commented on the number of billing complaints, to which UIF responded that it works with each customer individually to address high bill complaints.

### **OPC**

OPC contended that UIF’s overall quality of service is not satisfactory due to issues with the: LUSI, Sanlando (Wekiva Hunt Club), Mid-County, and Pennbrooke systems. OPC argued for a minimum of a 50-basis point reduction to LUSI, Mid-County, and Pennbrooke’s return on equity (ROE) and a 100-basis point reduction to Sanlando’s (Wekiva Hunt Club) ROE. (OPC BR 2)

Regarding the DEP compliance, OPC argued that UIF demonstrated consistent mismanagement of its facilities and that there has been a consistent pattern of compliance issues at UIF's wastewater facilities. (OPC BR 3) Witness Lewis identified six Consent Orders relating to three facilities. Specifically, Wekiva Hunt Club/Sanlando was subject to three Consent Orders, in 2015, 2018, and 2019, all for the discharge of untreated or improperly treated wastewater. Mid-County was also the subject of two Consent Orders, in 2018 and 2019. LUSI was the subject of a 2015 Consent Order related to maximum contaminant levels. OPC went on to note that staff witness Hicks testified that the LUSI system had the second highest incidence of complaints recorded in the Commission's Consumer Activity Tracking System and about 20 percent of those LUSI complaints related to quality of service. (OPC BR 4; TR 505)

During the five customer service hearings, OPC contended that customers testified about poor water quality and having to purchase bottled water since home filters are too expensive. Customers also complained of staining on home appliances and home exteriors from their water. Further, customers stated they were then required to clean the stains on their homes or be fined by their homeowners' association. OPC argued that customers should not have this additional burden due to their water quality. Customers also had issues regarding the Utility's emergency telephone line going unanswered. (OPC BR 4)

OPC contended that the Utility "should not be allowed to operate in non-compliance during the test year, later resolve the deficiencies in time for the rate case, and then expect to receive a clean bill of health from the Commission." (OPC BR 5) OPC argues the Commission should look at the Utility's history of non-compliance and take this into consideration when setting new rates. Further, the Commission should find UIF's quality of service to be unsatisfactory based on the Utility's compliance history with the DEP as well as customer testimony for the following four systems: LUSI, Sanlando (Wekiva Hunt Club), Mid-County, and Pennbrooke. OPC also asserted that UIF's ROE should be reduced by a minimum of 50-basis points for LUSI, Mid-County, and Pennbrooke, and 100-basis points for Sanlando (Wekiva Hunt Club).

## **ANALYSIS**

Pursuant to Rule 25-30.433(1), F.A.C., the Commission "in every rate case shall make a determination of the quality of service provided by the utility by evaluating the quality of the Utility's product (water) and the Utility's attempt to address customer satisfaction (water and wastewater)." Also, pursuant to Rule 25-30.433(2), F.A.C., "in order to ensure safe, efficient, and sufficient service to utility customers, the Commission shall consider whether the infrastructure and operational conditions of the plant and facilities are in compliance with Rule 25-30.225, F.A.C." In doing so, the Commission shall consider test results, inspections, complaints, testimony, as well as any citations, violations, or Consent Orders on file with the DEP and county health department pursuant to Rule 25-30.433, F.A.C.

Section 367.0812(1), F.S., additionally requires the Commission, in fixing rates, to consider the extent to which the utility provides water service that meets secondary water quality standards as established by the DEP. Primary water standards relate to the safety of the water, while secondary standards relate to the aesthetics of the water like taste, color, odor, and sediment.

Rule 25-30.433(1), F.A.C., requires that the testimony of a utility's customers be considered in a rate case proceeding. Five remote service hearings were held due to the ongoing COVID-19 pandemic. There were a total of 42 customers and one appointed official that testified at the service hearings. Each customer that testified expressed their dissatisfaction with UIF's proposed rate increase; some customers also testified regarding odor, discolored water, or the additional cost of buying bottled water. Of the total customers who provided testimony at the service hearings, OPC asserted 35 percent addressed poor water quality, such as odor or bad taste, and 22 percent addressed customer service issues. (OPC BR 4) However, staff found that only 11 customers testified to quality of service related issues, which includes poor water quality, and three customers testified to customer service issues, which is approximately 26 and 7 percent, respectively, of the total 43 participants. (S1-TR, P 17-43; S2-TR, P 17-76; S3-TR, P 19-41; S4-TR, P 18-86; S5-TR, P 17-41) UIF asserted that the majority of the customer comments from the service hearings were concerning the proposed rate increase and not relating to quality of service. (UIF BR 1)

The DEP provided compliance and complaint data from January 1, 2015, through August 31, 2020, which was included in the hearing record. (EXH 177; EXH 178; EXH 179; EXH 180) The DEP received a total of 44 complaints during this 5-year period: 23 complaints related to water and 21 complaints related to wastewater. The water complaints consisted of concerns primarily regarding odor, color, and pressure, and the wastewater complaints consisted of primarily odor concerns. (EXH 178, BSP 416-417; EXH 179, BSP 921)

The Utility provided the complaints it received during the test year and four years prior in Vol. III of its MFRs. There were 1,460 billing and 2,532 service complaints for the test year for all of the Utility's systems. UIF's secondary water quality complaints for the four years prior to the test year amounted to 998 complaints, with some complaints having been addressed in prior rate proceedings. (EXH 181)

As of February 3, 2021, there were a total of 906 comments, filed by 820 customers, in the docket file. UIF serves over 60,000 water and wastewater customers; therefore, approximately 1.4 percent of the Utility's customers provided comments in the instant docket. (EXH 142) Staff analyzed all comments in the docket file and a total of 812 customers provided comments expressing their discontent with the proposed rate increase. In addition, 78 customers, approximately 9.5 percent of the total customers that commented in the docket file, provided comments regarding the quality of service and addressed their dissatisfaction with the odor, color, and pressure of their water product. Several customers provided comments also expressing their dissatisfaction with the Utility's customer service and pointed out that UIF's emergency number was not adequately managed.

The Commission received a total of 194 complaints from October 5, 2015, through October 5, 2020, with 69 percent of the complaints concerning billing issues, and the remaining 31 percent concerning quality of service issues. (TR 504) Staff witness Hicks testified that most complaints for the analyzed 5-year period came from Seminole County, with 133 complaints followed by Lake County with 31 complaints. Out of the total complaints for both Seminole and Lake counties, there were only six complaints regarding quality of service. (TR 505) Staff notes that UIF serves over 24,000 customers in Seminole County (Sanlando and UIF-Seminole) and over

18,000 customers in Lake County (LUSI and Pennbrooke). (EXH 142) The total customer complaints received by the Commission represents a small fraction of UIF's customer base within Seminole and Lake Counties and also with respect to the Utility in its entirety. Further, witness Hicks testified that most of the UIF complaints received by the Commission were resolved or closed. (TR 505-506) Witness Hicks also stated that the Utility may have violated the Commission's rules for 15 of the 194 complaints received by the Commission. The majority of these potential rule violations involved inaccurate meters and meter readings, customer billing, deposit refunds, and failing to respond to the customers or the Commission in a timely manner. (TR 506)

OPC witness Lewis focused her testimony on quality of service issues identified by the DEP and customer testimony, complaints, and comments. (TR 483-496) The witness testified to specific concerns regarding past and present Consent Orders for the following systems: LUSI, Sanlando (Wekiva Hunt Club), and Mid-County. Witness Lewis asserted that the Commission should consider the issues identified in the Consent Orders, even if the Utility has since corrected any deficiencies. With respect to the complaint-related documentation of this case, the witness testified that the majority of complaints are related to billing, but there were also several complaints related to customer service. Witness Lewis argued that the Utility does not respond to these complaints, until or unless the customer contacts the Commission and the Commission subsequently facilitates contact between the Utility and customer. (TR 493) The witness supported her argument by indicating that she spoke with three customers from different systems about the quality of the water product and associated issues, which included discussions regarding the color, odor, and staining of the product, as well as purchasing supplemental water filtration systems to help mitigate these issues. (TR 491-492) Witness Lewis recommended a finding of marginal or unsatisfactory quality of service for LUSI, Sanlando (Wekiva Hunt Club), and Mid-County; with a potential 50-basis point reduction to the Utility's ROE if the quality of service for these systems is found to be unsatisfactory by the Commission. Further, the witness concluded that if a specific system has a history of repeated or unresolved issues, the ROE should be reduced by 100-basis points, but she did not recommend a particular system where this may be applicable. (TR 483-496) In its brief, OPC recommends, for the first time, that Pennbrooke be considered unsatisfactory. OPC provided limited support for its assessment of Pennbrooke's quality of service, which is discussed in greater detail below. (OPC BR 2-5) Further, in its brief, OPC argued the Commission should find the quality of service unsatisfactory for LUSI, Sanlando (Wekiva Hunt Club), Mid-County, and Pennbrooke. OPC further stated that ROE should be reduced by 50-basis points for LUSI, Mid-County, and Pennbrooke and by 100-basis points for Sanlando (Wekiva Hunt Club). (OPC BR 2-5) OPC also stated that the awarded ROE should be reduced by at least 50-100 basis points on a targeted underperforming system basis. (OPC BR 17)

UIF witness Snow disagreed with witness Lewis' assertion that UIF does not respond to customers until the Commission is involved. Witness Snow further stated that customers may choose to contact the Commission initially ahead of the Utility and also indicated that OPC did not provide a specific example of where this occurred. (TR 559) Additionally, witness Snow addressed each of the three customers witness Lewis testified about regarding their quality of service concerns, and stated that these customers have either never filed a complaint with the Utility or else they have not done so within the past 14 years. Witness Snow further argued that

the Utility is willing to work with customers individually to address any concerns. (TR 554-569) In response to witness Hicks' testimony about UIF's potential rule violations on responding to complaints promptly, witness Snow asserted these complaints were from 2015, 2017, and 2018 and none occurred during 2019 and 2020; therefore, this is not a current problem. (TR 560) In support of UIF's quality of service argument, witness Snow testified that UIF reorganized its Customer Experience department to better serve the customer, using the customer's preferred method of communication. (TR 554-569) Further, in response to OPC's argument regarding the compliance of the specific UIF systems identified previously that OPC contested, UIF discussed the DEP's compliance determination for LUSI, Mid-County, and Sanlando (Wekiva Hunt Club). (UIF BR 3)

In Vol III of its MFRs, UIF provided the required additional engineering information pursuant to Rule 25-30.440, F.A.C. (EXH 181) Currently, all the Utility's water systems are in compliance with the DEP's rules and regulations and are under no formal enforcement action or violation. (EXH 178, BSP 416-417) In evaluating UIF's product quality (water), staff reviewed the Utility's compliance with the DEP's primary and secondary drinking water standards. Primary standards protect public health, while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water.

Below, staff discusses the quality of the Utility's product, pursuant to Rule 25-30.433(1), F.A.C., as well as the infrastructure and operating conditions of the plant and facilities, as required by Rule 25-30.433(2), F.A.C. Staff's analysis consists of: 1) a discussion of the systems which staff recommends should be deemed satisfactory, were satisfactory in the last rate case, and not contested by OPC; and 2) a discussion of the systems which staff believes should be satisfactory or marginal now, but were either found to be marginal or unsatisfactory in the last rate case or are contested by OPC in the instant docket. Table 1-1 summarizes the quality of service determinations from UIF's last rate case and the recommended determinations for the instant docket by UIF, OPC, and staff, by system.

**Table 1-1  
 Quality of Service Determination Summary**

System	Last Rate Case Determination	UIF Recommendation	OPC Recommendation	Staff Recommendation
Lake Placid	Satisfactory	Satisfactory	*	Satisfactory
UIF-Marion	Satisfactory	Satisfactory	*	Satisfactory
UIF-Orange	Satisfactory	Satisfactory	*	Satisfactory
UIF-Pasco-Orangewood	Satisfactory	Satisfactory	*	Satisfactory
UIF-Pinellas-Lake Tarpon	Satisfactory	Satisfactory	*	Satisfactory
LUSI	Marginal	Satisfactory	Unsatisfactory	Satisfactory
Pennbrooke	Marginal	Satisfactory	Unsatisfactory	Marginal
Labrador	Marginal	Satisfactory	*	Satisfactory
UIF-Pasco-Summertree	Unsatisfactory	Satisfactory	*	Satisfactory
Cypress Lakes	Marginal	Satisfactory	*	Satisfactory
UIF-Seminole	Marginal	Satisfactory	*	Satisfactory
Sanlando WTP	Satisfactory	Satisfactory	*	Satisfactory
Sanlando WWTP	Satisfactory	Satisfactory	Unsatisfactory	Marginal
Mid-County	Marginal	Satisfactory	Unsatisfactory	Marginal

\* These systems were not identified in OPC witness Lewis' testimony as having satisfactory, marginal, or unsatisfactory quality of service.

**Systems with Satisfactory Determination in Last Rate Case and Uncontested Satisfactory Quality of Service**

The water and wastewater systems below are in compliance with the DEP requirements, including secondary water quality standards, had minimal customer participation at the service hearings, received few, if any, quality of service complaints, and were found to have satisfactory quality of service in the last rate case.<sup>4</sup> Water: Lake Placid, UIF-Marion, UIF-Orange, UIF-Pasco-Orangewood, and UIF-Pinellas-Lake Tarpon, and Sanlando. (EXH 178, BSP 416-417; EXH 181) Wastewater: Sandalhaven, Cross Creek/Eagle Ridge, UIF- Marion, Lake Placid, Longwood, and Tierra Verde. (EXH 178; EXH 179; EXH 180; EXH 181) As noted above, OPC did not identify any quality of service issues with these systems or address these systems specifically. As such, staff recommends the quality of service for these systems be considered satisfactory.

**Systems with Unsatisfactory/Marginal Determination in Last Rate Case or Contested Satisfactory Quality of Service**

As stated previously, in its brief, OPC argued the quality of service should be unsatisfactory for LUSI, Mid-County, Pennbrooke, and Sanlando (Wekiva Hunt Club). Also, OPC contends that a reduction of 50-basis points should be imposed for LUSI, Mid-County, and Pennbrooke and a reduction of 100-basis points for Sanlando (Wekiva Hunt Club) to UIF's ROE, on a targeted

<sup>4</sup>Order No. PSC-2017-0361-FOF-WS.

underperforming system basis. (OPC BR 2, 17) In opposition to OPC, UIF argued all of its systems should be considered satisfactory. (UIF BR 1) Below, staff discusses the following systems in greater detail: LUSI, Pennbrooke, Labrador, UIF-Pasco-Summertree, Cypress Lakes, UIF-Seminole, Sanlando (WTP & WWTP), and Mid-County.

### **LUSI**

The Commission found the quality of service to be marginal with no penalty, in UIF's 2016 rate case.<sup>5</sup> This determination was due to an open Consent Order, entered into on September 6, 2016, for DBP exceedances at the LUSI water treatment plant (WTP). (EXH 178, BSP 397-408) To rectify the issues associated with this Consent Order, UIF indicated that it upgraded its LUSI WTP with a chlorine dioxide pretreatment capability in 2019, which has significantly lowered the production of DBPs within the system. (EXH 148, BSP 137) The Utility corrected all violations and satisfied all requirements of the Consent Order, and the order was subsequently closed in August 2019. (EXH 178, BSP 887; EXH 178, BSP 416) LUSI's most recent chemical analyses results were performed on March 17, 2020, February 8, 2018, and April 10, 2018, and the results were in compliance with the DEP's standards. There are currently no open Consent Orders for this system. (EXH 181) The DEP recorded two complaints regarding water quality: one complaint regarding smell in January 2016 and one complaint of high DBP in February 2016, both of which are prior to the system's chlorine dioxide pretreatment upgrade to LUSI's WTP discussed previously. (EXH 178, BSP 416) In its brief, UIF stated one customer testified at the service hearings from this system. (UIF BR 1) As noted above, OPC believes the quality of service for this system should be unsatisfactory. However, staff believes UIF has taken the necessary steps to address the past compliance issue of DBP exceedances for this system and there have been minimal complaints since UIF performed the upgrades to the WTP; therefore, this system's quality of service should be considered satisfactory.

### **Pennbrooke**

The Commission found the quality of service to be marginal, with a 50-basis point reduction to the Utility's ROE, in UIF's 2016 rate case.<sup>6</sup> This determination was due to excess levels of iron and customer complaints regarding discolored water, sediment, low pressure, and high iron. Pennbrooke's most recent chemical analyses were performed on February 8, 2018, and indicated an excess iron level. (EXH 181) While Pennbrooke's results showed an iron exceedance, the DEP did not impose any corrective measures since there was not a significant amount of complaints associated with excess iron levels in the one year period leading up to the violation. The DEP indicated that Pennbrooke is in compliance. (EXH 178, BSP 416)

In February 2017, the DEP received two complaints for the Pennbrooke system: one for color and one for the hardness of the water. (EXH 178, BSP 416) At the service hearings, one customer testified to the quality of the product and complained of discoloration, odor, sediment within pipes, and loss of water pressure due to irrigation within the community. (S2-TR 48) Witness Lewis relied on this customer's service hearing testimony in her direct testimony concerning poor water quality, specifically discolored water. (TR 491) UIF rebutted witness Lewis' arguments with respect to this specific customer by stating that this customer has not complained to the Utility in over 14 years. (TR 557-558) Additionally, UIF argued that it has

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<sup>5</sup>Order No. PSC-2017-0361-FOF-WS.

<sup>6</sup>*Id.*

investigated treatment alternatives for the iron levels concentrated in its groundwater, but the Pennbrooke homeowners' association (HOA) declined to support the treatment upgrade due to potential bill impacts. (TR 558) Further, the Pennbrooke HOA provided comments in the docket file on behalf of its customers which addressed the community's water quality concerns relating to iron and chlorine within the water product and water pressure.

The Utility evaluated its complaint records to determine if there were clusters of complaints regarding secondary water quality and found that Pennbrooke was one of two areas of concern. UIF stated that Pennbrooke had considerable levels of soluble iron in the source water and adds a sequestrant to the water to keep the iron in soluble form. (EXH 148, BSP 133) Further, the Utility asserted that since the last rate case, it met with HOA representatives in Pennbrooke and coordinated an irrigation schedule to spread the peak demand across more days of the week to address the low-pressure complaints. The Utility also activated routine flushing of dead-end mains to reduce water age, due to seasonal residence within the system. (EXH 148, BSP 136-137)

As noted above, OPC believes the quality of service for this system should be unsatisfactory. Based on Pennbrooke's last chemical analyses in 2018 and the customer correspondence analyzed for the instant docket, there is still an issue of excess iron levels in the water product. Therefore, staff recommends the quality of service for Pennbrooke should remain as marginal. However, UIF has demonstrated its readiness to address customers' satisfaction by meeting with the HOA representatives and implementing water treatment options, such as the addition of a sequestrant and routine flushing. For these reasons, staff recommends that the 50-basis point reduction to the Utility's ROE should be removed.

### **Labrador**

The Commission found the quality of service to be marginal with no penalty, in UIF's 2016 rate case. This determination was largely due to water quality complaints and historical issues relating to Labrador's source water.<sup>7</sup> The most recent chemical analyses for Labrador were performed June 6, 2018, and were in compliance with the DEP's drinking water standards. (EXH 181) Additionally, there are minimal customer complaints contained within the record of the instant docket and there were no complaints filed with the DEP for Labrador. (EXH 178, BSP 416)

UIF asserted that since its last rate case, Labrador is maximizing the use of a different well that has enhanced water quality relative to the water source to improve Labrador's quality of service. Also, the Utility contended it has improved the reliability and performance of the emergency generator at the water treatment plant that has previously had equipment failures, as well as flushing parts of the water system monthly to address secondary water quality issues. (EXH 148, BSP 136) OPC did not specifically address this system. Labrador is in compliance with the DEP and UIF has made infrastructure and operating condition improvements, with the utilization of a different well, implementation of monthly flushing for parts of the water system, as well as improving its emergency generator; therefore, staff recommends this system's quality of service should be considered satisfactory.

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<sup>7</sup> Order No. PSC-2017-0361-FOF-WS.

### **UIF-Pasco-Summertree**

The Commission found the quality of service to be unsatisfactory, with a 100-basis point reduction to the Utility's ROE in UIF's 2016 rate case.<sup>8</sup> This determination is based upon UIF not maintaining secondary water quality standards and customer complaints. Since its interconnection with Pasco County Utilities in December 2016, UIF-Pasco-Summertree purchases bulk water from Pasco County. (EXH 148, BSP 138) The Utility argued that Pasco's water chemistry levels fluctuate daily and as a result, a biofilm will accumulate on the pipe interiors. To monitor this issue, UIF tests daily for chlorine and ammonia at multiple locations. The Utility also performs semi-annual chlorine burns followed by uni-directional flushing to maintain water quality. (EXH 39, P 2; EXH 148, BSP 138) Further, UIF implemented a chlorine dioxide pilot study within this system, with the objective of stabilizing the system's water quality and reducing the necessity of regular flushing. The Utility is requesting cost recovery of this chlorine dioxide pilot study, in PCF-38, which is discussed in greater detail in Issue 3. (EXH 148, BSP 138)

As a reseller of water, UIF-Pasco-Summertree is not subject to the DEP's secondary water standards. However, due to the high volume of customer complaints in a previous rate proceeding, the Commission required UIF to perform and report secondary water quality testing every six months for this system. The water samples were to be taken at the same six locations in the distribution system and testing was to continue until the Commission found the water quality to be satisfactory.<sup>9</sup> The most recent chemical analyses were performed on July 9, 2019, February 25, 2020, and October 1, 2020, and were in compliance with the DEP's standards. (EXH 147; EXH 181) The DEP stated UIF-Pasco-Summertree was in compliance, and the seven complaints concerning issues with water quality were received by the DEP prior to the interconnection with Pasco County Utilities. (EXH 178, BSP 416) OPC did not specifically address this system. Based on the aforementioned analyses of this system's compliance, complaints, and demonstrated efforts by UIF to address complaints, staff recommends the quality of service for this system be considered satisfactory. As such, the additional testing and reporting requirements pursuant to Order PSC-16-0505-PAA-WS should be discontinued and therefore, the 100-basis point reduction to the Utility's ROE should be removed.

### **Cypress Lakes**

The Commission found the quality of service to be marginal, with a 50-basis point reduction to the Utility's ROE, in UIF's 2016 rate case. This determination was due to the number of complaints involving secondary water quality issues and the lack of substantial improvement since previous rate cases in 2010 and 2007.<sup>10</sup> UIF asserted it has increased its attempts to examine the chlorine levels and monitors the age of the water within the system and aesthetic water quality characteristics to improve the quality of service for this system since its last rate case. The Utility also adjusts (from the monitoring data) feed rates of the chlorine and ammonia at the WTP and conducts periodic burns of the system followed by uni-directional flushing. (EXH 148 BSP 136) The most recent chemical analyses were performed on March 25, 2020, and were in compliance with the DEP's drinking water standards. (EXH 181) The DEP indicated

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<sup>8</sup> Order No. PSC-2017-0361-FOF-WS.

<sup>9</sup> Order No. PSC-16-0505-PAA-WS, issued October 31, 2016, in Docket No. 150269-WS, *In re: Application for limited proceeding water rate increase in Marion, Pasco, and Seminole Counties by Utilities, Inc. of Florida.*

<sup>10</sup> *Id.*

Cypress Lakes was in compliance and did not receive any complaints from the customers of this system. (EXH 178, BSP 417) OPC did not specifically address this system. Cypress Lakes is in compliance with the DEP and the Utility has demonstrated that it has made improvements since the prior rate cases and has reduced customer complaints substantially. Therefore, staff recommends the quality of service for this system be considered satisfactory and therefore, the 50-basis point reduction to the Utility's ROE should be removed.

### ***UIF-Seminole***

The Commission found the quality of service to be marginal, with no penalty, in UIF's 2016 rate case. This determination was due to ongoing secondary water quality standard issues and the system's need for capital intensive upgrades.<sup>11</sup> The most recent chemical analyses for the seven systems within UIF-Seminole were performed for Bear Lake on February 19, 2018, Jansen on February 19, 2018, Little Wekiva on February 14, 2018, Oakland Shores on February 20, 2018, Park Ridge on March 7, 2018, Ravenna Park on March 7, 2018, and Weathersfield on March 26, 2020. While Jansen's results showed an iron exceedance, the DEP did not impose any corrective measures since there was not a significant amount of complaints associated with excess iron levels in the one-year period leading up to the violation. (EXH 178, BSP 417) Further, the DEP indicated that Oakland Shores and Bear Lake incurred reporting violations for late bacteriological testing results, but these violations were closed once the results were received. The DEP also indicated that Little Wekiva had a treatment technique violation, in which a residual fell under a required limit; however, this violation was closed as well. Additionally, Phillips had an iron violation in May 2018, but following this exceedance violation, Phillips merged with Ravenna Park in February 2019 and no additional action was taken by the DEP. Since Phillips merged with Ravenna Park, the DEP conducted a sanitary survey on February 13, 2020. The facility was found in compliance, and the DEP did not report any iron exceedances. (EXH 178 BSP 417) As these violations have been corrected and closed, the DEP reported all seven systems of UIF-Seminole as in compliance with DEP's standards. (EXH 181)

UIF asserted that since the previous rate case, the Utility has completed a comprehensive replacement of the water system infrastructure in Bear Lake, Little Wekiva, Oakland Shores, and the combined system of Ravenna Park/Crystal Lake/Phillips. UIF stated the Park Ridge system was redone in 2014 and this improved water pressure, water aesthetics, and reduced widespread water outages by having functional isolation valves in each system. The Utility asserted that the two smallest water plants, Park Ridge and Little Wekiva, installed emergency generators and automatic transfer switches, to minimize the rate of recurrence and length of time without water service. (EXH 148, BSP 137)

The DEP did not receive any complaints for the Jansen, Bear Lake, Park Ridge, Little Wekiva, Oakland Shores, and Weathersfield systems. The DEP reported four secondary water quality complaints for the Ravenna Park system since 2015. (EXH 178, BSP 417) OPC did not specifically address this system. All systems of UIF-Seminole are in compliance with the DEP standards and the DEP has not initiated any enforcement action. Additionally, there have been minimal customer complaints and UIF has made capital improvements in an effort to improve

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<sup>11</sup> Order No. PSC-2017-0361-FOF-WS.

the quality of service since its last rate case. Therefore, staff recommends the quality of service for this system be considered satisfactory.

### ***Sanlando (Water)***

The Commission found the quality of service of the Sanlando water system to be satisfactory in UIF's 2016 rate case.<sup>12</sup> The most recent chemical analyses for Sanlando, which consists of three WTPs, were completed on January 28, 2020, and February 19, 2020, and were all in compliance with the DEP's standards. (EXH 181) In December 2018, the Sanlando water system had reporting violations for late-filed bacteriological and DBP test results; however, these violations were closed when DEP received the test results in February 2019. DEP reported the Sanlando water system to be in compliance. (EXH 178, BSP 417)

The DEP received eight complaints for Sanlando's water system from 2015 through 2020, which varied in nature. (EXH 178, BSP 417) At the service hearings, three customers from this system testified regarding poor water product and customer service. (S1-TR 17; S2-TR 70-75; S4-TR 47) OPC did not specifically address Sanlando's water system. This system is in compliance with the DEP and there have been minimal complaints from the customers of this system. (EXH 142) Further, the nominal violation against this system in 2018 was promptly corrected and late-filed test reports does not appear to be a repetitive issue. Therefore, staff recommends the Sanlando water system be considered satisfactory.

### ***Sanlando (Wastewater)***

The Commission found the quality of service to be satisfactory for the Sanlando (Wekiva Hunt Club) wastewater system in UIF's 2016 rate case.<sup>13</sup> At that time, the Commission considered the DEP's 2015 Consent Order for unauthorized discharge and its subsequent closure.<sup>14</sup> A Consent Order was issued in 2018, due to overflows following Hurricane Irma and an effluent violation. (EXH 181) The Utility indicated the 2018 Consent Order was mainly attributable to hydraulic bottlenecks within the treatment process and excess infiltration and inflow (I&I) as a consequence of Hurricane Irma. (EXH 148, BSP 134) The Utility stated that it had satisfied the requirements of the 2018 Consent Order and it was being processed by the DEP for case closure in December 2020. (EXH 148, BSP 134-135) Further, the Utility asserted that it would continue to investigate sources of I&I within this system, which contains numerous miles of clay sewer mains. (EXH 148, BSP 134-135) Additionally, UIF is requesting cost recovery for numerous improvements to the wastewater treatment plant (WWTP). This pro forma project, PCF-22, is discussed in greater detail in Issue 3. (EXH 148, BSP 134-135)

In October 2019, the DEP found this system in violation for an unauthorized discharge and was issued a Consent Order in 2020. (EXH 178, BSP 756-766) UIF stated that the 2020 Consent Order was due to equipment failure, causing an unauthorized discharge. (EXH 148, BSP 135) UIF is requesting cost recovery to construct larger, more capable headworks that will not cause overflows. This project, PCF-23, is discussed in greater detail in Issue 3. The Utility asserted for its DEP-approved in-kind project, UIF will install water level transducers and solar arrays at six key lift stations. (EXH 148, BSP 135) Due to the 2018 and 2020 Consent Orders, the Sanlando

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<sup>12</sup>Order No. PSC-2017-0361-FOF-WS.

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

WWTP is out of compliance with DEP. (EXH 178, BSP 417) Staff notes that while the 2018 and 2020 Consent Orders were due to unauthorized discharges, the causes which led to the discharges differ. Staff believes the Utility has demonstrated a responsiveness to the DEP based on the Utility's testimony stating that the 2018 Consent Order was in the closure process in December 2020 and the Utility has requested cost recovery for their DEP-approved in-kind project relating to the 2020 Consent Order. Additionally, the Utility asserted that it is taking the necessary steps to comply with the Consent Order, and therefore, the Commission should follow its precedent and not impose a penalty for this system. (UIF BR 3)

During the service hearings, there was testimony regarding an additional sewage spill at the Sanlando WWTP towards the end of December. This sewage spill was due to a loss of power at a lift station which decreased pumping capacity for a short duration of time. UIF responded to the sewage spill and resolved the issue. The spill was contained within the retention pond around the lift station. (S5-TR 25-28) The cause for this sewage spill was due to a loss of power at a lift station, which was not the cause for either of the prior unauthorized discharges addressed in the 2018 and 2020 Consent Orders.

Further, UIF has made \$6,000,000 in plant improvements and more than \$2,000,000 in collection system improvements to reduce I&I. (EXH 148, BSP 134-135) With these improvements, and the two pro forma projects (PCF-22 and PCF-23) discussed in Issue 3, staff believes UIF is taking action to address the quality of service issues associated with the Sanlando wastewater system and has demonstrated its responsiveness to the DEP. (EXH 148, BSP 134-135) However, while the cause of each overflow event has differed, the unauthorized discharges still occurred and resulted in the issuance of two DEP Consent Orders. Staff therefore recommends the quality of service for Sanlando (Wekiva Hunt Club) be found marginal with no penalty imposed, since the Utility has demonstrated it is taking action to resolve the overflow issues.

### ***Mid-County***

The Commission found the quality of service to be marginal, with a 50-basis point reduction to the Utility's ROE, in UIF's 2016 rate case.<sup>15</sup> This was due to the sewage spills that occurred between January 2015 and September 2016 along with odor complaints received by the DEP. In 2018, Mid-County was under a Consent Order with the DEP regarding effluent violations. The DEP considered Mid-County to be out-of-compliance because UIF did not submit its final paperwork. (EXH 178, BSP 417) The DEP closed that Consent Order on July 30, 2019. (EXH 180, BSP 925) Mid-County had a 2019 violation that resulted in a Consent Order regarding sanitary sewer overflows and failure to submit public notices of pollution for these overflows. (EXH 178, BSP 417) UIF stated that the 2019 Consent Order was closed on December 21, 2020, after the Utility concluded an engineering study of the WWTP to ascertain the cause of the spill and reduce the risk of future spills. The Utility installed emergency generators and automatic transfer switches at two key lift stations as an in-kind project with the DEP, in December 2020. (EXH 148, BSP 134) UIF is requesting cost recovery of numerous pro forma projects that were identified in the engineering study that could improve the WWTP. These projects, PCF-14, PCF-15, and PCF-17, are discussed in greater detail in Issue 3. Further, there has been very minimal customer participation from this system.

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<sup>15</sup>Order No. PSC-2017-0361-FOF-WS.

OPC argued that the quality of service for Mid-County should be unsatisfactory and an ROE reduction of 50-basis points should be imposed due to the two Consent Orders, which occurred between 2015 and 2020. (OPC BR 2-4) UIF recognizes that the Mid-County system was out of compliance because UIF did not submit its final paperwork relating to the Consent Order, but the Consent Order was closed as of December 21, 2020. (UIF BR 3) Mid-County previously had overflow issues in 2015, which the Commission has already considered in UIF's quality of service determination of marginal in its prior rate case. Due to subsequent overflow issues in 2019, which resulted in the issuance of a DEP Consent Order, staff recommends the quality of service for Mid-County remain marginal. However, the 50-basis point reduction to the Utility's ROE should be removed because the Utility is taking corrective action to prevent future spills, the reason for the 2019 Consent Order, by requesting the pro forma projects in the instant docket as a result of the engineering study.

### **CONCLUSION**

Based on the above, staff recommends that UIF's overall quality of service is satisfactory. However, the quality of service for the Pennbrooke, Sanlando (Wekiva Hunt Club), and Mid-County systems should be deemed marginal, with no penalty. The reductions to the Utility's ROE from prior quality of service determinations should be removed. Further, staff recommends the secondary water quality reporting and testing requirements, pursuant to Order No. PSC-16-0505-PAA-WS for Summertree be discontinued.

**Issue 2:** Should any adjustments be made to test year plant-in-service balances?

**Recommendation:** Staff recommends no further adjustments to the adjusted test year plant-in-service balances. Adjustments to pro forma plant additions should be made as set forth and discussed in Issue 3. (Bennett, Knoblauch, Doehling)

**Position of the Parties**

**UIF:** Yes, as set forth on Schedules A-1 and A-2 of the MFRs.

**OPC:** Yes. OPC proposes disallowance of nine projects for insufficient documentation: PCF-14, PCF-17, PCF-18, PCF-20, PCF-23, PCF-28, PCF-31, PCF-33 and PCF-16. Six projects are studies unrelated to a construction project: PCF-6, PCF-21, PCF-26, PCF-30, PCF-39 and PCF-45. Fine imbedded in-kind penalty projects: PCF-15, PCF-17, PCF-22 and PCF-23 should be disallowed.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**UIF**

The Utility asserted that the only adjustments to test year plant balances were to allocate common plant between water and wastewater systems. (UIF BR 5)

**OPC**

In its brief, OPC discussed reductions related to pro forma plant projects. These projects are discussed in Issue 3. (OPC BR 5–10)

**ANALYSIS**

UIF witness Swain made test year adjustments to the plant-in-service balance to correct allocations of common plant between water and wastewater and to reclassify plant accounts for the wastewater system. (EXH 48, P 12) Although it addressed pro forma adjustments, OPC did not dispute the Utility's adjustments. Further, staff witness Dobiac's testimony did not reflect any audit adjustments to the test year plant-in-service balances. (EXH 90) As such, staff believes these test year adjustments are appropriate and no further adjustments are necessary to the adjusted test year plant-in-service balances.

**CONCLUSION**

Based on the above, staff recommends no further adjustments to the adjusted test year plant-in-service balances. Adjustments to pro forma plant additions should be made as set forth and discussed in Issue 3.

**Issue 3:** Should adjustments be made to the Utility's pro forma plant additions?

**Recommendation:** Yes. Pro forma plant additions should be decreased by \$150,054 for water and \$1,276,038 for wastewater. Corresponding adjustments should also be made to decrease accumulated depreciation and depreciation expense by \$1,861 for water and \$67,329 for wastewater. Additionally, property taxes should be decreased by \$2,328 for water and \$7,778 for wastewater. Adjustments to pro forma plant retirements should be made as set forth in Issue 4. (Knoblauch, Doehling, Bennett)

**Position of the Parties**

**UIF:** Yes, adjustments should be made to each pro forma plant addition where the updated estimated expenditures differ from the amounts identified in the MFR's. The final amount of pro forma projects is \$30,042,556.

**OPC:** See Issue 2 above.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**UIF**

UIF argued that of the 45 pro forma project additions that had been identified by UIF witness Flynn, all had been supported by invoices or signed contracts and would be completed by December 31, 2021. Despite the change in completion date from witness Flynn's direct testimony for 15 of the projects, all of the pro forma projects would be completed within the 24-month statutory deadline. The costs for the 45 pro forma projects requested totaled \$30,042,556. The Utility stated that OPC had indicated there were issues with the documentation provided; however, UIF witness Flynn had asserted that documentation may vary from project to project, and a lack of documentation does not affect a project's completion. For example, witness Flynn pointed to a specific project where a Notice to Proceed was not issued, but the project had been completed. (UIF BR 5)

UIF argued that OPC's witness Radigan had not questioned the reasonableness or prudence of any of the projects, and the witness had been given the opportunity to visit the Utility's systems and evaluate the projects. UIF asserted that OPC had originally recommended exclusion of 11 projects for a lack of sufficient support, and six projects which it affirmed were not plant-in-service and should be construction work in progress (CWIP). However, OPC's witness later agreed that two of the projects, PCF-13 and PCF-29, had been fully supported, and another one, PCF-16, was partially supported. (TR 469) The Utility also argued that the study projects it had requested in this proceeding were similar to projects the Commission had approved in UIF's last rate case, which OPC did not object to at the time. Additionally, for the projects OPC characterized as CWIP, the Utility argued that the projects were not CWIP but should be in plant-in-service. Alternatively, if the projects were not included in plant-in-service, they should instead be placed in working capital. (UIF BR 5)

UIF specifically addressed the projects that were contested by OPC. For PCF-6, the Utility argued that the project's development of a master sewer plan would be applied to the operation of the Labrador WWTP and would provide guidance for capital investment decisions. (UIF BR 5-6) This master sewer plan would support construction projects that would follow in 2021. For PCF-21, UIF argued that it aimed to video inspect 10 percent of its Sandalhaven collection system, which consisted of clay pipes that are more prone to failure, each year on average. As an alternative, the Utility proposed that PCF-21 could be deferred and amortized over a reasonable timeframe, such as five years, rather than being included in rate base. (UIF BR 6)

For PCF-26, UIF asserted that the engineering services for the project were a prerequisite to the replacement of three Sanlando force mains, which was an immediate need. The Utility stated it must move forward with the construction of the force main replacements in 2021. For PCF-30, UIF argued that the Utility was utilizing the engineering work from the project to support capital investment decisions; therefore, the project was in use and should be included in rate base. For PCF-39, the Utility argued that the scope of the Summertree I&I investigation project had been expanded to address the identified deficiencies and the investment should be fully recovered. Like PCF-39, UIF asserted that the scope of PCF-45 had also been expanded to include the construction costs for the Weathersfield Northwestern Bridge Crossing project and the investment should be fully recovered. (UIF BR 6)

For PCF-14, the Utility argued that construction was underway for the Mid-County Master Lift Station project, which was scheduled to be completed by the end of June 2021. To date, approximately 15 percent of the work for PCF-14 had been completed and \$282,018 had been spent of the \$2,103,578 total projected cost. For PCF-16, UIF argued that the Mid-County Curlew Creek I&I Remediation project was on schedule and would be completed by January 31, 2021. Of the total \$719,049 project cost for PCF-16, \$234,906 has been spent to date. For PCF-17, the Utility stated that OPC witness Radigan was incorrect in believing that the Mid-County lift station project, PCF-14, would have to be completed prior to beginning PCF-17. The PCF-17 project was scheduled to be completed by November 2021, and the expenditures to date were limited to engineering services totaling \$169,994 with a total projected budget of \$2,424,782. (UIF BR 7)

For PCF-18, UIF argued that the Mid-County Lift Station 10 Force Main Relocation project was scheduled to be completed by the end of December 2021, and the expenditures to date related to engineering service totaling \$31,640 with a total projected cost of \$57,451. For PCF-20, the Utility asserted that no expenditures had yet been made, but the project was on schedule to be completed in March 2021. For PCF-23, UIF argued that the Wekiva WWTP Headworks project would take nine months to complete and was scheduled to be completed in November 2021. The contractor had been mobilized on-site and was currently completing the Wekiva WWTP improvements, PCF-22, project. For PCF-28, the Utility argued that the plans for the E. E. Williamson Utility Relocations project had been drawn up, permits had been obtained, bids had been opened, and the project had been awarded to the lowest bidder. PCF-28 was scheduled to be completed by December 2021. (UIF BR 8) For PCF-31, UIF argued that after a delay, the Sanlando Ground Storage Tank Rehabilitations project was on schedule. For PCF-33, the Utility stated that the Tierra Verde Force Main and Gravity Sewer Main Relocations project was nearly

completed with only \$5,500 of the work remaining of the total project cost of \$593,368. (UIF BR 9)

### **OPC**

OPC argued that witness Radigan, testifying on behalf of OPC, had identified several projects for which sufficient documentation had not been provided by UIF to support a completion date and that the projects may not be completed within the 24-month limitation per Section 367.081(2)(a)2., F.S. Several other projects had been identified by witness Radigan as studies and were not connected to an active construction project. OPC argued that the Commission had previously disallowed projects where insufficient documentation had been provided in support of a project.<sup>16</sup> (OPC BR 6)

OPC argued that the burden of proof with respect to the pro forma projects was on UIF. Relating to insufficient supporting documentation, witness Radigan identified eight pro forma projects that he recommended should be disallowed, and partial recovery for one pro forma project which the Utility had not demonstrated would be completed within the 24 months. The costs for these nine projects totaled \$9,401,299. OPC stated the UIF witness Flynn had testified there were four important documents for construction projects, which were a bid, an award form, a contract, and a Notice to Proceed. The Notice to Proceed must be issued and signed by both the Utility and contractor before construction work could begin. Witness Radigan reviewed the documentation offered and for projects with incomplete documentation, the witness recommended excluding the project. (OPC BR 6) Witness Radigan also testified that one project in particular, PCF-17, could not begin until another project, PCF-14, had been completed. Due to a delay in the completion date for PCF-14, and the project timeframe for PCF-17, OPC stated “it will be impossible for PCF-17 to be completed by the 24-month deadline of December 31, 2021.” (OPC BR 6-7)

OPC argued that it was unclear what criteria UIF had utilized for determining when an award form was necessary for a project. For some projects an award form was issued, such as PCF-42 and PCF-43, which both had a project cost below \$100,000 and construction times of 168 calendar days. While for other projects, such as PCF-20 with a project cost of \$128,000 and a construction time of 10 months, witness Flynn indicated it was unnecessary to issue an award form for the project. Also for PCF-16, which had a cost of \$634,302 and would be carried out over several years, witness Flynn claimed an award form was not needed for the project. (OPC BR 7) Further, related to PCF-16, OPC stated that witness Flynn had testified that a Notice to Proceed was not issued for each contractor, but instead suggested that a Notice to Proceed was only required for the contractor whose work constituted the largest financial cost. However, OPC argued that the Utility had been inconsistent in regards to the documentation, such as Notice to Proceed forms, it had supplied to support the projects. For example, a Notice to Proceed was provided for both PCF-42 and PCF-43, which had lower costs and shorter construction times than PCF-6, PCF-20, and PCF-33; however, a Notice to Proceed was not provided for either PCF-6, PCF-20, or PCF-33. (OPC BR 7-8)

OPC stated that on cross examination, witness Flynn had “admitted that at least 15 of the 45 pro forma projects requested fell behind on their construction schedules” since the filing of his direct testimony. (OPC BR 8) While several projects had been delayed, other projects such as PCF-31

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<sup>16</sup> Order No. PSC-2017-0361-FOF-WS.

had been paused and the Utility had not supplied support for a planned completion date. OPC argued that witness Flynn had admitted that there was no overarching reason for the project delays, but the delays could be the result of third-party action. OPC stated that Section 367.081(2)(a)2., F.S., outlines that a project must be placed into use within 24 months after the test year and it does not contemplate why a project was or was not completed in that timeframe. Therefore, based on a lack of sufficient documentation, OPC recommended that the Commission should completely disallow PCF-14, PCF-17, PCF-18, PCF-20, PCF-23, PCF-28, PCF-31, and PCF-33, and it should disallow the portion of PCF-16 for which documentation was not provided. (OPC BR 8)

For an additional six projects, OPC argued that a total cost of \$432,673 should be disallowed because the projects did not have actual plant additions associated with them. Pursuant to the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) and Rule 25-30.116, F.A.C., studies and reports that are not attributed to an active construction project to be completed within the statutory timeframe cannot be considered plant-in-service or construction-work-in-progress. OPC identified PCF-6, PCF-21, and PCF-26 as studies and reports that would be used to develop future construction plans, but did not have any plant additions associated with them at this time. (OPC BR 8-9) Additionally, OPC argued that witness Flynn had testified that several of these projects would require a separate capital project to address the findings. (OPC BR 9)

OPC cited to Order No. PSC-2017-0361-FOF-WS, stating that although projects that were designated as investigations or studies were included in rate base, the decision to include these studies was contrary to the USOA and Rule 25-30.116, F.A.C. OPC cited to Section 120.68(7)(e), F.S., indicating that there is grounds for appeal when the Commission deviates from official policy or agency rule. OPC stated that “a previous error on the part of the Commission does not become precedent for continuing to perpetuate the erroneous ruling if it is contrary to the controlling statute or in this case, rule.” (OPC BR 9) For these reasons, OPC recommended that the Commission disallow PCF-6, PCF-21, PCF-26, PCF-30, PCF-39 and PCF-45 because the projects had no construction associated with a plant addition. (OPC BR 9)

OPC argued that UIF should not be allowed to seek cost recovery for in-kind penalty projects, which are projects a utility may choose to implement as part of a DEP Consent Order and may involve capital improvements. OPC stated that per the Consent Order for PCF-22, an in-kind penalty project cost must be at least one and a half times the amount the utility would have been fined. OPC argued that UIF should not be allowed to recover these in-kind project costs from customers when it had elected to complete the project and the project costs were more than the fine. Additionally, OPC cited to Order No. PSC-2018-0014-FOF-EI<sup>17</sup>, stating “the Commission held that when a Consent Order required payment of an amount that was not a fine but was essentially a donation to avoid a fine, the utility could not recover that amount from customers.” (OPC BR 9) In UIF’s case, the Consent Order allows the Utility to choose a project rather than paying a fine. Therefore, OPC recommended that the Commission disallow the amount of the DEP fines associated with PCF-15, PCF-17, PCF-22 and PCF-23, and embedded in capital costs totaling \$56,147. (OPC BR 9-10)

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<sup>17</sup> Order No. PSC-2018-0014-FOF-EI, issued January 5, 2018, in Docket No. 20180007-EI, *In re: Environmental cost recovery clause*.

## **ANALYSIS**

Section 367.081(2)(a)2., F.S., provides that the Commission, in fixing rates, shall consider facilities to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates, unless a longer period is approved by the Commission, to be used and useful (U&U) if such property is needed to serve current customers. In this proceeding, UIF requested cost recovery for 45 pro forma projects. Each project is discussed in detail below and the recommended adjustments are summarized in Table 3-1.

Date: April 8, 2021

**Table 3-1  
Staff's Recommended Pro Forma Plant Additions**

PCF	Description	MFR	Staff	Adjustment
1	Cypress Lakes Inflow and Infiltration (I&I) Investigation	\$45,000	\$42,500	(\$2,500)
2	Eagle Ridge Lift Station 3 and 8 Rehabilitation	\$84,411	\$84,411	\$0
3	Eagle Ridge Supervisory Control and Data Acquisition (SCADA) Remote Telemetry Unit (RTU) Installation	\$247,761	\$212,335	(\$35,426)
4	Eagle Ridge Engineering Site Improvements	\$130,264	\$48,713	(\$81,551)
5	Eagle Ridge Site Improvements	\$707,506	\$572,181	(\$135,325)
6	Labrador WWTP Master Plan	\$40,636	\$0	(\$40,630)
7	Longwood SCADA RTU Installation	\$125,647	\$122,160	(\$3,487)
8	LUSI Engineering of Crescent Bay Raw Water Main (WM)	\$70,000	\$71,500	\$1,500
9	LUSI Crescent Bay Raw WM	\$506,869	\$488,700	(\$18,169)
10	LUSI Lake Groves Sulfuric Acid Storage Tank Replacement	\$56,241	\$55,089	(\$1,152)
11	LUSI Hydrochloric Acid Storage Tank Relocation	\$33,165	\$29,992	(\$3,173)
12	LUSI Lake Groves Return Activated Sludge (RAS) Pump Replacement	\$45,660	\$42,558	(\$3,102)
13	LUSI Barrington WWTP Improvements	\$396,710	\$378,559	(\$18,151)
14	Mid-County Master Lift Station	\$1,878,199	\$2,140,924	\$262,725
15	Mid-County Generators at Lift Stations 4 and 7	\$153,163	\$120,952	(\$32,211)
16	Mid-County Curlew Creek I&I Remediation	\$664,201	\$624,220	(\$39,981)
17	Mid-County Headworks	\$3,186,839	\$2,478,657	(\$708,182)
18	Mid-County Lift Station 10 Force Main (FM) Relocation	\$58,139	\$56,170	(\$1,969)
19	Pennbrooke Diffuser Replacement	\$34,000	\$29,280	(\$4,720)
20	Sandalhaven SCADA Installation	\$135,490	\$129,299	(\$6,191)
21	Sandalhaven I&I Investigation	\$61,847	\$58,255	(\$3,592)
22	Wekiva WWTP Improvements	\$6,859,793	\$6,548,308	(\$311,485)
23	Wekiva WWTP Headworks	\$3,100,024	\$2,784,953	(\$315,071)
24	Sanlando Well Panel Replacements	\$76,796	\$76,812	\$16
25	Sanlando FM and WM Replacement	\$3,926,417	\$3,718,965	(\$207,452)
26	Sanlando Engineering F5/C1/L2 FM Replacements	\$202,637	\$185,907	(\$16,730)
27	Sanlando I&I Corrections, Phase 4	\$2,062,398	\$2,161,675	\$99,277
28	Sanlando E.E. Williamson Utility Relocations	\$462,856	\$450,686	(\$12,170)
29	Sanlando Lift Station Mechanical Rehabilitation	\$560,469	\$529,015	(\$31,455)
30	Sanlando FM Modeling and Development of Critical Infrastructure Plan (CIP)	\$93,492	\$103,746	\$10,254
31	Sanlando Ground Storage Tank (GST) Remediation	\$188,923	\$184,578	(\$4,345)
32	Tierra Verde I&I Remediation	\$172,192	\$116,074	(\$56,118)
33	Tierra Verde FM and GSM Replacement	\$609,491	\$533,786	(\$75,705)
34	Tierra Verde Lift Station 4 Replacement	\$854,450	\$936,917	\$82,467
35	Buena Vista Well Improvements	\$98,145	\$97,662	(\$483)
36	Orangewood Well 1 Improvements	\$170,453	\$167,775	(\$2,678)
37	Seminole County SCADA Installation	\$96,664	\$93,976	(\$2,688)
38	Summertree Chlorine Dioxide Pilot Study	\$52,000	\$91,301	\$39,301
39	Summertree I&I Investigation	\$27,481	\$28,620	\$1,139
40	Golden Hills Galvanized Pipe Replacement	\$77,743	\$79,553	(\$1,810)
41	Golden Hills Water Main Relocation	\$170,810	\$169,682	(\$1,128)
42	Little Wekiva Generator	\$100,256	\$97,053	(\$3,203)
43	Park Ridge Generator	\$104,292	\$88,706	(\$15,586)
44	Ravenna Park I&I Remediation	\$678,829	\$821,360	\$142,531
45	Weathersfield Northwestern Bridge Crossing	\$22,000	\$140,246	\$118,246
	<b>Total</b>	<b>\$29,430,359</b>	<b>\$27,993,811</b>	<b>(\$1,440,163)</b>

Source: EXH 48; EXH 148, BSP 111

Note: Staff recommends amortizing \$41,000 for PCF-6 and \$76,391 for PCF-32 in O&amp;M expense.

### **PCF-1 UIF – Cypress Lakes I&I Investigation**

UIF requested cost recovery to jet clean and video inspect approximately 18,000 linear feet of 8 inch PVC gravity sewer mains (GSM) and manholes. This was done in zones 1 and 2 of the Cypress Lakes collection system to locate and evaluate pipe deficiencies and to remove accumulated solids deposited in manhole and pipe inverts. A report will be provided to identify any deficiencies in the piping that will require repairs. The Utility stated the investigation was necessary due to increased inflow during extended rain, which indicates the likelihood of excessive I&I. (EXH 2)

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$50,000. (TR 181) In witness Flynn’s rebuttal testimony, he provided an updated project cost of \$42,500. (TR 767) No interest during construction (IDC) or capitalized labor expense<sup>18</sup> (cap time) was incurred for this project. (EXH 140) OPC witness Radigan did not address the Cypress Lakes I&I Investigation project or the costs in his testimony.

UIF provided one bid for the project totaling \$42,500. (EXH 141, BSP 2) In response to discovery, UIF specified that a \$75,000 threshold for project costs was its parent company’s policy for determining whether multiple bids should be obtained for a project. UIF stated that this policy “has been in place for over ten years and has been an accepted practice in many previous rate case dockets initiated by UIF and its affiliated companies in Florida.” (EXH 154, BSP 200) Since the I&I investigation cost was less than this threshold, only one bid was solicited. (EXH 142, BSP 14)

In response to discovery, UIF provided an invoice for the project in the amount of \$42,500. (EXH 153, BSP 177) Witness Flynn testified that the Cypress Lakes I&I Investigation project was completed in August 2020. (TR 767, EXH 140) Based on the documentation provided by the Utility, as well as the testimony of witness Flynn, staff recommends that \$42,500 is reasonable for the project. UIF recorded a cost of \$45,000 for PCF-1 in its MFRs as working capital; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-1 by \$2,500. However, as there were no plant addition costs associated with the project, staff recommends that the project costs be recorded in working capital. The appropriate working capital allowance will be discussed further in Issue 16.

### **PCF-2 UIF – Eagle Ridge Lift Station 3 and 8 Rehabilitation**

UIF requested cost recovery to replace pipes, valves, and fittings at lift stations 3 and 8 due to corrosion after many years of service. In addition, as there is no drain valve, rainwater fills the vault making the valves less accessible. By relocating the check and isolation valves from the vault to an above ground piping arrangement, the valves will be readily accessible without having to attempt to core drill the valve vault and wet well in a very limited space. This project also included coating the wet well walls to protect the concrete from further degradation. (EXH 3)

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$81,890. (TR 181) In witness Flynn’s rebuttal testimony, he provided an updated project cost of \$80,139, which included IDC and cap time. (TR 767) OPC witness Radigan did not address the Eagle

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<sup>18</sup> The treatment of capitalized labor expense is discussed in Issue 26.

Ridge Lift Station 3 and 8 Rehabilitation project or the costs in his testimony. UIF provided three bids for the rehabilitation project and the lowest bid of \$77,890 was selected. (EXH 141, BSP 2)

In response to discovery, UIF provided invoices for the rehabilitation project totaling \$77,890, and an invoice for disposal fees totaling \$4,301. (EXH 160) Witness Flynn testified that the Eagle Ridge Lift Station 3 and 8 Rehabilitation project was completed in September 2020, and had a cap time cost of \$2,220. (TR 767; EXH 140) Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$84,411 (\$77,890 + \$4,301 + \$2,220) is reasonable for the project. UIF recorded a cost of \$84,411 for PCF-2 in its MFRs; therefore, staff recommends that no adjustment is necessary for PCF-2.

### **PCF-3 UIF – Eagle Ridge SCADA RTU Installation**

Similar to projects PCF-7, PCF-20, and PCF-37, UIF requested cost recovery to install RTUs and associated hardware and software at 13 lift stations and at the Eagle Ridge and Cross Creek WWTPs. UIF stated the project will interface with its existing SCADA network and information technology infrastructure to offer real time operational data during both normal and inclement weather conditions and thereby reduce the risk of sanitary sewer overflows and property damage caused by wastewater backups. The project was initiated at the urging of the DEP after Hurricane Irma in 2017. (EXH 4; TR 181)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$229,000. (TR 181) In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$229,159, which included IDC and cap time. (TR 768) OPC witness Radigan did not address the Eagle Ridge SCADA RTU Installation project or the costs in his testimony.

UIF provided one bid from the primary contractor, Sanders Co., totaling \$162,619 and one bid from each of the two supporting contractors, totaling \$48,920 and \$18,055, respectively. (EXH 141, BSP 2) UIF only obtained one primary contractor bid for this project, as the contractor being utilized for PCF-7, PCF-20, and PCF-37 was also selected for PCF-3. (EXH 142, BSP 14) UIF stated the primary contractor was sole sourced due to their exceptional expertise and professionalism from their earlier work, and their excellent technical support, which is a critical criterion in selecting a contractor to install SCADA systems. (EXH 159, BSP 246) Only one bid was solicited for the work performed by each of the supporting contractors, as both were below UIF's \$75,000 threshold for obtaining multiple bids. As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. (EXH 154, BSP 200)

In response to discovery, UIF provided invoices for the SCADA installation totaling \$210,534. (EXH 160, BSP 268) Witness Flynn testified that the Eagle Ridge SCADA Installation project was completed in August 2020, and had a cap time cost of \$1,801. (TR 768; EXH 140) Based on the documentation provided by the Utility, as well as the testimony of witness Flynn, staff recommends that \$212,335 (\$210,534 + \$1,801) is reasonable for the project. UIF recorded a cost of \$247,761 for PCF-3 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-3 by \$35,426.

### **PCF-4 UIF – Eagle Ridge Engineering Site Improvements**

UIF requested cost recovery for engineering services in support of the replacement of the perimeter fence and gates, removal of invasive species, and installation of native landscaping

materials in conformance with Lee County's land use ordinances. Services include providing construction engineering and inspection, and coordination with Lee County staff. (EXH 5) Staff notes this project is for engineering services only, in relation to the construction work performed under project PCF-5.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$130,000. (TR 181) In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$163,483, which included IDC and cap time. (TR 768) Witness Flynn stated the project budget was increased due to the additional services required to obtain a variance to the county's development code, site plan approval, permitting, construction oversight, and coordination services. (TR 768) OPC witness Radigan did not address the Eagle Ridge Engineering Site Improvements project or the costs in his testimony.

UIF provided one bid for the site improvements totaling \$81,000 and one subcontracted bid for a boundary survey totaling \$9,555. (EXH 141, BSP 2) Witness Flynn stated Kimley-Horn & Associates (Kimley-Horn) was selected to provide engineering services in support of the Eagle Ridge Site Improvements required by Lee County, and Echo UES, Inc., provided site survey services as a subcontractor of Kimley-Horn, since Kimley-Horn does not have its own in-house survey crew. Kimley-Horn was the preferred engineering consultant selected to work on the Eagle Ridge Site Improvements Project due to its familiarity with the facilities as well as the breadth and depth of the resources that were required for this project. (EXH 148, BSP 116)

In response to discovery, UIF provided invoices from Kimley-Horn totaling \$46,044. (EXH 160, BSP 268) However, invoices were not provided for the permitting assistance or boundary survey. (EXH 160, BSP 268; EXH 153, BSP 177) Witness Flynn provided a cap time cost of \$2,669 for PCF-4 and testified that the project was completed in August 2020. (EXH 140; TR 768) Based on the documentation provided by the Utility, as well as the testimony of witness Flynn, staff recommends that \$48,713 (\$46,044 + \$2,669) is reasonable for the project. UIF recorded a cost of \$130,264 for PCF-4 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-4 by \$81,551 and the amount should be capitalized under project PCF-5.

### **PCF-5 UIF – Eagle Ridge Site Improvements**

UIF requested cost recovery to obtain a setback variance for the previously constructed equalization tank. This includes removal of all invasive trees and shrubs from the plant site, installation of a 9-foot high decorative fence on three sides and an 8 foot high chain link fence on the west side of the perimeter to replace the 1984 fence material, replace two access gates on the north and west sides, add landscaping buffer on all four sides, and add a drip irrigation system. UIF stated that the project is designed to meet Lee County's land development ordinance specifications. (EXH 6)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$657,000. (TR 182) In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$703,798, which included IDC and cap time. (TR 769) OPC witness Radigan did not address the Eagle Ridge Site Improvements project or the costs in his testimony.

UIF provided two bids for the fencing removal and installation, three bids for tree clearing, and one bid for the decorative fence. (EXH 141, BSP 2) The Utility selected the lowest bids for the fencing removal and installation, totaling \$72,808, and tree clearing, totaling \$194,000. (EXH 141, BSP 2) Witness Flynn stated that four bids were solicited for the decorative fence, but only one bid was received from the sole vendor who offered a product that met the fencing criteria, for a total of \$233,752. (EXH 154, BSP 182)

In response to discovery, UIF provided invoices for the Eagle Ridge Site Improvements project totaling \$561,095. (EXH 160, BSP 268; EXH 141, BSP 2) Witness Flynn provided a cap time cost of \$11,086 for PCF-5 and testified that the project was completed in July 2020. (EXH 140; TR 768) Based on the documentation provided by the Utility, as well as the testimony of witness Flynn, staff recommends that \$572,181 (\$561,095 + \$11,086) is reasonable for the project. UIF recorded a cost of \$707,506 for PCF-5 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-5 by \$135,325.

### **PCF-6 UIF – Labrador WWTP Master Plan**

UIF requested cost recovery to develop a preliminary design report for the removal and replacement of the three treatment trains, digestors, filter clear wells, chlorine contact tanks, and process blowers that are nearing the end of their service life. This project is for engineering services only. (EXH 7)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$41,000. (TR 182) In witness Flynn's rebuttal testimony, he provided an updated project cost of \$44,736. (TR 769) However, the Utility did not provide supporting documentation for this project increase. No IDC or cap time was included for this project. (EXH 140) OPC witness Radigan testified that there were no plant addition costs associated with the Labrador WWTP Master Plan project. Instead this project was CWIP and should not be considered plant-in-service. (TR 447-448) Furthermore, witness Radigan stated that once the project was complete, the expenditures to date will be added to the construction costs and the project could then be eligible for inclusion in the calculation of revenue requirement at some future time. (TR 448) Witness Flynn testified that the project will identify the capital improvements necessary to comply with the WWTP operating permit. (TR 769)

UIF only obtained one bid for this project at a cost of \$41,000, as it was below UIF's \$75,000 threshold for obtaining multiple bids. (EXH 141, BSP 2) As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. (EXH 154, BSP 200) As an exhibit to his rebuttal testimony, witness Flynn provided a signed agreement for the project totaling \$41,000. (EXH 100)

Witness Flynn testified that the report is scheduled to be completed by the end of January 2021. (TR 769) Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$41,000 is reasonable for the project. However, regarding the concerns raised by witness Radigan, staff agrees that there were no plant addition costs associated with PCF-6. As the costs for this project are to maintain compliance with the WWTP operating permit, which expires March 22, 2025, staff recommends that \$41,000 be amortized over four years and included in operation and maintenance (O&M) expense UIF recorded a cost of \$40,636 for PCF-

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6 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-6 by \$40,636.

### **PCF-7 UIF – Longwood SCADA RTU Installation**

Similar to projects PCF-3, PCF-20, and PCF-37, UIF requested cost recovery to install remote telemetry units at 13 lift stations in the Longwood collection system. The 13 lift stations were being monitored with the use of alarm systems; however, UIF began implementing SCADA in other systems in 2016. With the use of SCADA, lift stations can be monitored remotely by operators, which can reduce the lag time between an alarm event and notification. It also provides technicians with the ability to pull reports for lift stations to prioritize work activities and the SCADA system can be used for tracking purposes, such as logging pump replacements or electrical issues. (EXH 8)

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$122,024. (TR 182) In witness Flynn’s rebuttal testimony, he provided an updated project cost of \$125,647, which included IDC and cap time. (TR 769) OPC witness Radigan did not address the Longwood SCADA RTU Installation project or the costs in his testimony. UIF only obtained one bid for this project, as the contractor being utilized for PCF-3, PCF-20, and PCF-37 was also selected for PCF-7. (EXH 142, BSP 14) UIF stated that the selected contractor “offered consistent pricing for similar work as well as the ability to maintain safety and security protocols that are critically necessary when installing or modifying any cloud-based technology.” (EXH 148, BSP 115)

In response to discovery, UIF provided invoices for the SCADA installation totaling \$122,024. (EXH 160, BSP 268) Witness Flynn testified that the Longwood SCADA RTU Installation project was completed in January 2020, and had a cap time cost of \$136. (TR 769; EXH 140) Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$122,160 (\$122,024 + \$136) is reasonable for the project. UIF recorded a cost of \$125,647 for PCF-7 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-7 by \$3,487.

### **PCF-8 UIF – LUSI Engineering of Crescent Bay Raw WM**

UIF requested cost recovery for the design, permitting, and construction of a raw WM connecting the existing Crescent Bay well with an underutilized WTP to meet peak water demand driven by growth. (EXH 9) Staff notes this project is for engineering services only, in relation to the construction work to be performed under project PCF-9.

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$70,000. (TR 182) In witness Flynn’s rebuttal testimony, he provided an updated project cost of \$75,242, which included IDC and cap time. (TR 769-770) OPC witness Radigan did not address the LUSI Engineering of Crescent Bay Raw WM project or the costs in his testimony.

UIF provided one bid for the project totaling \$70,000. (EXH 141, BSP 2) UIF only solicited the service of Kimley-Horn for this project because “engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems.” (EXH 148, BSP 115)

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As an exhibit to his rebuttal testimony, witness Flynn provided a signed authorization letter for the engineering service of Kimley-Horn totaling \$70,000. (EXH 102)

Witness Flynn projected a cap time cost of \$1,500 for PCF-8 and testified that the project will be completed in May 2021. (EXH 140; TR 769) Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$71,500 (\$70,000 + \$1,500) is reasonable for the project. UIF recorded a cost of \$70,000 for PCF-8 in its MFRs; therefore, staff recommends an adjustment should be made to increase the cost of PCF-8 by \$1,500 and the amount should be capitalized under project PCF-9.

### **PCF-9 UIF – LUSI Crescent Bay Raw WM**

UIF requested cost recovery for construction of a raw WM connecting the existing Crescent Bay well with an underutilized WTP to meet peak water demand driven by growth. The project scope includes drilling 1,000 linear feet under a body of water and an additional 4,000 linear feet to connect to an existing raw WM. (EXE 103) As stated above, the engineering services for this project are being performed under project PCF-8.

In UIF witness Flynn's direct testimony, the requested amount for this project was \$486,514. (TR 182) In witness Flynn's rebuttal testimony, he provided an updated project cost of \$503,031, which included IDC and cap time. (TR 770) OPC witness Radigan did not address the LUSI Crescent Bay Raw WM project or the costs in his testimony.

UIF provided three bids for the project and the lowest bid of \$481,514 was selected. (EXH 141, BSP 2) As an exhibit to his rebuttal testimony, witness Flynn provided a signed agreement for the project totaling \$481,514. (EXH 103)

Witness Flynn projected a cap time cost of \$7,186 for PCF-9 and testified that the project will be completed in May 2021. (EXH 140; TR 770) Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$488,700 (\$481,514 + \$7,186) is reasonable for the project. UIF recorded a cost of \$506,869 for PCF-9 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-9 by \$18,169.

### **PCF-10 UIF – LUSI Lake Groves Sulfuric Acid Storage Tank Replacement**

UIF requested cost recovery to replace the existing sulfuric tank and associated piping with corrosion and UV resistant materials. These materials can withstand a concentration of 93 percent sulfuric acid that is used in the treatment of groundwater produced by Well 3. (EXH 11) In UIF witness Flynn's direct testimony, the requested amount for this project was \$54,303. (TR 182-183) In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$55,504, which included IDC and cap time. (TR 770) OPC witness Radigan did not address the LUSI Lake Groves Sulfuric Acid Storage Tank Replacement project or the costs in his testimony.

UIF provided only one bid for the project totaling \$54,302, as it was below UIF's \$75,000 threshold for obtaining multiple bids. (EXH 141, BSP 2) As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. (EXH 142, BSP 14; EXH 154, BSP 200) In response to discovery, UIF provided an invoice for the project totaling \$54,302. (EXH 160, BSP 268)

Witness Flynn testified that the project was completed in April 2020 and had a cap time cost of \$787. (TR 770) Based on the documentation provided by the Utility, as well as the testimony of witness Flynn, staff recommends that \$55,089 (\$54,302 + \$787) is reasonable for the project. UIF recorded a cost of \$56,241 for PCF-10 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-10 by \$1,152.

### **PCF-11 UIF – LUSI Hydrochloric Acid Storage Tank Relocation**

UIF requested cost recovery to relocate a 1,000 gallon acid storage tank and spill containment vessel to the exterior of the Lake Groves chemical storage building to prevent rapid corrosion of metal components and equipment inside the building. (EXH 12) In UIF witness Flynn's direct testimony, the requested amount for this project was \$29,992. (TR 183) No adjustment was made in witness Flynn's rebuttal testimony and there were no IDC or cap time costs associated with this project. (TR 770) OPC witness Radigan did not address the LUSI Hydrochloric Acid Storage Tank Relocation project or the costs in his testimony.

UIF obtained a bid from Florida Environmental Construction in the amount of \$44,834 to complete the entire project. (EXH 153, BSP 176) Witness Flynn stated this amount was more than expected, so UIF bid out the electrical and non-electrical components separately. (EXH 154, BSP 183) In response to discovery, UIF provided an invoice for the electrical work totaling \$10,753, and the non-electrical work totaling \$19,239. (EXH 141, BSP 2) Witness Flynn testified that the project was completed in March 2020, and the project cost totaled \$29,992. (TR 770)

Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$29,992 is reasonable for the project. UIF recorded a cost of \$33,165 for PCF-11 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-11 by \$3,173.

### **PCF-12 UIF – LUSI Lake Groves RAS Pump Replacement**

UIF requested cost recovery to replace both existing WILO brand RAS pumps with two new Xylem brand pumps. The project scope also includes new piping, bypass piping, pump base adapters, and custom stainless steel bracket welding. (EXH 13) Witness Flynn testified that the existing pumps do not provide reliable performance, are expensive to repair, and parts are not readily available for the WILO model. (TR 770-771)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$43,000. (TR 183) In witness Flynn's rebuttal testimony, he provided an updated project cost of \$42,558. (TR 770-771) No IDC or cap time was included for this project. (EXH 140) OPC witness Radigan did not address the LUSI Lake Groves RAS Pump Replacement project or the costs in his testimony.

UIF only provided one bid for the install work and one bid for the material costs of the pumps totaling \$42,558, as the cost was below UIF's \$75,000 threshold for obtaining multiple bids. (EXH 141, BSP 2; EXH 142, BSP 14) As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. (EXH 154, BSP 200) As an exhibit to his rebuttal testimony, witness Flynn provided signed agreements for the project totaling \$42,558. (EXH 106)

Witness Flynn testified that the project will be completed in May 2021. (EXH 140; TR 770-771) Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$42,558 is reasonable for the project. UIF recorded a cost of \$45,660 for PCF-12 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-12 by \$3,102.

### **PCF-13 UIF – LUSI Barrington WWTP Improvements**

UIF requested cost recovery for improvements to the LUSI Barrington WWTP. This includes installation of a plant lift station, emergency generator, automatic transfer switch, equalization pumps, 200 square foot field office, and a process control lab following the acquisition of the facilities in 2019. The project components address items not included in the original plant design that are needed to meet operating permit requirements, and to provide backup power to prevent overflow during outages. In addition, the project includes engineering services for design, permitting, and construction inspection services. (EXH 14)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$380,000. (TR 183) In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$392,946, which includes projected IDC and cap time. (TR 771; EXH 140) OPC witness Radigan testified that additional documentation was needed for the LUSI Barrington WWTP Improvements project, and he could not recommend the costs be included in rate base at this time. (TR 447) In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project as final contracts and invoices had not been provided by UIF. (EXH 175, BSP 351-352) Upon cross examination, however, Radigan agreed that sufficient information was provided to support project PCF-13. (TR 469; UIF BR 5)

UIF provided two bids for the construction work and the lower bid of \$333,000 was selected. (EXH 141, BSP 2) UIF provided one bid from Kimley-Horn for the engineering services, totaling \$47,000. (EXH 141, BSP 2) UIF stated that multiple bids were not obtained for the engineering services because "engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems." (EXH 148, BSP 115) As an exhibit to his rebuttal testimony, witness Flynn provided signed agreements from both contractors totaling \$374,735. (EXH 107)

Witness Flynn projected a cap time cost of \$3,824 for PCF-13 and testified that the project will be completed in May 2021. (EXH 140; TR 771) Regarding the concerns raised by witness Radigan, additional support for PCF-13, including a contract and scheduling documents, was provided in witness Flynn's rebuttal testimony and in response to discovery. Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$378,559 (\$374,735 + \$3,824) is reasonable for the project. UIF recorded a cost of \$396,710 for PCF-13 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-13 by \$18,151.

### **PCF-14 UIF – Mid-County Master Lift Station**

UIF requested cost recovery to replace the master lift station at the WWTP. A DEP consent order required a preliminary design report of the WWTP which ultimately found that the master lift station will need to be replaced. This includes the wet well, pumps, piping, controls, and GSM,

Date: April 8, 2021

as well as demolition of the original lift station. In addition, the project includes engineering services for surveying, design, permitting, bidding, and construction monitoring services. (EXH 15)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$1,766,115. (TR 183-184) As an exhibit to his rebuttal testimony, witness Flynn provided an updated project cost of \$2,216,140, which includes projected IDC and cap time. (EXH 140) OPC witness Radigan testified that additional documentation was needed for the Mid-County Master Lift Station project, and he could not recommend the costs be included in rate base at this time. (TR 447) In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project as final contracts and invoices had not been provided by UIF. (EXH 175, BSP 351-352)

Bids were obtained from three contractors for the completion of the construction project, and the contractor with the lowest bid of \$1,928,578 was selected. (EXH 141, BSP 2) UIF provided one bid from Kimley-Horn for the engineering services, totaling \$101,000. (EXH 141, BSP 2) UIF stated that multiple bids were not obtained for the engineering services because "engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems." (EXH 148, BSP 115) As an exhibit to his rebuttal testimony, witness Flynn provided signed agreements from both the construction and engineering contractors totaling \$2,102,058. (EXH 108)

Witness Flynn projected a cap time cost of \$38,866 for PCF-14 and testified that the project will be completed by June 2021. (EXH 140; TR 771) Regarding the concerns raised by witness Radigan, additional support for PCF-14, including a contract and scheduling documents, was provided in witness Flynn's rebuttal testimony and in response to discovery. Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$2,140,924 (\$2,102,058 + \$38,866) is reasonable for the project. UIF recorded a cost of \$1,878,199 for PCF-14 in its MFRs; therefore, staff recommends an adjustment should be made to increase the cost of PCF-14 by \$262,725.

### **PCF-15 UIF – Mid-County Generators at Lift Stations 4 and 7**

UIF requested cost recovery for backup generators at Mid-County lift stations 4 and 7. This project is in response to the DEP's warning letter, dated August 5, 2019, which was issued ahead of Mid-County's November 25, 2019 Consent Order and after lift stations 4 and 7 both had sanitary sewer overflows due to power loss. (EXH 178, BSP 426) The project scope includes placement of generators, automatic transfer switches, subbase fuel storage tanks, and electrical components. In addition, the project includes engineering services for design, permitting, and construction coordination, and inspection services. (EXH 16)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$145,000. (TR 184) In witness Flynn's rebuttal testimony, he provided an updated project cost of \$136,163, which included IDC and cap time. (TR 772) OPC witness Radigan did not address the Mid-County Generators project or the costs in his testimony. As discussed above, OPC argues that since PCF-15 is as an in-kind penalty project the capital costs should be disallowed and not be recovered from customers since the costs of the project exceed the amount of the DEP's fine.

(OPC BR 9-10) However, staff believes in-kind projects benefit the customers more so than the utility paying a fine and not improving its service and not resolving issues within the Consent Order. Therefore, the costs of the in-kind project should be recovered through rates. Further, OPC relies Order No. 2018-0014-FOF-EI as a Commission precedent on this point, in which the Commission disallowed the recovery of funds deposited into Escrow to be utilized as directed by the DEP.<sup>19</sup> (OPC BR 9-10) However, the Commission also found that this fund component was not associated with operation of a particular facility for the benefit of customers and that the Utility in that case also failed to meet its burden of proof, which is not the case for the in-kind projects presented in the instant docket. In the instant docket, the in-kind projects directly benefit the customers and the Utility has provided documentation for staff to evaluate the prudence and cost of the project. PCF-17, PCF-22, and PCF-23 are also considered in-kind projects and are discussed in greater detail within their respective subsections.

UIF provided three bids for the construction costs of the project and the lowest bid of \$105,530 was selected. (EXH 141, BSP 2) UIF provided one bid from Kimley-Horn for the engineering services, totaling \$11,000. (EXH 141, BSP 2) UIF stated that multiple bids were not obtained for the engineering services because “engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems.” (EXH 148, BSP 115) As an exhibit to his rebuttal testimony, witness Flynn provided signed agreements from both the construction and engineering contractors totaling \$116,530. (EXH 109)

Witness Flynn projected a cap time cost of \$4,422 for PCF-15 and testified that the project will be completed in May 2021. (EXH 140; TR 772) Regarding the in-kind project concern addressed in OPC’s brief, a utility can recover environmental compliance costs pursuant to Section 367.081, F.S., which is consistent with Commission practice. Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$120,952 (\$116,530 + \$4,422) is reasonable for the project. UIF recorded a cost of \$153,163 for PCF-15 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-15 by \$32,211.

### **PCF-16 UIF – Mid-County Curlew Creek I&I Remediation**

UIF requested cost recovery to video inspect 6,500 linear feet of GSMs and manholes, replace a collapsed GSM, install sheeting around two manholes to prevent structural failure, line 6,500 linear feet of clay pipe with cured-in-place pipe (CIPP), rehabilitate 36 manholes, install fiberglass liners in three manholes, and install liners in 30 service laterals. In addition, the project includes engineering services for design, permitting, and construction coordination and inspection services. UIF stated this project was necessitated due to regulatory violations related to excessive I&I. (EXH 17)

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$634,302. (TR 184) In his rebuttal testimony, he provided an updated project cost of \$719,049, which includes projected IDC and cap time. (TR 772; EXH 140) OPC witness Radigan testified that additional documentation was needed for the Mid-County Curlew Creek I&I Remediation

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<sup>19</sup>Order No. PSC-2018-0014-FOF-EI, issued January 5, 2018, Docket No. 20180007-EI, *In re: Environmental cost recovery clause*

project, and he could not recommend the costs be included in rate base at this time. (TR 447) In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project as final contracts and invoices had not been provided by UIF. (EXH 175, BSP 351-352) Upon cross examination, witness Radigan agreed that information was provided to partially support project PCF-16. (TR 469; UIF BR 5)

UIF obtained three bids for the construction services for GSM cleaning and inspection, CIPP lining, service lateral lining, and manhole rehabilitation. The contractor with the lowest bid of \$414,243 was selected. (EXH 141, BSP 2) UIF provided one bid from Kimley-Horn for the engineering services, totaling \$28,520. (EXH 110) UIF stated that multiple bids were not obtained for the engineering services because “engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems.” (EXH 148, BSP 115) As an exhibit to his rebuttal testimony, witness Flynn provided a signed agreement from the primary contractor totaling \$414,243. (EXH 110) In response to discovery, UIF provided invoices from Kimley-Horn totaling \$29,370. (EXH 160, BSP 268; EXH 153, BSP 177) In addition, UIF provided supplemental invoices from six supporting contractors for the remainder of the project scope, totaling \$169,357. (EXH 110; EXH 153, BSP 177)

Witness Flynn projected a cap time cost of \$11,250 for PCF-16 and testified that the project will be completed by the end of January 2021. (EXH 14; TR 772) Regarding the concerns raised by witness Radigan, additional support for PCF-16, including a contract and scheduling documents, was provided in witness Flynn’s rebuttal testimony and in response to discovery. Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$624,220 (\$414,243 + \$29,370 + \$169,357 + \$11,250) is reasonable for the project. UIF recorded a cost of \$664,201 for PCF-17 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-31 by \$39,981.

### **PCF-17 UIF – Mid-County Headworks**

UIF requested cost recovery to replace a static screen, dewatering screw, and a metal platform that are badly corroded and at end of their service life. In addition, the stainless steel static screen does not adequately prevent debris from entering the treatment trains to the detriment of the treatment process. The project includes installing a 3 millimeter center flow screw, screening compactor, grit removal equipment, and control panel sized to meet peak influent flow characteristics. (EXH 18)

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$3,046,000. (TR 184-185) As an exhibit to his rebuttal testimony, witness Flynn provided an updated project cost of \$2,582,684, which includes projected IDC and cap time. (EXH 140)

OPC witness Radigan testified that additional documentation was needed for the Mid-County Headworks project, and he could not recommend the costs be included in rate base at this time. Additionally, witness Radigan testified that project PCF-17, which had an expected completion date of March 2021, cannot be started until after the completion of PCF-14. However, witness Radigan testified that project PCF-14 was delayed and will not be complete until March 2021. For this reason, witness Radigan testified that there is a need for project scheduling information to determine if the project can meet the 24-month post test year limitation for inclusion in rate

base. (TR 446-447) In rebuttal, witness Flynn testified that the start of project PCF-17 is not dependent on PCF-14, and that the two projects' workflows are being coordinated to accelerate the completion for both projects. (TR 782) In its post-hearing brief, OPC identified PCF-17 as an in-kind penalty project and argued that the fine embedded in capital costs should be disallowed. (OPC BR 9-10) However, staff believes it is appropriate to recover the cost of this project through rates as discussed above for PCF-15.

Bids were obtained from two contractors for the construction portion of the project, and the contractor with the lower bid of \$2,237,777 was selected. (EXH 141, BSP 2) UIF sole sourced Kimley-Horn for the engineering services, totaling \$187,005. (EXH 141, BSP 2) UIF stated that multiple bids were not obtained because "engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems." (EXH 148, BSP 115) As an exhibit to his rebuttal testimony, witness Flynn provided signed agreements from both the construction and engineering contractors totaling \$2,424,782. (EXH 111)

Witness Flynn projected a cap time cost of \$53,875 for PCF-17 and testified that the project will be completed by November 2021. (EXH 140; TR 772-773) Regarding the concerns raised by witness Radigan, additional support for PCF-17, including a contract and scheduling documents, was provided in witness Flynn's rebuttal testimony and in response to discovery. Regarding the in-kind project concern addressed in OPC's brief, a utility can recover environmental compliance costs pursuant to Section 367.081(2)(a)2., F.S., which is consistent with Commission practice. Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$2,478,657 (\$2,424,782 + \$53,875) is reasonable for the project. UIF recorded a cost of \$3,186,839 for PCF-17 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-17 by \$708,182.

### **PCF-18 UIF – Mid-County Lift Station 10 FM Relocation**

UIF requested cost recovery to relocate a FM that conflicts with a planned Department of Transportation (DOT) road improvement project. The project scope is to design the relocation of segments of the pipe, coordinate with the DOT to avoid conflicts with their plans, then obtain a DEP construction permit, solicit bids, and provide construction inspection services. (EXH 19)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$55,750. (TR 185) In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$57,451, which includes projected IDC and cap time. (TR 773; EXH 140) OPC witness Radigan testified that additional documentation was needed for the Mid-County Lift Station 10 Force Main Relocation project, and he could not recommend the costs be included in rate base at this time. (TR 447) In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project as final contracts and invoices had not been provided by UIF. (EXH 175, BSP 351-352)

One bid was obtained from Kimley-Horn totaling \$55,750. The work outlined in the bid included design, permitting, surveying, construction bidding, and construction coordination services. (EXH 141, BSP 2) UIF stated that multiple bids were not obtained because "engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems."

(EXH 148, BSP 115) As an exhibit to his rebuttal testimony, witness Flynn provided a signed proposal with Kimley-Horn for a project cost of \$55,750. (EXH 112) In addition, witness Flynn testified that “UIF must adjust its facilities before the DOT’s contractor mobilizes late next year to avoid any delays on our part to the DOT’s schedule.” (TR 773)

Witness Flynn projected a cap time cost of \$420 for PCF-18 and testified that the project will be completed by December 2021. (EXH 140; TR 773) Regarding the concerns raised by witness Radigan, additional support for PCF-18, including a contract and scheduling documents, was provided in witness Flynn’s rebuttal testimony and in response to discovery. Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$56,170 (\$55,750 + \$420) is reasonable for the project. UIF recorded a cost of \$58,139 for PCF-18 in its MFRs; therefore, staff recommends that an adjustment should be made to decrease the cost of PCF-18 by \$1,969.

### **PCF-19 UIF – Pennbrooke Diffuser Replacement**

UIF requested cost recovery to replace all diffusers and drop pipes in the Pennbrooke WWTP aeration basins. (EXH 20) In UIF witness Flynn’s direct testimony, the requested amount for this project was \$33,420. (TR 185) In witness Flynn’s rebuttal testimony, he provided an updated project cost of \$33,419. (TR 773-774) OPC witness Radigan did not address the Pennbrooke Diffuser Replacement project or the costs in his testimony.

UIF only provided one bid for the repairs to the aeration basin totaling \$29,280 and one bid for the new diffusers totaling \$4,139, as the cost was below UIF’s \$75,000 threshold for obtaining multiple bids. (EXH 141, BSP 2; EXH 148, BSP 118) As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. (EXH 154, BSP 200) In response to discovery, UIF provided an invoice for the repairs to the aeration basin totaling \$29,280, which did not include the cost of the diffusers. (EXH 160, BSP 268)

Witness Flynn testified that the project was completed in April 2020, and stated there were no IDC or cap time costs. (TR 773-774) Based on the documentation provided by the Utility, as well as the testimony of witness Flynn, staff recommends that \$29,280 is reasonable for the project. UIF recorded a cost of \$34,000 for PCF-19 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-19 by \$4,720.

### **PCF-20 UIF – Sandalhaven SCADA Installation**

Similar to projects PCF-3, PCF-7, and PCF-37, UIF requested cost recovery to install RTUs at 13 lift stations in the Sandalhaven collection systems. The 13 lift stations were being monitored with the use of alarm systems; however, UIF began implementing SCADA in other systems in 2016. With the use of SCADA, lift stations can be monitored remotely by operators, which can reduce the lag time between an alarm event and notification. It also provides technicians with the ability to pull reports for lift stations to prioritize work activities, and the SCADA system can be used for tracking purposes, such as logging pump replacements or electrical issues. (EXH 21)

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$128,000. (TR 185) In UIF witness Flynn’s rebuttal testimony, he provided an updated project cost of \$135,406, which includes projected IDC and cap time. (TR 774; EXH 140) OPC witness Radigan testified that additional documentation was needed for the Sandalhaven SCADA

Installation project, and he could not recommend the costs be included in rate base at this time. (TR 447) In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project as final contracts and invoices had not been provided by UIF. (EXH 175, BSP 351-352)

UIF only obtained one bid for this project, as the contractor being utilized for PCF-3, PCF-7, and PCF-37 was also selected for PCF-20. (EXH 141, BSP 2; EXH 142, BSP 14) UIF stated that the selected contractor “offered consistent pricing for similar work as well as the ability to maintain safety and security protocols that are critically necessary when installing or modifying any cloud-based technology.” (EXH 148, BSP 115) As an exhibit to his rebuttal testimony, witness Flynn provided a signed quote for the work to be performed by the contractor totaling \$127,349. (EXH 114)

Witness Flynn projected a cost of \$1,950 for cap time related to PCF-20, and testified that the planned completion date is March 2021. (TR 774; EXH 140) In addition, witness Flynn testified that once the equipment is in hand, in January 2021, the contractor will begin installing the RTUs at a rate of two per week. (TR 774) Regarding the concerns raised by witness Radigan, additional support for PCF-20, including an agreement and scheduling documents, was provided in witness Flynn’s rebuttal testimony and in response to discovery. Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$129,299 (\$127,349 + \$1,950) is reasonable for the project. UIF recorded a cost of \$135,490 for PCF-20 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-20 by \$6,191.

### **PCF-21 UIF – Sandalhaven I&I Investigation**

UIF requested cost recovery to clean, video inspect and smoke test 8,000 linear feet of 8 inch GSM located in the Sandalhaven collection system, in an effort to identify sources of I&I. A report of any deficiencies requiring repairs would be generated following the inspection. However, a separate capital project would be developed to address the deficiencies identified in the I&I investigation. (EXH 22)

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$57,000. (TR 185) In witness Flynn’s rebuttal testimony, he provided an updated project cost of \$56,500. (TR 774) OPC witness Radigan testified that there were no plant additions associated with the project; therefore, this project was CWIP and not plant-in-service. (TR 447-448) Furthermore, OPC witness Radigan stated that once the project was complete, “the expenditures to date will be added to the construction costs and the project could then be eligible for inclusion in the calculation of revenue requirement at some future time.” (TR 448)

UIF provided two bids for the project and the lower bid of \$56,500 was selected. (EXH 141, BSP 2) In witness Flynn’s rebuttal testimony, a copy of the signed Contract with the contractor was provided as an exhibit. (EXH 115) Witness Flynn testified that the Sandalhaven I&I Investigation project will commence in January 2021, and projected a cap time cost of \$1,755. (TR 774; EXH 140)

Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$58,255 (\$56,500 + \$1,755) is reasonable for the project. UIF recorded a cost

of \$61,847 for PCF-21 in its MFRs as working capital; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-21 by \$3,592. Considering that witness Flynn indicated in his direct testimony that any corrections related to deficiencies of the I&I investigation would be captured under a separate capital project, and UIF did not supply sufficient documentation related to the corrections, staff recommends that the costs be recorded in working capital. The appropriate working capital allowance will be discussed further in Issue 16.

### **PCF-22 UIF – Wekiva WWTP Improvements**

UIF requested cost recovery for plant improvements at its Wekiva WWTP. The improvements included removal and replacement of the process blowers, air header, traveling bridge filters, and storage building. Additionally, the relocation of a belt press, upgrades to the sodium hypochlorite storage capacity, replacement of the sodium aluminate storage tank, and renewal of the plant operating permit, as well as the demolition and removal of all decommissioned tanks and equipment were also requested to be recovered. Improvements were also planned for the plant roadway and facility entrance gate. Furthermore, a Noise & Odor study was conducted at the Wekiva WWTP to provide a baseline of existing conditions at the plant boundary. The Noise & Odor study was used to determine if excessive noise or odors were being produced and carried off-site, as well as identify any measures for noise or odor reduction that were needed to maintain compliance with DEP regulations. (EXH 23)

This project was a result of a consent order issued by the DEP. Under the terms of the consent order, the Utility was required to perform an engineering study of the Wekiva WWTP to identify any deficiencies which led to the facility failing to meet its operating permit limits. The study would also examine whether the plant met Class I reliability standards. UIF submitted the report with the recommended improvements to the DEP for review, and the DEP determined that the outlined improvements met the objectives of the consent order. A permit application to construct the proposed improvements was submitted to the DEP and a permit for construction was issued on January 31, 2019. Many of the improvements involved the replacement of various treatment components that were past their expected service life, were inadequate to treat wet weather flows, and/or lack adequate redundancy. (EXH 23)

In UIF witness Flynn's direct testimony, the requested amount for the project was \$6,112,000. (TR 185-186) In his rebuttal testimony, UIF witness Flynn updated the project cost for PCF-22 to \$6,846,372, which included IDC and projected cap time. (TR 774-775) OPC witness Radigan did not address the Wekiva WWTP Improvements project or the costs in his testimony. However, in its post-hearing brief, OPC identified PCF-22 as an in-kind penalty project and argued that the fine embedded in capital costs should be disallowed. (OPC BR 9-10) UIF obtained bids from two contractors for the WWTP improvements, and the contractor with the lowest bid of \$6,355,772 was selected. (EXH 141, BSP 2) In witness Flynn's rebuttal testimony, a copy of the signed agreement with the contractor was provided as an exhibit. (EXH 116) Witness Flynn testified that the project was "substantially complete with all newly installed equipment placed into service in October and November. The project is scheduled to be completed by the end of December 2020." (TR 774)

In response to discovery, the Utility provided invoices to support the construction costs totaling \$6,176,447. (EXH 153, BSP 177-178; EXH 160, BSP 268) This updated project cost included three change orders for additional work that was required, including relocating a water main that was in conflict with the project, upgrading a sludge press, installing a new pump, and electrical upgrades. (EXH 116; EXH 141, BSP 2; EXH 153, BSP 177-178) UIF provided invoices for engineering services related to the WWTP improvements and the Noise & Odor study totaling \$280,700. (EXH 160, BSP 268) Witness Flynn also projected a cost of \$91,161 for cap time related to PCF-22. (EXH 140) In its post-hearing brief, OPC identified PCF-22 as an in-kind penalty project and argued that the fine embedded in capital costs should be disallowed. (OPC BR 9-10) However, staff believes it is appropriate to recover the cost of this project through rates as discussed above for PCF-15. Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that a total cost of \$6,548,308 (\$6,176,447 + \$280,700 + \$91,161) is reasonable for the project. UIF recorded a cost of \$6,859,793 for PCF-22 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-22 by \$311,485.

### **PCF-23 UIF – Wekiva WWTP Headworks**

UIF requested cost recovery for the design, permitting, bidding, construction, inspection, and engineering for the headworks improvements at the Wekiva WWTP. The improvements included new screens, enhanced flow monitoring, increased peak flow capacity, overflow piping, an emergency bypass pump, and upsized piping. This project was initiated to address a DEP issued consent order that resulted from wastewater overflow in 2019. The overflow occurred after a screen had become jammed and led to raw influent overflowing onto the ground and into a nearby area. It was determined that the incident was due to the facility receiving an influent flow that exceeded the headworks' design capacity. The headworks improvements would allow the WWTP to meet the historical and current flows, provide for additional redundancy in the event of equipment failures, and incorporate a SCADA system for monitoring the headworks operation. (EXH 24)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$2,750,000. (TR 186) In his rebuttal testimony, UIF witness Flynn updated the project cost to \$2,908,666, which included IDC and projected cap time. (TR 775) OPC witness Radigan testified that additional documentation was needed for the Wekiva WWTP Headworks project, and he could not recommend the costs be included in rate base at this time. (TR 447) In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project as final contracts and invoices were not provided by the Utility. Additionally, the witness toured several projects, including the Wekiva Headworks project where construction had not yet begun. (EXH 175, BSP 351-352) OPC also identified PCF-23 as an in-kind penalty project and argued that the fine embedded in capital costs should be disallowed. (OPC BR 9-10)

UIF obtained bids from three contractors for the headworks improvements, and the contractor with the lowest bid was selected for a total cost of \$2,563,162. (EXH 141, BSP 2) As an exhibit to his rebuttal testimony, witness Flynn provided a signed contract, along with a Notice to Proceed indicating that substantial completion of the project would be achieved by September 1, 2021, and final payment would be due by October 1, 2021. (EXH 117) Witness Flynn testified

that the Wekiva WWTP Headworks project was estimated to be fully completed in November 2021. (TR 775)

In response to discovery, the Utility provided invoices related to the construction and engineering services totaling \$2,768,827. (EXH 153, BSP 177-178; EXH 160, BSP 268) Witness Flynn also projected a cost of \$16,126 for cap time related to PCF-23. (EXH 140) Regarding the concerns raised by witness Radigan, additional support for PCF-23, including a contract and scheduling documents, was provided in witness Flynn's rebuttal testimony and in response to discovery. In its post-hearing brief, OPC identified PCF-23 as an in-kind penalty project and argued that the fine embedded in capital costs should be disallowed. (OPC BR 9-10) However, staff believes it is appropriate to recover the cost of this project through rates as discussed above for PCF-15. Based on the documentation provided by UIF, as well as witness testimony, staff recommends that \$2,784,953 (\$2,768,827 + \$16,126) is reasonable for the project. The Utility recorded a cost of \$3,100,024 for PCF-23 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-23 by \$315,071.

### **PCF-24 Sanlando Well Panel Replacements**

In its filing, UIF requested cost recovery to replace control panels, electric meter bases, and associated electrical equipment at five of Sanlando's water supply wells. The existing well panels were original panels that were installed in the 1970s and had reached the end of their service life. Furthermore, the existing panels were not compliant with the National Electric Code and the procurement of replacement parts had become difficult. (EXH 25)

In UIF witness Flynn's direct testimony, the requested amount for PCF-24 was \$74,500. (TR 186) In his rebuttal testimony, UIF witness Flynn updated the project cost to \$78,537, which included IDC and projected cap time. (TR 775) OPC witness Radigan did not address the Sanlando Well Panel Replacements project or the costs in his testimony. The Utility obtained one bid for this project at a cost of \$74,500 as the cost was below UIF's \$75,000 threshold for obtaining multiple bids. (EXH 141, BSP 2; EXH 142, BSP 14) As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. (EXH 154, BSP 200)

In response to discovery, the Utility provided invoices for the well panel replacements totaling \$74,500. (EXH 160, BSP 268) Witness Flynn testified that the Sanlando Well Panel Replacements project was estimated to be completed in December 2020, and projected a cost of \$2,312 for cap time related to PCF-24. (TR 775; EXH 140) Based on the documentation provided by UIF, as well as witness testimony, staff recommends that \$76,812 (\$74,500 + \$2,312) is reasonable for the project. The Utility recorded a cost of \$76,796 for PCF-24 in its MFRs; therefore, staff recommends an adjustment should be made to increase the cost of PCF-24 by \$16.

### **PCF-25 Sanlando FM and WM Replacement**

UIF requested cost recovery to replace 5,000 linear feet of asbestos-cement (AC) wastewater FM and 5,000 linear feet of AC WM with PVC mains. The existing wastewater FM was constructed in 1973 and is the only means of conveying flows from two areas of the Sanlando collection system to the Wekiva WWTP. The existing WM in the Sanlando water distribution system was similar in age to the FM and also follows a similar route. The WM had incurred several breaks

Date: April 8, 2021

over the past two years and had been identified for a high risk of failure in the Utility's Asset Management Program. (EXH 26)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$3,762,250. (TR 186-187) In his rebuttal testimony, UIF witness Flynn updated the project cost to \$3,860,720, which included IDC and projected cap time. (TR 775-776) OPC witness Radigan did not address the Sanlando FM and WM Replacement project or the costs in his testimony. Bids were obtained from three contractors for the replacement of the WM and FM, and the contractor with the lowest combined bid was selected at a cost of \$3,575,250. Additionally, the Utility provided two bids from Kimley-Horn for a combined total of \$116,150 related to the design and permitting for the main replacements, as well as bidding and construction services. (EXH 141, BSP 2) As an exhibit to his testimony, witness Flynn provided an agreement for the project, along with a Notice to Proceed indicating that the project would be substantially completed by May 23, 2021, and final payment would be due by June 22, 2021. (EXH 119)

In response to discovery, UIF provided invoices supporting a project cost of \$3,691,400. (EXH 160, BSP 268; EXH 153, BSP 177-178) Witness Flynn testified that the Sanlando FM and WM Replacement project was estimated to be completed in May 2021, and projected a cost of \$27,565 for cap time related to PCF-25. (TR 775; EXH 140) Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$3,718,965 (\$3,691,400 + \$27,565) is reasonable for the project. UIF recorded a cost of \$3,926,417 for PCF-25 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-25 by \$207,452.

### **PCF-26 Sanlando Engineering F5/C1/L2 FM Replacements**

UIF requested cost recovery to replace three FMs in the Sanlando system that had reached the end of their service life. The costs requested for the project related to the engineering, permitting, bidding, and inspection services; however, construction costs for the FM replacements were not included in PCF-26. The three FM segments to be replaced were constructed in the 1970s and 1980s and had been identified by the Utility as having a high probability for failure. (EXH 27) Witness Flynn testified that the Utility had intended to include the construction costs in this proceeding; however, it would have resulted in the Utility delaying its filing. Nonetheless, witness Flynn stated that "the engineering services covered in this project are a prerequisite to the construction of the replacement FMs and the FM failure history indicates clearly that replacing the FMs is an immediate need." (TR 783-784)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$194,500. (TR 187) In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$202,966, which included IDC and cap time. (TR 776) OPC witness Radigan testified that there were no plant additions associated with PCF-26, pointing out that UIF indicated that construction of the new FMs would be captured under a separate project. Therefore, witness Radigan testified that this project was CWIP and should not be considered plant-in-service. (TR 447-448) Furthermore, OPC witness Radigan stated that once the project was complete, "the expenditures to date will be added to the construction costs and the project could then be eligible for inclusion in the calculation of revenue requirement at some future time." (TR 448)

Three bids for engineering services were obtained from Kimley-Horn, one for each FM segment with all three totaling \$185,500. The work outlined in the bids included FM route analysis, design, and permitting, as well as construction related services such as bid preparation and inspections for the FM replacements. (EXH 141, BSP 2) The Utility stated that multiple bids were not obtained because “engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems.” (EXH 148, BSP 115) Additionally, the Utility indicated that a separate bid was obtained for each of the three FMs to allow UIF to compare the engineering costs against the actual construction bids, which will be solicited individually for each FM. (EXH 148, BSP 119)

In response to discovery, UIF provided invoices for the project totaling \$185,500. (EXH 160, BSP 268; EXH 153, BSP 177-178) The Utility stated that the Sanlando Engineering F5/C1/L2 FM Replacements project was estimated to be completed in December 2020, and witness Flynn projected a cost of \$407 for cap time related to PCF-26. (EXH 168, BSP 313; EXH 140) Based on the documentation provided by UIF, as well witness testimony, staff recommends that \$185,907 (\$185,500 + \$407) is reasonable for the project. UIF recorded a cost of \$202,637 for PCF-26 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-26 by \$16,730.

#### **PCF-27 Sanlando I&I Corrections, Phase 4**

UIF requested cost recovery for cleaning and video inspection of 94,000 linear feet of its Sanlando gravity wastewater main and manholes to locate and evaluate pipe deficiencies, as well as remediation of any identified deficiencies. The deficiencies would be addressed through a combination of cured-in-place pipe (CIPP) lining and excavation and replacement. A large portion of Sanlando’s collection system was constructed in the 1970s and is a combination of vitrified clay pipe and PVC. For several months in 2019, the Wekiva WWTP was treating wastewater flows over its rated capacity, resulting in the need to investigate where the excess inflow and infiltration was occurring. (EXH 28)

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$1,996,092. (TR 187) In UIF witness Flynn’s rebuttal testimony, he provided an updated project cost of \$2,328,0234, which included IDC and cap time. (TR 776) OPC witness Radigan did not dispute the Sanlando I&I Corrections, Phase 4 project or the costs in his testimony. Bids were obtained from three contractors for the excavation and replacement of the manholes and a gravity main, and the contractor with the lowest bid of \$2,391,373 was selected. Three bids were also obtained for the video inspection and CIPP linings, and the contractor with the lowest bid of \$734,681 was selected. (EXH 141, BSP 2) As an exhibit to his rebuttal testimony, witness Flynn provided signed agreements with the two contractors totaling \$1,921,685. The witness also included Notice to Proceed forms that indicated that the final completion date for the excavation and replacement work was January 26, 2021, and April 20, 2021, for the video inspection and CIPP lining work. (EXH 121)

In response to discovery, the Utility provided invoices and support for the two portions of the project totaling \$2,068,761. (EXH 160, BSP 268; EXH 153, BSP 177-178) This total included change orders for additional work that was required for the project, including raising a manhole,

a pipe repair, and pipe cleanouts. UIF also included an invoice for an emergency sewer repair at a cost of \$62,914. The Utility stated that the repair was due to a collapsed sewer pipe in January 2020, and was “the initiation of the proforma project’s investigative efforts that ultimately identified numerous additional pipe and manhole deficiencies in Sanlando’s collection system that were aggregated into the scope of the Sanlando I&I Corrections Phase project.” (EXH 154, BSP 186) Witness Flynn testified that the Sanlando I&I Corrections project was estimated to be completed in March 2021, and projected a cost of \$30,000 for cap time related to PCF-27. (TR 776; EXH 140) Based on the documentation provided by UIF, as well as witness testimony, staff recommends that \$2,161,675 (\$2,068,761+ \$62,914 + \$30,000) is reasonable for the project. The Utility recorded a cost of \$2,062,398 for PCF-27 in its MFRs; therefore, staff recommends an adjustment should be made to increase the cost of PCF-27 by \$99,277.

### **PCF-28 Sanlando E.E. Williamson Utility Relocations**

UIF requested cost recovery to relocate a water and wastewater main within the E.E. Williamson Road right of way, which conflicted with a road improvement project being completed by Seminole County. (EXH 29) In UIF witness Flynn’s direct testimony, the requested amount for this project was \$444,026. (TR 187) In UIF witness Flynn’s rebuttal testimony, he provided an updated project cost of \$462,535, which included IDC and cap time. (TR 777) OPC witness Radigan testified that additional documentation was needed for the Sanlando E.E. Williamson Utility Relocations project, and he could not recommend the costs be included in rate base at this time. (TR 447) In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project as final contracts and invoices had not been provided by the Utility. (EXH 175, BSP 351-352)

Bids were obtained from three contractors for relocation of the water and wastewater mains, and the contractor with the lowest bid of \$423,351 was selected. (EXH 141, BSP 2) As an exhibit to his rebuttal testimony, witness Flynn provided a signed agreement with the contractor for a total project cost of \$423,351. A signed proposal was also provided for engineering services totaling \$20,675. The engineering services were comprised of preparing plans and drawings, and post design services related to the project. (EXH 141, BSP 2)

Witness Flynn projected a cost of \$6,660 for cap time related to PCF-28, and he testified that the Sanlando E.E. Williamson Utility Relocations project was an open project and was estimated to be completed by December 2021. (TR 776; EXH 140) However, UIF witness Flynn stated that the start of the project was dependent on Seminole County’s schedule, which “currently identifies the county’s intent to let their contractor proceed in the fourth quarter of 2021.” (TR 776) Due to the fact that construction has not yet begun for PCF-28, invoices were not available for verification; however, it appears the project will be completed within the required 24 months following the test year. Regarding the concerns raised by witness Radigan, additional support for PCF-28, including a contract and scheduling information, was provided in witness Flynn’s rebuttal testimony and in response to discovery. Based on the documentation provided by UIF, as well as witness testimony, staff recommends that \$450,686 (\$423,351 + \$20,675 + \$6,660) is reasonable for the project. The Utility recorded a cost of \$462,856 for PCF-28 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-28 by \$12,170.

### **PCF-29 Sanlando Lift Station Mechanical Rehabilitation**

UIF requested cost recovery to remove and replace various parts, valves, and fittings at several of its Sanlando lift stations. The project also included costs for the replacement of control panels at 12 lift stations. The lift stations being rehabilitated were constructed 40 years ago, and the Utility had identified deficiencies with the control panels as part of its Asset Management Plan. (EXH 30)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$540,000. (TR 187) In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$543,277, which included IDC and cap time. (TR 777) OPC witness Radigan testified that additional documentation was needed for the Sanlando Lift Station Mechanical Rehabilitation project, and he could not recommend the costs be included in rate base at this time. (TR 447) In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project as final contracts and invoices had not been provided by UIF. (EXH 175, BSP 351-352) Upon cross examination, however, witness Radigan agreed that sufficient information was provided to support project PCF-29. (TR 469; UIF BR 5)

Bids were obtained from three contractors for rehabilitation of the lift stations, and the contractor with the lowest bid of \$432,850 was selected. (EXH 141, BSP 2) As an exhibit to his rebuttal testimony, witness Flynn provided a signed agreement with the contractor for a total project cost of \$465,950, along with a Notice to Proceed form indicating a final completion date of March 2, 2021. (EXH 123; EXH 168, BSP 314) The Utility stated that "the project scope was expanded to include installation of a control panel and conduits at LS H-05 at \$25,925 and to replace some discharge piping and valves at LS C-02 at \$3,290." (EXH 168, BSP 314)

In response to discovery, UIF provided invoices for the project totaling \$508,764. This total included change orders for additional parts and labor, included a new plug valve and piping on two of the lift stations. Furthermore, the Utility included two invoices totaling \$13,394 for the replacement of a main disconnect to a lift station and an emergency replacement of a breaker. (EXH 153, BSP 177-178; EXH 160, BSP 268) Witness Flynn testified that the Sanlando Lift Station Mechanical Rehabilitation project was estimated to be completed by December 2020, and projected a cost of \$6,856 for cap time related to PCF-29. (TR 777; EXH 140) Regarding the concerns raised by witness Radigan, additional support for PCF-29, including an agreement and scheduling documents, was provided in witness Flynn's rebuttal testimony and in response to discovery. Based on the documentation provided by UIF, as well as witness testimony, staff recommends that \$529,015 (\$508,764 + \$13,394 + \$6,856) is reasonable for the project. The Utility recorded a cost of \$560,469 for PCF-29 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-29 by \$31,455.

### **PCF-30 Sanlando FM Modeling and Development of CIP**

UIF requested cost recovery for two separate engineering tasks related to its Sanlando FM network. The first was a five-year capital plan for infrastructure renewal, which involved prioritization of improvements over a five-year period. This portion of the project identified 98,800 linear feet of FM, located largely in the Sanlando service area, as high priority. The second portion of the project involved the modeling of Sanlando FMs. Due to the size and

complexity of the Sanlando system, FM modeling was needed to identify the most efficient route for replacing FM segments and to potentially improve pumping efficiencies. (EXH 31)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$83,500. (TR 188) In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$94,161, which included IDC and cap time. (TR 777). OPC witness Radigan testified that there were no plant addition costs associated with the Sanlando FM Modeling and Development of CIP project. Instead, this project was CWIP and should not be considered plant-in-service. (TR 447-448) Furthermore, witness Radigan stated that once the project was complete, "the expenditures to date will be added to the construction costs and the project could then be eligible for inclusion in the calculation of revenue requirement at some future time." (TR 448)

Two bids were obtained from Kimley-Horn, one for the five-year capital plan at a cost of \$46,500 and one for the FM modeling at a cost of \$37,000. (EXH 141, BSP 2) Staff requested why bids from other contractors were not obtained, and the Utility stated that the costs for each task were below the \$75,000 threshold requiring multiple bids. (EXH 148, BSP 115) As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. (EXH 154, BSP 200) Additionally, UIF stated that for engineering related services, projects may be sole sourced to engineering firms that are familiar with the Utility's systems, facilities, and processes. (EXH 148, BSP 115)

In response to discovery, the Utility provided invoices and documentation for the project totaling \$83,500. (EXH 160, BSP 268) As an exhibit to his rebuttal testimony, witness Flynn also provided a proposal for pressure gauges totaling \$14,780. The pressure gauges were needed to complete the FM modeling, which required lift station drawdowns to be performed with pressure readings of the FM. (EXH 124) Witness Flynn testified that the Sanlando FM Modeling and Development of CIP project was completed in June 2020, and included a cost of \$5,466 for cap time related to PCF-30. (TR 777; EXH 140) Regarding the concerns raised by witness Radigan, plant additions were made for this project totaling \$14,780 for the pressure gauges. Based on the documentation provided by UIF as well as witness testimony, staff recommends that \$103,746 (\$83,500 + \$14,780 + \$5,466), is reasonable for the project. The Utility recorded a cost of \$93,492 for PCF-30 in its MFRs; therefore, staff recommends an adjustment should be made to increase the cost of PCF-30 by \$10,254.

### **PCF-31 Sanlando GST Remediation**

UIF requested cost recovery for the remediation of three ground water storage tanks at its Wekiva WTP and one ground water storage tank at its Des Pinar WTP. As required by the DEP, the GSTs were inspected and several deficiencies were identified, including interior coating failures and corrosion of the interior ladders. The costs requested for PCF-31 were for sandblasting, epoxy, and painting of the interior of three tanks: two at the Wekiva WTP and the one at the Des Pinar WTP. The costs also included replacement of existing steel ladders with new fiberglass ladders in two of the Wekiva WTP tanks and the one Des Pinar WTP tank. (EXH 32)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$181,000. (TR 188) In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$194,003, which included IDC and cap time. (TR 777) OPC witness Radigan testified that

additional documentation was needed for the Sanlando GST Remediation project, and he could not recommend the costs be included in rate base at this time. (TR 447) In response to discovery, OPC indicated that witness Radigan was unable to verify the construction timing and cost of the project, as final contracts and invoices had not been provided by the Utility. (EXH 175, BSP 351-352) Bids were obtained from two contractors for remediation of the storage tanks, and the contractor with the lowest bid of \$148,983 was selected. (EXH 141, BSP 2) As an exhibit to his rebuttal testimony, witness Flynn provided signed proposals with the contractor for a total project cost of \$180,319. Included in this total was an additional proposal for the repair of a GST tank wall at the Wekiva WTP totaling \$34,400. (EXH 125)

Witness Flynn projected a cost of \$4,259 for cap time related to PCF-31, and testified that the contractor had begun work in April 2020. However, at the direction of UIF, the project was postponed until late autumn or winter due to the annual increase in water demand that occurred in the spring. (TR 777; EXH 154, BSP 197) Delaying the project would allow for the tanks to be removed from service in sequence and would not reduce the system's storage capacity or negatively impact the delivery of service. (TR 777) The Utility stated that it had "elected to postpone further work until January 2021 reflecting the time of year when water demand is at its lowest." (EXH 154, BSP 197) In response to discovery, UIF provided an invoice totaling \$77,496 for the tank work that was completed before the project was delayed. (EXH 160, BSP 268) Regarding the concerns raised by witness Radigan, additional support for PCF-31, including signed proposals and scheduling information, was provided in witness Flynn's rebuttal testimony and in response to discovery. Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$184,578 (\$180,319 + \$4,259) is reasonable for the project. UIF recorded a cost of \$188,923 for PCF-31 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-31 by \$4,345.

### **PCF-32 UIF – Tierra Verde I&I Remediation**

UIF requested cost recovery to video inspect 64,300 linear feet of GSMs and 253 manholes, and remove accumulated solids throughout the collection system due to severe tuberculation. This project also included the cleaning and lining of portions of the collection system to prevent future tuberculation. (EXH 33)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$165,000. (TR 188) In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$219,560, inclusive of IDC and cap time. (TR 777-778) The project scope was expanded because the initial contractor, RedZone Robotics, did not have sufficient equipment to inspect the entire system, and an additional contractor was required to clean and inspect those portions. (EXH 126) OPC witness Radigan did not address the Tierra Verde I&I Remediation project or the costs in his testimony.

UIF provided one bid for inspection services totaling \$85,300, and one bid for cleaning and lining services totaling \$74,276. (EXH 141, BSP 2; EXH 126) UIF stated multiple bids were not obtained for the inspection services because of the competitive unit price offered, and the contractor's ability to inspect the majority of the collection system at once. (EXH 154, BSP 191) UIF only obtained one bid for the cleaning and lining portion of the project since it was less than UIF's \$75,000 threshold for obtaining multiple bids. (EXH 154, BSP 191) As referenced in

project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. (EXH 154, BSP 200) In response to discovery, UIF provided invoices for the cleaning and lining portion of the project, including invoices from the additionally required contractor, totaling \$102,562, and invoices for the inspection services totaling \$76,391. (EXH 141, BSP 2; EXH 160, BSP 268; EXH 126)

Witness Flynn testified that the project will be completed in December 2020, and projected a cap time cost of \$13,512. (TR 777-778; EXH 140) Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that the cost of cleaning and lining the system, totaling \$116,074 (\$102,562 + \$13,512), is reasonable and should be capitalized. UIF recorded a cost of \$172,192 for PCF-32 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-32 by \$56,118. The cost for inspecting the system, totaling \$76,391, which did not result in capital improvements, is a non-recurring expense. As such, staff recommends the cost should be deferred and amortized over five years.

### **PCF-33 UIF – Tierra Verde FM and GSM Replacement**

UIF requested cost recovery to relocate the Tierra Verde FM and GSM. This involves the replacement of 1,500 linear feet of 10 inch FM between lift station 4 and a receiving manhole, lining 400 linear feet of GSM, and installing two manholes. Part of the FM had failed in 2017 and was replaced. Following this event, a contractor attempted to video inspect and analyze the condition of the FM. However, heavy sedimentation in the bottom of the pipe made inspection impossible, and it was ultimately determined the entire FM needed replacement. In addition, the location of the FM and GSM, as well as the lift station being replaced in project PCF-34, conflicted with a traffic circle being installed by the DOT. For this reason, it was necessary to relocate the FM and GSM in advance of the DOT's traffic circle project to avoid incurring penalties for delaying the DOT's project. (EXH 34)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$551,000. (TR 188) In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$593,368, which included IDC and cap time. (TR 778) OPC witness Radigan testified that additional documentation was needed for the project, and he could not recommend the costs be included in rate base at this time. (TR 447) Furthermore, OPC witness Radigan stated that once the project was complete, "the expenditures to date will be added to the construction costs and the project could then be eligible for inclusion in the calculation of revenue requirement at some future time." (TR 448)

UIF provided bids from McKenzie Contracting (McKenzie) for the construction work, totaling \$501,294, and one bid for the engineering services of Kimley-Horn, totaling \$24,042. (EXH 141, BSP 2) Witness Flynn stated UIF solicited the service of seven qualified contractors to complete the construction work. However, only one bid was submitted and was awarded to McKenzie. UIF also stated that additional bids were not solicited due to time constraints resulting from the necessity to complete the work in advance of the DOT project. (EXH 142, BSP 14) UIF stated that multiple bids were not obtained for the engineering services because "engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems." (EXH 148, BSP 115) As an exhibit to his rebuttal testimony, witness Flynn provided signed

agreements for both the construction and engineering work, totaling \$475,267. (EXH 127) In response to discovery, UIF provided a change order in the amount of \$50,069 for additional services performed by McKenzie, due to a concrete slab found under the roadway obstructing access to the FM. (EXH 160, BSP 268; EXH 127)

In witness Flynn's rebuttal testimony, he stated that the project is nearly complete, with one manhole ring and cover requiring adjustment in coordination with the DOT. (TR 778) In addition, witness Flynn projected a cap time cost of \$8,450, and a plant-in-service date of February 2021. (EXH 140) Regarding the concerns raised by witness Radigan, additional support for PCF-33, including an agreement and scheduling documents, was provided in witness Flynn's rebuttal testimony and in response to discovery. Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$533,786 (\$475,267 + \$50,069 + \$8,450) is reasonable for the project. UIF recorded a cost of \$609,491 for PCF-33 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-33 by \$75,705.

#### **PCF-34 UIF – Tierra Verde Lift Station 4 Replacement**

UIF requested cost recovery to relocate the Tierra Verde Lift Station 4, in addition to the required engineering services to design, permit, and oversee the construction of the lift station. The construction contractor will construct a new lift station on Madonna Blvd. and convert the wet well from the prior lift station to a manhole. The existing wet well is undersized, and the lift station is at the end of its service life after being in service over 50 years. In addition, the location of the lift station, as well as the FM and GSM being replaced in project PCF-33, conflict with a traffic circle being installed by the DOT. The new lift station will be moved to a location that avoids conflicts with underground utilities and offers adequate room away from the edge of asphalt when performing maintenance on the facility. Similar to PCF-33, this project is being coordinated with the DOT to avoid scheduling conflicts. (EXH 35)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$80,542 for engineering services, and \$828,440 for construction. (TR 188) In UIF witness Flynn's rebuttal testimony, he provided an updated construction cost of \$871,501, which included IDC and cap time. (TR 778) OPC witness Radigan did not address the Tierra Verde Lift Station 4 Replacement project or the costs in his testimony.

UIF provided bids from two contractors for the construction services, and the contractor with the lower bid of \$828,440 was selected. (EXH 141, BSP 2) UIF also provided bids from Kimley-Horn for the engineering services, totaling \$85,300. (EXH 141, BSP 2) UIF stated that multiple bids were not obtained for the engineering services because "engineering services are often sole sourced to engineering firms that are very familiar with the facilities, equipment, processes, and UIF policies and procedures regarding specific water and wastewater systems." (EXH 148, BSP 115) In response to discovery, witness Flynn provided signed agreements for both the construction and engineering work, totaling \$913,740. (EXH 141, BSP 2)

Witness Flynn stated that during the construction of project PCF-33, a conduit collapsed that supplied power to lift station 4. As a result, new conduit and conductors were routed on an expedited basis to resupply power to the lift station. Provisions were made to construct and place the new conduit and conductors in alignment with the construction plans for the new lift station.

For this reason, the associated costs, totaling \$10,650, were included in project PCF-34. (EXH 154, BSP 199; EXH 160, BSP 268)

Witness Flynn testified that construction of the new lift station will begin in April 2021, once the DOT has restored Madonna Blvd.'s right-of-way, and will be completed in September 2021. (TR 778) In addition, witness Flynn provided a projected cap time cost of \$12,527 for the project. (EXH 140) Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$936,917 (\$913,740 + \$10,650 + \$12,527) is reasonable for the project. UIF recorded a cost of \$854,450 for PCF-34 in its MFRs; therefore, staff recommends an adjustment should be made to increase the cost of PCF-34 by \$82,467.

### **PCF-35 UIF – Buena Vista Well Improvements**

UIF requested cost recovery for well improvements at its Buena Vista WTP, which included replacing the well pump assembly at Well 2, cleaning and inspecting the well casing, replacing the hydropneumatic tank and piping at Well 3, and making minor improvements to the well house. The Well 2 pump had been in service for over 30 years and was found to be operating below its design output. The hydropneumatic tank at Well 3 was inspected and found to need internal sandblasting and coating. However, according to witness Flynn's Exhibit PCF-35, due to the tank's installation date of 1996 and considering it was not an American Society of Mechanical Engineers code tank, the existing tank would instead be replaced. The new replacement hydropneumatic tank would be up to code and would negate the need for sandblasting and coating. (EXH 36)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$95,000. (TR 188-189) In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$80,233, which included IDC and cap time. (TR 778-779) OPC witness Radigan did not address the Buena Vista Well Improvements project or the costs in his testimony. The Utility provided one bid for the hydropneumatic tank and piping at Well 3 totaling \$49,973 and an invoice for the improvements at Well 2 totaling \$20,595. (EXH 141, BSP 2) UIF stated that the costs for the work performed by the two contractors was below the \$75,000 threshold, so additional bids were not obtained. As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. (EXH 154, BSP 200) In addition, both contractors had been utilized previously and the Utility had been satisfied with the quality of the work performed and the costs for PCF-35 were in line with similar projects. (EXH 148, BSP 121)

As an exhibit to his rebuttal testimony, witness Flynn provided invoices for the work related to the two wells totaling \$37,340. (EXH 129) In response to discovery, UIF provided an invoice for the Well 3 hydropneumatic tank and piping totaling \$59,847. This total also included a change order of \$9,874 for installation of piping, new check valve, concrete pedestal replacements, and plant site maintenance. (EXH 160, BSP 268) Witness Flynn testified that the Buena Vista Well Improvements project was estimated to be completed by December 2020, and projected a cost of \$475 for cap time related to PCF-35. (TR 778; EXH 140) Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$97,662 (\$37,340 + \$59,847 + \$475) is reasonable for the project. UIF recorded a cost of \$98,145 for PCF-35 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-35 by \$483.

### **PCF-36 UIF – Orangewood Well 1 Improvements**

Similar to PCF-35, UIF requested cost recovery for well improvements at its Orangewood WTP, specifically for the replacement of the well pump assembly, well head, and discharge piping, as well as the replacement of the hydropneumatic tank and emergency generator. The Well 1 pump had been in service for over 30 years and was found to be operating below its design output. The hydropneumatic tank was inspected and found to need internal sandblasting and coating. During the sandblasting process, a hole appeared in the tank wall, requiring the replacement of the entire tank. The existing emergency generator was installed in 1989 and was at the end of its useful life. Additionally, the existing generator operated on propane gas, which presented delivery challenges during storm events. (EXH 37)

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$165,000. (TR 189) In UIF witness Flynn’s rebuttal testimony, he provided an updated project cost of \$184,672, which included IDC and cap time. (TR 779) OPC witness Radigan did not address the Orangewood Well 1 Improvements project or the costs in his testimony. The Utility obtained bids from two contractors for the well improvements, and the contractor with the lowest bid of \$32,408 was selected. Two bids at a cost of \$67,315 and \$65,717 were obtained for the hydropneumatic tank replacement, and the contractor that would be completing the well improvements was selected for the tank replacement at a cost of \$67,315. UIF also provided two bids for the new generator, and the contractor with the lowest bid of \$42,848 was selected. (EXH 141, BSP 2)

In response to discovery, the Utility provided invoices for the well, hydropneumatic tank, and generator totaling \$156,298. UIF also provided invoices for engineering services at a cost of \$9,000 related to the installation of the hydropneumatic tank. (EXH 160, BSP 268; EXH 148, BSP 126) Witness Flynn testified that the Orangewood Well 1 Improvements project was completed in September 2020, and included a cost of \$2,477 for cap time. (TR 779; EXH 140) Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$167,775 (\$156,298 + \$9,000 + \$2,477) is reasonable for the project. UIF recorded a cost of \$170,453 for PCF-36 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-36 by \$2,678.

### **PCF-37 UIF – Seminole County SCADA Installation**

In its filing, UIF requested cost recovery to install remote telemetry units at 10 lift stations in the Weathersfield and Ravenna Park collection systems. The 10 lift stations were being monitored with the use of alarm systems; however, the Utility began implementing SCADA in other systems in 2016. With the use of SCADA, lift stations can be monitored remotely by operators, which can reduce the lag time between an alarm event and notification. It also provides technicians with the ability to pull reports for lift stations to prioritize work activities and the SCADA system can be used for tracking purposes, such as logging pump replacements or electrical issues. (EXH 38)

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$94,476. (TR 189) In UIF witness Flynn’s rebuttal testimony, he provided an updated project cost of \$96,664, which included IDC and cap time. (TR 779) OPC witness Radigan did not address the Seminole County SCADA Installation project or the costs in his testimony. UIF only obtained one bid for

this project, as the contractor being utilized for PCF-7 and PCF-20 was also selected for PCF-37. (EXH 141, BSP 2; EXH 142, BSP 14) The Utility stated that the selected contractor “offered consistent pricing for similar work as well as the ability to maintain safety and security protocols that are critically necessary when installing or modifying any cloud-based technology.” (EXH 148, BSP 115) Additionally, UIF indicated that the selected contractor offered equipment equal to the SCADA equipment that had been installed at other locations, thus simplifying repairs and maintenance, as well as equipment technical support. (EXH 159, BSP 246)

In response to discovery, the Utility provided invoices for the SCADA installation totaling \$93,876. (EXH 160, BSP 268) Witness Flynn testified that the Seminole County SCADA Installation project was completed in January 2020, and included a cost of \$100 for cap time. (TR 779; EXH 140) Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$93,976 (\$93,876 + \$100) is reasonable for the project. UIF recorded a cost of \$96,664 for PCF-37 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-37 by \$2,688.

### **PCF-38 Summertree Chlorine Dioxide Pilot Study**

UIF requested cost recovery for a chlorine dioxide pilot study for its Summertree system. The purpose of the pilot would be to determine the effectiveness of using chlorine dioxide as a post-treatment method for reducing the accumulation of nitrogen compounds in the Summertree water distribution system. Water is supplied to the Summertree system by Pasco County through a bulk water agreement. The Utility estimated that once the water enters the Summertree system, it is typically four days old and the chloramination that is used to treat the water results in a combined chlorine residual which varies and decreases over time. In order to maintain the required chlorine residual in the system, the Utility had implemented flushing procedures to reduce the age of the water. The use of chlorine dioxide as a secondary disinfectant could potentially stabilize the chlorine residual and greatly reduce the amount of flushing, thus resulting in lower O&M costs that would otherwise be passed on to customers. It would also eliminate the cost of a semi-annual chlorine burn, which requires notifying customers before and after the burn event occurs. (EXH 39)

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$52,000. (TR 189) In UIF witness Flynn’s rebuttal testimony, he provided an updated project cost of \$92,000, which also included the chemical feed equipment needed to carry out the pilot study. (TR 779) Witness Flynn’s projected costs related to IDC and cap time, bring the total project cost to \$98,036. (EXH 140) OPC witness Radigan did not address the Summertree Chlorine Dioxide Pilot Study project or the costs in his testimony. The engineering services for this project were sole sourced to Kimley-Horn at a cost of \$52,000. (EXH 141, BSP 2) For the chemical feed equipment, the Utility stated that Kimley-Horn solicited bids from various contractors and vendors, and only one contractor met all of the requirements of both the pilot study and the permanent installation of the equipment. (EXH 148, BSP 122)

In response to discovery, UIF provided invoices for the project totaling \$52,000 for engineering services and \$37,890 for the chemical equipment and a 90-day chemical supply. (EXH 153, BSP 177-178; EXH 160, BSP 268) Witness Flynn testified that the Summertree Chlorine Dioxide Pilot Study project was estimated to be completed in March or April 2021, and included a cost of

\$1,411 for cap time. (TR 779; EXH 140) Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$91,301 (\$52,000 + \$37,890 + \$1,411) is reasonable for the project. UIF recorded a cost of \$52,000 for PCF-38 in its MFRs as working capital; therefore, staff recommends an adjustment should be made to increase the cost of PCF-38 by \$39,301 and the amount should be included in plant-in-service.

### **PCF-39 Summertree I&I Investigation**

UIF requested cost recovery to clean, video inspect, and smoke test 9,400 linear feet of gravity wastewater mains and manholes in Pointe West, the oldest section of its Summertree system. A report of any deficiencies requiring repairs would be generated following the inspection. However, a separate capital project would be developed to address the deficiencies identified in the I&I investigation. (EXH 40)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$27,000. (TR 189) In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$378,227, which included \$28,620 for the initial cleaning and video inspection, as well as \$335,859 for capital improvements related to the I&I investigation. (TR 780) OPC witness Radigan testified that there were no plant addition costs associated with the Summertree I&I Investigation project. Instead, this project was CWIP and should not be considered plant-in-service. (TR 447-448) Furthermore, witness Radigan stated that once the project was complete, "the expenditures to date will be added to the construction costs and the project could then be eligible for inclusion in the calculation of revenue requirement at some future time." (TR 448)

Bids were obtained from three contractors for the cleaning and video inspection of the system, and the contractor with the lowest bid of \$28,620 was selected. (EXH 141, BSP 2) As an exhibit to his rebuttal testimony, witness Flynn provided a bid for \$320,859 to address the pipe deficiencies that had been identified during the I&I investigation. (EXH 133) The Utility stated it solicited bids from three contractors in total to address the pipe deficiencies; however, the selected contractor was the only one of the three that submitted a bid. (EXH 154, BSP 194)

Witness Flynn provided documentation related to the I&I investigation totaling \$28,620. (EXH 133) No additional documentation was provided to support the work to correct the deficiencies identified in the I&I investigation, aside from the single bid offered in witness Flynn's rebuttal testimony. For instance, UIF did not produce a signed contract or any documents supporting a completion date within the required 24 months for PCF-39. Witness Flynn testified that the Summertree I&I Investigation project was estimated to be completed in March 2021, and projected a cost of \$7,500 for cap time. (TR 780; EXH 140) Considering that witness Flynn's Exhibit PCF-39 indicated that any corrections related to the I&I investigation would be captured under a separate capital project, and that the Utility did not supply sufficient documentation to support the corrections, staff does not believe those costs should be included at this time. Regarding the concerns raised by witness Radigan, staff agrees that there were no plant addition costs associated with PCF-39. Based on the documentation provided by UIF, as well as witness testimony, staff recommends that \$28,620 is reasonable for the project. The Utility recorded a cost of \$27,481 for PCF-39 in its MFRs as working capital; therefore, staff recommends an adjustment should be made to increase the cost of PCF-39 by \$1,139. The appropriate working capital allowance will be discussed further in Issue 16.

### **PCF-40 UIF – Golden Hills Galvanized Pipe Replacement**

UIF requested cost recovery to remove and replace approximately 2,000 linear feet of WMs and two fire hydrants. The WMs had been in service for over 50 years and had become tuberculated and prone to leaks. The two original fire hydrants had begun to leak, and repair parts were no longer available due to their age. Additionally, 18 service lines and some isolation valves would also be replaced as part of this project. (EXH 41)

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$75,160. (TR 189-190) In UIF witness Flynn’s rebuttal testimony, he provided an updated project cost of \$80,004, which included IDC and cap time. (TR 780) OPC witness Radigan did not address the Golden Hills Galvanized Pipe Replacement project or the costs in his testimony. The Utility obtained multiple bids for the project from one contractor totaling \$75,160. (EXH 141, BSP 2) UIF stated that bids were not solicited from additional contractors as the selected contractor was familiar with the Golden Hills system, had produced very satisfactory results for similar work, and was available to schedule the work. Furthermore, the Utility had not expected the total construction cost to exceed the \$75,000 threshold for soliciting multiple bids. (EXH 148, BSP 115) As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. (EXH 154, BSP 200)

In response to discovery, UIF provided estimates and invoices for the project totaling \$75,160. (EXH 141, BSP 2; EXH 160, BSP 268; EXH 153, BSP 177-178) Witness Flynn testified that the Golden Hills Galvanized Pipe Replacement project was completed in December 2020, and included a cost of \$4,393 for cap time. (TR 780; EXH 140) Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$79,553 (\$75,160 + \$4,393) is reasonable for the project. UIF recorded a cost of \$77,743 for PCF-40 in its MFRs; therefore, staff recommends an adjustment should be made to increase the cost of PCF-40 by \$1,810.

### **PCF-41 UIF – Golden Hills Water Main Relocation**

In its filing, UIF requested cost recovery to replace 1,350 linear feet of a WM and one fire hydrant located in the Golden Hills service territory. The locations of the WM and fire hydrant were in conflict with a Marion County stormwater improvement project and required relocation. The facilities were located within the Marion County right-of-way and needed to be relocated under the terms and conditions of the existing right-of-way permit. (EXH 42)

In UIF witness Flynn’s direct testimony, the requested amount for this project was \$154,764. (TR 190) In UIF witness Flynn’s rebuttal testimony, he provided an updated project cost of \$170,810, which included IDC and cap time. (TR 780) OPC witness Radigan did not address the Golden Hills Water Main Relocation project or the costs in his testimony. In response to discovery, the Utility indicated that due to the time constraint imposed by Marion County, only one bid was solicited totaling \$141,913. UIF also stated that the “contractor’s unit prices were in line with similar recent project costs with a similar scope of work.” (EXH 142, BSP 15)

The Utility provided invoices for a total project cost of \$156,764. (EXH 160, BSP 268) This total also contained additional work that was completed and is related to PCF-41, including the costs for a main tap and road boring, as well as engineering services. Witness Flynn testified that the Golden Hills Water Main Relocation project was completed in January 2020, and included a cost

of \$12,918 for cap time. (EXH 140) Based on the documentation provided by the UIF, as well as witness testimony, staff recommends that \$169,682 (\$156,764 + \$12,918) is reasonable for the project. The Utility recorded a cost of \$170,810 for PCF-41 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-41 by \$1,128.

#### **PCF-42 UIF – Little Wekiva Generator**

UIF requested cost recovery for an emergency generator and automatic transfer switch at the Little Wekiva WTP. The Little Wekiva system is not interconnected with any other water supply source; therefore, the Utility had placed a portable generator at the WTP as an interim solution in the event of a power outage. However, the portable generator required personnel to manually start the generator on-site and then transfer the load. The new 40 kW generator has an automatic transfer switch and is adequately sized to start and run the treatment plant in the event of a power outage. The new generator also offers a diesel fuel tank capable of 72 hours of continuous run time under load, along with a weatherproof, sound-reducing enclosure. (EXH 43)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$94,437. (TR 190) In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$100,618, which included IDC and cap time. (TR 780-781) OPC witness Radigan did not address the Little Wekiva Generator project or the costs in his testimony. The Utility obtained bids from two contractors for the new generator, and the lowest bid of \$86,837 was selected. (EXH 141, BSP 2)

In response to discovery, UIF provided invoices for the generator totaling \$86,837. Additionally, invoices for engineering services related to the design and installation of the generator were provided at a cost of \$7,600. (EXH 160, BSP 268) Witness Flynn testified that the Little Wekiva Generator project was completed in June 2020, and included a cost of \$2,616 for cap time. (TR 780; EXH 140) Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$97,053 (\$86,837 + \$7,600 + \$2,616) is reasonable for the project. UIF recorded a cost of \$100,256 for PCF-42 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-42 by \$3,203.

#### **PCF-43 UIF – Park Ridge Generator**

Similar to PCF-42, UIF requested cost recovery for an emergency generator and automatic transfer switch at the Park Ridge WTP. As with Little Wekiva, the Park Ridge system is not interconnected with any other water supply source, and there was no existing permanent generator on-site to provide back-up power. The new generator has an automatic transfer switch and is adequately sized to start and run the treatment plant in the event of a power outage. The new 60 kW generator also has a diesel fuel tank capable of 72 hours of continuous run time under load, along with a weatherproof, sound reducing enclosure. (EXH 44)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$99,137. (TR 190) In UIF witness Flynn's rebuttal testimony, he provided an updated project cost of \$103,489, which included IDC and cap time. (TR 781) OPC witness Radigan did not address the Park Ridge Generator project or the costs in his testimony. Bids from two contractors at a cost of \$91,537 and \$79,615 were obtained for a 60 kW generator, and the Utility indicated that it had selected the same contractor that was selected for the Little Wekiva project, which provided the higher bid at a cost of \$91,537. (EXH 141, BSP 2; EXH 154, BSP 195)

In response to discovery, UIF provided invoices for the generator totaling \$91,537. Additionally, invoices for engineering services related to the design and installation of the generator were provided at a cost of \$7,600. (EXH 160, BSP 268) Witness Flynn testified that the Park Ridge Generator project was completed in June 2020, and included a cost of \$1,491 for cap time. (TR 781; EXH 140) Staff agrees with the engineering costs included for PCF-43 but does not believe that the Utility provided adequate justification for selecting the higher generator bid at a cost of \$91,537. Therefore, staff recommends the cost of the generator should be limited to the cost of the lower bid at \$79,615. Based on the documentation provided by the Utility, as well as witness testimony, staff recommends that \$88,706 (\$79,615 + \$7,600 + \$1,491) is reasonable for the project. UIF recorded a cost of \$104,292 for PCF-43 in its MFRs; therefore, staff recommends an adjustment should be made to decrease the cost of PCF-43 by \$15,586.

#### **PCF-44 Ravenna Park I&I Remediation**

UIF requested cost recovery for the video inspection of 11,600 linear feet of a gravity wastewater main and manholes in the Ravenna Park and Lincoln Heights systems. The project also incorporated the costs to remediate the identified pipe deficiencies by utilizing cured-in-place pipes, sectional liners, and open cut methods. Also included in this project were the costs for reinstating 87 service laterals, root removal, and restoring sections of the gravity main at several locations in the system. (EXH 45)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$651,568. (TR 190) In UIF witness Flynn's rebuttal testimony, he testified that the project budget was expanded to \$853,310 as additional failed pipes had been identified which required replacement. Therefore, the total project cost was updated to \$876,921, which included IDC and cap time. (TR 781) OPC witness Radigan did not address the Ravenna Park I&I Remediation project or the costs in his testimony. Bids were obtained from four contractors for the digging and repair of the mains, and the contractor with the lowest bid of \$409,137 was selected. Three bids were also solicited for the linings, and the contractor with the lowest bid of \$199,133 was selected. (EXH 141, BSP 2)

In response to discovery, the Utility provided invoices for the project totaling \$810,012. (EXH 160, BSP 268; EXH 153, BSP 177-178) This total included three change orders for multiple repairs, cleanouts, and pipe replacements totaling \$201,471. (EXH 153, BSP 178) Witness Flynn testified that the Ravenna Park I&I Remediation project was completed in December 2020, and included a cost of \$11,348 for cap time. (TR 781; EXH 140) Based on the documentation provided by UIF, as well as witness testimony, staff recommends that \$821,360 (\$810,012 + \$11,348) is reasonable for the project. The Utility recorded a cost of \$678,829 for PCF-44 in its MFRs; therefore, staff recommends an adjustment should be made to increase the cost of PCF-44 by \$142,531.

#### **PCF-45 Weathersfield Northwestern Bridge Crossing**

UIF requested cost recovery for the design, permitting, and bidding services related to replacement of a WM in coordination with a Seminole County's bridge replacement project. The project initially involved the design and permit for an interconnect assembly, construction of the interconnect assembly, and removal and temporarily capping of the WM on the Northwestern

Avenue bridge. Once the bridge replacement project was completed, a new WM would be installed across the bridge. (EXH 46)

In witness Flynn's rebuttal testimony, he testified that Seminole County had informed the Utility in November 2020 that demolition of the bridge would begin in January 2021. Therefore, UIF opted to construct a temporary aerial river crossing to maintain water service to its customers and would forego the interconnect with the City of Altamonte Springs. Witness Flynn testified that the DEP had issued a construction permit for the temporary bypass, and the contractor would mobilize at the beginning of January 2021 to construct the bypass. Once the new bridge was completed, the contractor would install a WM attached to the bridge and the temporary bypass would be removed. (TR 781)

In UIF witness Flynn's direct testimony, the requested amount for this project was \$22,000. (TR 191) In UIF witness Flynn's rebuttal testimony, he updated the project cost to include the costs for the engineering services, construction of the temporary bypass, and construction of the new WM totaling \$147,054, including cap time and IDC. (TR 781). OPC witness Radigan testified that there were no plant addition costs associated with the Weathersfield Northwestern Bridge Crossing project. Instead this project was CWIP and should not be considered plant-in-service. (TR 447-448) Furthermore, witness Radigan stated that once the project was complete, "the expenditures to date will be added to the construction costs and the project could then be eligible for inclusion in the calculation of revenue requirement at some future time." (TR 448)

The engineering services for this project were sole sourced to Kimley-Horn at a cost of \$7,065 for the initial temporary interconnection, and then \$6,000 for the temporary aerial river crossing main. (EXH 139) The Utility stated that it only solicited bids from Kimley-Horn for engineering services because of "their comprehensive knowledge and familiarity with the Utility's system, facilities, processes, and requirements and at a quoted amount commensurate with similar previous work product." (EXH 142, BSP 14) Additionally, the amount fell below the \$75,000 threshold that UIF utilizes for soliciting multiple bids. (EXH 148, BSP 115) As referenced in project PCF-1, the Utility stated this policy has been an accepted practice in previous UIF rate cases. (EXH 154, BSP 200)

A bid was also provided from a contractor at a cost of \$127,101 for the construction of the bridge bypass and reconnection of the WM once the bridge project was completed. (EXH 139) The Utility stated that the construction portion of the project was sole sourced to the contractor due to the time constraints imposed by Seminole County. The change in schedule had required UIF to change the project scope and design, as well as re-evaluate the timing of the project. This had required the Utility to promptly design a solution to meet the County's schedule, obtain a DEP construction permit, and prepare for the construction of the temporary bypass. (EXH 154, BSP 198)

In response to discovery, UIF provided invoices for the engineering services totaling \$12,005. (EXH 153, BSP 177-178; EXH 160, BSP 268) Witness Flynn identified that the Weathersfield Northwestern Bridge Crossing project would be completed in August 2021, and projected a cost of \$1,140 for cap time. (EXH 140) Regarding the concerns raised by witness Radigan, plant additions associated with PCF-45 were included in witness Flynn's rebuttal testimony, as well as documents supporting the plant additions and timing. Based on the documentation provided by

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the Utility, as well as witness testimony, staff recommends that \$140,246 (\$127,101 + \$12,005, + \$1,140) is reasonable for the project. UIF recorded a cost of \$22,000 for PCF-45 in its MFRs; therefore, staff recommends an adjustment should be made to increase the cost of PCF-45 by \$118,246.

### **Total Pro Forma Adjustments**

In total, pro forma plant additions should be decreased by \$150,054 for water and \$1,276,038 for wastewater. Corresponding adjustments should also be made to decrease accumulated depreciation and depreciation expense by \$1,861 for water and \$67,329 for wastewater. Additionally, property taxes should be decreased by \$2,328 for water and \$7,778 for wastewater.

### **CONCLUSION**

Pro forma plant additions should be decreased by \$150,054 for water and \$1,276,038 for wastewater. Corresponding adjustments should also be made to decrease accumulated depreciation and depreciation expense by \$1,861 for water and \$67,329 for wastewater. Additionally, property taxes should be decreased by \$2,328 for water and \$7,778 for wastewater. Adjustments to pro forma plant retirements should be made as set forth in Issue 4.

**Issue 4:** What are the appropriate plant retirements to be made in this docket?

**Recommendation:** Staff recommends plant retirements associated with pro forma additions in the amount of \$688,891 for water and \$8,247,148 for wastewater. As such, plant and accumulated depreciation should be decreased by \$9,090 for water and \$34,706 for wastewater, along with the following corresponding adjustments. Contributions in aid of construction (CIAC) and accumulated amortization of CIAC should be increased by \$23,857 for water and decreased by \$104,784 for wastewater. Depreciation expense should be increased by \$976 for water and \$1,657 for wastewater. CIAC amortization should be increased by \$1,111 for water and \$14,061 for wastewater. (Knoblauch, Doehling, Bennett)

**Position of the Parties**

**UIF:** Water - \$687,102; Wastewater - \$8,219,142

**OPC:** The appropriate plant retirements are tied to the capital additions that are ultimately authorized by the Commission. If the Commission accepts OPC's recommendation to exclude several of the Company's claimed plant additions, then retirements associated with those additions should be added back to rate-base.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**UIF**

UIF stated that adjustments for plant retirements should be made based on the approved amounts for pro forma projects which were discussed in Issue 3. (UIF BR 9)

**OPC**

OPC argued that pro forma projects PCF-14, PCF-17, PCF-18, PCF-23, PCF-28 and PCF-33 should be disallowed. (EXH 89) OPC also stated that the appropriate plant retirements should be tied to pro forma projects that are approved by the Commission in Issue 3. (OPC BR 10)

**ANALYSIS**

In its initial filing, UIF reflected pro forma retirements to plant and accumulated depreciation of \$679,801 for water and \$8,212,442 for wastewater. (EXH 48, P 12-14) The Utility also identified contributed plant included in the pro forma retirements and included adjustments to retire associated contributions in aid of construction (CIAC) in the amount of \$87,827 for water and \$753,220 for wastewater. (EXH 48, P 15; EXH 156, BSP 215)

For its pro forma plant retirements, UIF stated the Handy Whitman Index was utilized to determine the retirement percentages for the pro forma projects in this proceeding. The current project cost was multiplied by the retirement percentages to calculate the retirement amount. (EXH 158, BSP 239-240) OPC witness Crane did not dispute this method for determining the pro forma retirements in her testimony. Instead, OPC witness Crane testified that for each pro forma project that OPC witness Radigan identified for exclusion in his testimony, a retirement

was not needed. UIF witness Crane stated that for those identified projects, retirements should not be made “since those retirements would presumably not take place until and unless the associated plant addition is completed and placed into service.” (TR 266-267)

Taking into account the supporting documentation provided by the Utility and considering that OPC did not object to the methodology used, staff believes UIF’s utilization of the Handy Whitman Index to determine plant retirements is reasonable. Staff applied the retirement percentages from the Handy Whitman Index to the staff recommended pro forma project costs, as discussed in Issue 3, to determine the appropriate plant retirements. Table 4-1 summarizes staff’s adjustments to the pro forma plant retirements. In fact, if the original cost of retired plant is not known, but the year it is placed into service is known, the Handy Whitman Index has been approved by this Commission to determine the appropriate retirement percentage to apply to the cost of the replaced plant.<sup>20</sup>

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<sup>20</sup> Order Nos. PSC-04-0363-PAA-SU, p. 11, issued April 5, 2004, in Docket No. 020408-SU, *In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.*; PSC-00-1528-PAA-WU, p. 9, issue August 23, 2000, in Docket No. 991437-WU, *In re: Application for increase in water rates in Orange County by Wedgefield Utilities, Inc.*; PSC-2017-0209-PAA-WU, issued May 30, 2017, in Docket No. 20160065-WU, *In re: Application for increase in water rates in Charlotte County by Bocilla Utilities, Inc.*; and PSC-2016-0169-PAA-WU, issued April 28, 2016, in Docket No. 20150166-WU, *In re: Application for transfer of water system and Certificate No. 654-W in Lake County from Black Bear Reserve Water Corporation to Black Bear Waterworks, Inc.*

**Table 4-1  
 Pro Forma Plant Addition Retirements-Water**

<b>System</b>	<b>MFR – Pro Forma Plant Retirement</b>	<b>Staff – Pro Forma Plant Retirement</b>
PCF-2 Eagle Ridge - Wastewater	\$39,190	\$32,211
PCF-5 Eagle Ridge - Wastewater	\$247,401	\$211,230
PCF-10 LUSI - Water	\$27,307	\$24,714
PCF-12 LUSI - Wastewater	\$23,024	\$21,774
PCF-14 Mid-County - Wastewater	\$606,625	\$722,016
PCF-17 Mid-County - Wastewater	\$1,558,186	\$1,240,605
PCF-18 Mid-County - Wastewater	\$20,063	\$19,973
PCF-19 Pennbrooke - Wastewater	\$17,396	\$14,981
PCF-22 Sanlando - Water	\$21,781	\$21,948
PCF-22 Sanlando - Wastewater	\$2,876,520	\$3,052,611
PCF-23 Sanlando - Wastewater	\$1,406,998	\$1,416,631
PCF-24 Sanlando - Water	\$36,560	\$36,560
PCF-25 Sanlando - Water	\$354,033	\$382,828
PCF-25 Sanlando - Wastewater	\$691,829	\$685,241
PCF-28 Sanlando - Water	\$71,685	\$23,891
PCF-28 Sanlando - Wastewater	\$39,777	\$119,310
PCF-29 Sanlando - Wastewater	\$211,628	\$204,635
PCF-33 Tierra Verde - Wastewater	\$168,170	\$165,565
PCF-34 Tierra Verde - Wastewater	\$301,553	\$336,282
PCF-35 Buena Vista - Water	\$46,408	\$47,694
PCF-36 Orangewood - Water	\$63,394	\$66,955
PCF-40 Golden Hills - Water	\$16,142	\$16,176
PCF-41 Golden Hills - Water	\$33,309	\$33,739
PCF-45 Weathersfield - Water	\$4,735	\$29,939

Source: EXH 48, P 14; EXH 148, BSP 112

Based on staff's recommended pro forma plant retirements, CIAC retirements should be \$40,067 for water and \$858,004 for wastewater. To reflect staff's recommended retirements, plant and accumulated depreciation should be decreased by \$9,090 for water and \$34,706 for wastewater. CIAC and accumulated amortization of CIAC should be increased by \$23,857 for water and decreased by \$104,784 for wastewater.

Additionally, UIF's initial filing reflected corresponding adjustments to remove depreciation expense and CIAC amortization associated with its proposed pro forma retirements. The Utility decreased depreciation expense by \$19,921 for water and \$397,889 for wastewater. (EXH 48, P 54) It also decreased CIAC amortization by \$2,042 for water and \$42,818 for wastewater. (EXH 48, P 55) Using Rule 25-30.140, F.A.C., staff recalculated the corresponding adjustments to depreciation expense and CIAC amortization. Based on the recommended pro forma retirements discussed above, depreciation expense should be increased by \$976 for water and \$1,657 for wastewater. CIAC amortization should be increased by \$1,111 for water and \$14,061 for

wastewater. Although staff's recommended retirements result in further reductions to plant, accumulated depreciation, wastewater CIAC, and wastewater accumulated amortization of CIAC, the corresponding adjustments to depreciation expense and wastewater CIAC amortization are an increase due to errors in UIF's calculation of its proposed adjustments to these components, causing them to be overstated. (EXH 48, P 54; EXH 156, BSP 215)

### **CONCLUSION**

Staff recommends plant retirements associated with pro forma additions in the amount of \$688,891 for water and \$8,247,148 for wastewater. As such, plant and accumulated depreciation should be decreased by \$9,090 for water and \$34,706 for wastewater, along with the following corresponding adjustments. CIAC and accumulated amortization of CIAC should be increased by \$976 for water and \$1,657 for wastewater. CIAC amortization should be increased by \$1,111 for water and \$14,061 for wastewater.

Date: April 8, 2021

**Issue 5:** Do any water systems have excessive unaccounted for water and, if so, what systems and what adjustments are necessary, if any?

**Approved Type II Stipulation:** Yes, as follows: Lake Placid – 10.00%; LUSI (Four Lakes) – 1.90%; Golden Hills – 8.80%; Sanlando 2.10% and Little Wekiva 5.50%. Adjustments should be made to purchased power, chemicals and purchased water/wastewater as appropriate.

**Issue 6:** Do any wastewater systems have excessive infiltration and/or inflow and, if so, what systems and what adjustments are necessary, if any?

**Approved Type II Stipulation:** Yes, as follows: Summertree – 2.14%; Oranewood – 5.72% and Ravenna Park – 11.25%. Adjustments should be made to purchased power, chemicals and purchased water/wastewater as appropriate.

**Issue 7:** What are the appropriate used and useful percentages for the water treatment and related facilities of each water system?

**Approved Type II Stipulation:** All water treatment and related facilities are 100% used and useful.

**Issue 8:** What are the appropriate used and useful percentages for the water storage and related facilities of each water system?

**Approved Type II Stipulation:** All water storage and related facilities are 100% used and useful.

**Issue 9:** What are the appropriate used and useful percentages for the wastewater treatment and related facilities of each wastewater system?

**Recommendation:** The appropriate used and useful percentages for UIF’s wastewater systems are shown in the table below. To reflect the appropriate non-U&U percentages applied to all components of rate base, staff recommends a further decrease of \$284,620 to rate base, \$28,459 to depreciation expense, and \$9,743 to property tax expense. (Thompson, Kistner, Thurmond)

<b>System</b>	<b>Facilities</b>	<b>U&amp;U (Percent)</b>
Cypress Lakes	WWTP	100.00
Eagle Ridge	WWTP	100.00
Labrador	WWTP	100.00
Lake Placid	WWTP	29.79
LUSI Barrington	WWTP	100.00
LUSI Lake Groves	WWTP	65.00
Mid-County	WWTP	100.00
Pennbrooke	WWTP	100.00
Sandalhaven	EWD Capacity	42.24
Sandalhaven	Transmission	100.00
Sanlando	WWTP	100.00
UIF-Marion	WWTP	74.78

### **Position of the Parties**

**UIF:** All wastewater treatment and related facilities are 100% used and useful except as follows: LUSI - 70%, and Crownwood – 78.44%. In Sandalhaven, the used and useful percentage of purchased capacity should be 51.62%, the force main, master lift station structure, and the pumping equipment should be 100%.

**OPC:** The appropriate used and useful percentages for each wastewater system below 100% are as follows: Mid-County: 93.67%; Labrador: 79.94%; Lake Placid: 29.79%; LUSI: 65%; Marion-Golden Hills/Crownwood: 78.44%.

### **Staff Analysis:**

## **PARTIES’ ARGUMENTS**

### **UIF**

With respect to Mid-County, UIF argued that OPC witness Radigan assumed that 2019 being a wet year is an anomaly, but data shows that heavy rainfall is common. UIF contended that UIF witness Seidman demonstrated that witness Radigan did not understand the consideration of I&I when calculating U&U, and that witness Radigan appeared to be in agreement with witness Seidman’s calculations. UIF maintained that the Mid-County WWTP is clearly fully utilized and should be considered 100 percent U&U. (UIF BR 10)

Regarding Labrador, UIF argued that the developer of the parcel that prevented a built out determination in the last rate case has signed an agreement with UIF that establishes that the parcel will be built to its full potential within the next five years. (UIF BR 10-11) UIF affirmed that UIF witness Seidman rejected as unprecedented OPC witness Radigan's suggestion that the Commission should consider land outside of the certificated territory to determine U&U. UIF maintained that the plant is properly sized to serve the community and that the Labrador service area is built out. Therefore, UIF attested that the Labrador WWTP should be considered 100 percent U&U. (UIF BR 11)

As it relates to Lake Placid, UIF argued that the system is built out due to a portion of the service area, originally intended for future development, being designated as a protected scrub jay habitat after construction, permanently eliminating future customer growth in that area. UIF asserted that the Commission recognized that the system was built out in 1996 due to these environmental limitations. UIF contended that assigning the Lake Placid system the calculated WWTP U&U value severely hampers UIF's ability to earn on the improvements necessary to maintain the plant. Therefore, UIF maintained that the Lake Placid WWTP should be considered 100 percent U&U. (UIF BR 11)

With respect to LUSI Lake Groves, UIF contended that UIF witness Seidman addressed OPC witness Radigan's conclusion that the U&U for this system was overstated due to inclusion of future prepaid lots resulting in double counting. However, UIF asserted that following witness Radigan's criticisms, witness Seidman revised the U&U calculation for LUSI Lake Groves to account for the five percent per year growth limit for equivalent residential connections (ERCs) as required under Section 367.081(2)(a)2.b., F.S. With this revision, UIF contended that the LUSI Lake Groves WWTP should be considered 70 percent U&U. (UIF BR 11) UIF averred that all other WWTP are 100 percent U&U. (UIF BR 10)

### **OPC**

OPC noted that the parties agree on the U&U percentage for UIF-Marion, but disagree with respect to Mid-County, Labrador, Lake Placid, and LUSI Lake Groves. With regard to Mid-County, OPC acknowledged that using test year flows results in a U&U over 100 percent for Mid-County, but argues that the system's test year flows were unusually high. OPC asserted that UIF witness Seidman acknowledged that the test year was a very wet year, and that UIF also indicated that "this facility had regulatory violations in 2019 related to excess I&I" as justification for certain pro forma projects for Mid-County. OPC argued that Mid-County should not be rewarded with a higher U&U nor punished with a lower U&U because rainfall did or did not favor the system in a particular year. OPC opined that the Commission should evaluate average flows for Mid-County and use that data to calculate U&U, and that the WWTP U&U should remain at 93.67 percent, as set in the last rate case, until that is accomplished. (OPC BR 11)

With respect to Labrador, OPC argued that UIF lacks sufficient proof with regard to the timing of completion of the parcel that is now being developed that prevented a built out determination for Labrador in the last rate case. (OPC BR 11) Therefore, OPC asserted that UIF failed to support its claim, and that the WWTP U&U should remain at 79.94 percent as set in the previous rate case. (OPC BR 12)

Regarding Lake Placid, OPC noted that although UIF mentioned that the system was determined to be built out in 1996 by the Commission, UIF failed to mention that in the 2016 rate case, and the Commission agreed with OPC that the U&U for Lake Placid was 29.79 percent. OPC asserted that UIF made the same arguments about environmental regulation in that rate case, and that the Commission rejected this due to the argument not being any different from the one made previously.<sup>21</sup> OPC argued that UIF has not presented any evidence that is any different than what was provided in the 2016 rate case, and that the WWTP U&U for Lake Placid should remain at 29.79 percent as set in that case. (OPC BR 12)

Concerning LUSI Lake Groves, OPC noted that in the last rate case, the Commission revised the U&U calculation for the system to remove prepaid connections as capacity devoted to prepaid connections does not qualify as property used and useful in the public service under Section 367.081(2)(a)2.b., F.S. Since the system has growth, OPC asserted that the WWTP U&U for LUSI Lake Groves is 65 percent. (OPC BR 12)

### **ANALYSIS**

Rules 25-30.431 and 25-30.432, F.A.C., should be followed for evaluation of WWTP U&U. The rules set forth provisions for flow data and capacity to be used in the equation, and other factors for consideration such as I&I, growth, the extent to which the service area is built out, and decrease in flow due to conservation or reduction in customers.

#### **U&U for WWTP**

Table 9-1 is a summary of the WWTP U&U percentages proposed by UIF, OPC, and staff for UIF's wastewater systems. As shown, OPC did not dispute UIF's WWTP U&U values for Cypress Lakes, Eagle Ridge, Pennbrooke, Sandalhaven-Transmission, and Sanlando, as the Commission previously determined the WWTP U&U to be 100 percent for these systems, and there is no dispute regarding the flow data, capacity, and other factors for consideration pursuant to Rules 25-30.431 and 25-30.432, F.A.C., for these systems. Therefore, staff recommends that the WWTP U&U for these systems be considered 100 percent.

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<sup>21</sup>Order No. PSC-2017-0361-FOF-WS, pp. 93, 97.

**Table 9-1  
 UIF, OPC, and Staff Recommendations for WWTP U&U Percent Value**

<b>WWTP System</b>	<b>UIF</b>	<b>OPC</b>	<b>Staff</b>
Cypress Lakes	100.00	No Dispute	100.00
Eagle Ridge	100.00	No Dispute	100.00
Labrador	100.00	79.94	100.00
Lake Placid	100.00	29.79	29.79
LUSI Barrington	100.00	No Dispute	100.00
LUSI Lake Groves	70.00	65.00	65.00
Mid-County	100.00	93.67	100.00
Pennbrooke	100.00	No Dispute	100.00
Sandalhaven-EWD	51.62	No Dispute	42.24
Sandalhaven-Transmission	100.00	No Dispute	100.00
Sanlando	100.00	No Dispute	100.00
UIF-Marion	78.44	No Dispute	74.78

Source: EXH 59-60; TR 450-455; TR 758

Regarding the WWTP U&U of the three remaining systems that OPC does not dispute, LUSI Barrington, Sandalhaven-EWD, and UIF-Marion, staff recommends the following. For LUSI Barrington, U&U values have not previously been established as this system was acquired by UIF in 2019.<sup>22</sup> UIF is requesting that the WWTP U&U be considered 100 percent U&U for this system. (EXH 59-60) Staff has reviewed the documentation provided for this system, and as the LUSI Barrington WWTP is serving all of the lots in its service area, thus using the WWTP to its current full potential, staff recommends that this system is built out and recommends that the WWTP U&U be considered 100 percent U&U. (EXH 144)

With respect to Sandalhaven-EWD, UIF is requesting that the WWTP U&U be considered 51.62 percent for this system. (EXH 59-60) UIF calculated this value by imputing flows in addition to the 2019 test year flows in order to achieve flows experienced by the system in 2010. UIF explained that this was done because the Commission typically defaults to a U&U based on higher flows experienced in previous test years so as not to penalize a utility for providing capacity previously needed. (EXH 143) While it is true that the Commission does typically default to the previously approved U&U if the updated U&U calculation is lower, this is not done by inserting a previous test year's flow data in the calculation with the current test year's values, but by simply defaulting to the previously approved U&U. With that being said, staff reevaluated the WWTP U&U for Sandalhaven-EWD, removing the additional flows associated with the 2010 test year and only accounting for the 2019 test year flows. This resulted in a WWTP U&U of 36.97 percent. (EXH 144) As the WWTP U&U approved in the last rate case was 42.24 percent, staff recommends that the WWTP U&U for Sandalhaven-EWD be considered 42.24 percent as is Commission practice.

<sup>22</sup>Order No. PSC-2019-0071-PAA-SU, issued on February 25, 2019, in Docket No. 20170174-SU, *In re: Application for transfer of assets of exempt utility, amendment of Certificate No. 465-S, and petition for partial variance or waiver of Rule 25-30.030(5)(b), F.A.C., by Utilities, Inc. of Florida.*

As it refers to UIF-Marion, UIF and OPC agreed that the WWTP U&U for this system should be considered 78.44 percent. (EXH 59-60; TR 455) However, upon reviewing the provided documentation, staff noticed that UIF used a simple average growth calculation due to a weak coefficient of determination instead of the traditional five-year growth per the regression equation as required by Rule 25-30.431(2)(b)-(c), F.A.C.<sup>23</sup> (EXH 60) Staff is not aware of any cases where the regression equation was not used to calculate the five-year growth. Therefore, staff reevaluated the WWTP U&U for UIF-Marion using the traditional five-year growth per the regression equation. This resulted in a WWTP U&U of 74.78 percent, which is staff's recommendation for the WWTP U&U for UIF-Marion. (EXH 144) Of the remaining four systems in dispute, the differences can be attributed to the treatment of built out status, prepaid connections, and excessive test year flows.

### ***System Built Out Status***

UIF's position that the Labrador WWTP is 100 percent U&U is based on the contention that the 11.6 acre parcel that prevented a built out determination in the last rate case is now being developed for 36 manufactured homes which will use the whole parcel. (EXH 60) OPC witness Radigan argued that it is an assumption that the vacant area will be built out as it has not occurred yet. Witness Radigan further argued that there is land adjacent to Labrador's service area and that Labrador could expand its service area to serve new customers. Thus, witness Radigan recommended that Labrador maintain the 79.94 percent U&U approved in the last rate case. (TR 452)

In response to discovery, UIF provided a signed agreement with the developer to support the claim that the parcel is being developed. UIF also provided an email from the developer stating that approximately seven lots per year could be expected to be developed over the next five years. (EXH 143) In addition, UIF indicated that the parcel has already been cleared, and that construction of the underground water and sewer infrastructure was to begin in January 2021 or sooner. (EXH 152) With regard to the service area, Labrador does not currently have any vacant lots, and there is only one lot it is unable to serve due to the lot being used for a park. (EXH 146) Staff is not aware of any cases where the Commission has considered land outside of a utility's certificated service territory as part of its U&U consideration and thus, does not believe that is appropriate. Therefore, because UIF has presented evidence that the parcel is being developed, and all lots capable of being served in Labrador's service territory are being served, staff agrees with UIF and recommends that the Labrador WWTP be considered 100 percent U&U.

UIF's position that the Lake Placid WWTP is 100 percent U&U was initially based on the Utility's claim that growth was negative. (EXH 60) Following a correction to Schedule F-10, growth was no longer negative for this system. (EXH 144) OPC witness Radigan argued that UIF gave no firm evidence that the system is actually built out to use the design capacity of the plant, and that UIF indicated that there are still vacant lots in the service area in response to discovery. (TR 453) In his rebuttal, UIF witness Seidman expanded UIF's argument to include that the system is built out because of the designated scrub jay habitat located within the service area which has prevented customer growth. Witness Seidman further argued that the

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<sup>23</sup>The coefficient of determination is the R squared value which describes how good of a fit the linear regression curve is to the variability of historic ERC growth.

Commission recognized Lake Placid's built out status due to environmental limitations in the 1996 rate case order (1996 Order).<sup>24</sup> (TR 755-756)

Staff reviewed the 1996 Order referenced by UIF, discovery responses, and the calculated WWTP U&U for Lake Placid. With respect to the 1996 Order, the Commission found that the water distribution and wastewater collection systems were built out. The Commission did not make a similar finding for the WWTP in the 1996 Order. In response to discovery, UIF indicated that there were 12 vacant lots in the Lake Placid service area, but also indicated that these lots were not located in the protected scrub jay habitat. (EXH 146; EXH 169) The calculated WWTP U&U for Lake Placid was 15.83 percent. (EXH 144) Because UIF has not provided evidence that the built out argument for Lake Placid is any different than that considered by the Commission in previous orders, staff agrees with OPC and recommends that the Lake Placid WWTP be considered 29.79 percent as approved in the last rate case.

### **Prepaid Connections**

UIF requested that the LUSI Lake Groves WWTP be considered 70 percent U&U which includes future prepaid connections, as well as consideration of the five percent per year growth limit for ERCs as mandated by the statute. UIF argued that 967 prepaid lots had not been connected at the end of 2019; therefore, the regression analyses did not accurately reflect new growth. UIF stated that LUSI Lake Groves averaged 30 new taps per month in 2020, which is consistent with the past year's growth. Thus, UIF updated its growth calculation to account for future prepaid connections. (EXH 60)

OPC witness Radigan argued that UIF's addition of prepaid connections on top of historic growth results in double counting, and recommended that the prepaid connections be removed. This resulted in a recommendation of 65 percent WWTP U&U for LUSI Lake Groves by OPC. (TR 454) UIF witness Seidman rebutted this argument by indicating that the additional connections are from a new area that had not previously been served; therefore, these connections could not result in double counting as they were not connected during the test year. (TR 757)

Staff notes that prepaid connections for LUSI Lake Groves had been specifically disallowed in the amended order following the appeal in the last rate case because these connections did not qualify as property that was used and useful in the public service, as required under Section 367.081(2)(a)2.b., F.S.<sup>25</sup> For property to be considered used and useful in the public service under the statute, it must be shown to be "needed to serve customers five years after the end of the test year." As in that case, UIF has not provided evidence that these prepaid connections will be made within the next five years. Therefore, staff removed these future prepaid connections and reevaluated the WWTP U&U. This resulted in a WWTP U&U of 65 percent which is what staff recommends the LUSI Lake Groves WWTP be considered, consistent with OPC's recommendation. (EXH 144)

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<sup>24</sup>Order No. PSC 96-0910-FOF-WS, issued July 15, 1996, in Docket No. 951027-WS, *In re: Application for a rate increase in Highland County by Lake Placid Utilities, Inc.*

<sup>25</sup>Order No. PSC-2019-0363-PAA-WS.

### ***Excessive Test Year Flows***

While the UIF WWTP U&U calculation for Mid-County was 105.42 percent, OPC witness Radigan argued that high test year flows and I&I are the reason for this calculation. (EXH 60; TR 450-451) Witness Radigan opined that in dry years, the U&U equation would unreasonably penalize a utility, and in wet years, it would reward a utility. He recommended that the Commission consider and adjust the WWTP U&U calculation for the effects of I&I for Mid-County, and that until this was done, Mid-County's WWTP U&U should remain at 93.67 percent as approved in the last rate case. (TR 451)

UIF witness Seidman rebutted OPC witness Radigan's argument by stating that experiencing high flows is not uncommon for the Mid-County system, and that the Commission already considers the impact of I&I and has done so for many years. Witness Seidman argued that his analysis shows that Mid-County's I&I is not excessive for the test year, and that witness Radigan has reviewed and agreed with witness Seidman's calculations. Thus, witness Seidman concluded that the Mid-County WWTP is clearly fully utilized and should be considered 100 percent U&U. (TR 753)

Staff agrees with UIF and notes that I&I has been and continues to be considered in the calculation of WWTP U&U. Staff has reviewed the documentation provided for Mid-County and as stated by UIF witness Seidman, Mid-County does not have any excessive I&I for the test year, regardless of the high test year flows experienced by the system as contemplated by OPC witness Radigan. (EXH 60; TR 450-451; TR 753) Therefore, staff agrees with UIF and recommends that the Mid-County WWTP be considered 100 percent U&U.

### **Total Adjustments**

In its filing, UIF made non-U&U adjustments to decrease rate base by \$928,928, depreciation expense by \$83,244, and property tax expense by \$21,302. (EXH 48, P 11, P 53) To reflect the appropriate non-U&U percentages applied to all components of rate base, staff recommends a further decrease of \$284,620 to rate base, \$28,459 to depreciation expense, and \$9,743 to property tax expense.

## **CONCLUSION**

The appropriate used and useful percentages for UIF's wastewater systems are shown in the table below. To reflect the appropriate non-U&U percentages applied to all components of rate base, staff recommends a further decrease of \$284,620 to rate base, \$28,459 to depreciation expense, and \$9,743 to property tax expense.

**Table 9-2**  
**Appropriate Used and Useful Percentages for UIF's Wastewater Systems**

<b>System</b>	<b>Facilities</b>	<b>U&amp;U (Percent)</b>
Cypress Lakes	WWTP	100.00
Eagle Ridge	WWTP	100.00
Labrador	WWTP	100.00
Lake Placid	WWTP	29.79
LUSI Barrington	WWTP	100.00
LUSI Lake Groves	WWTP	65.00
Mid-County	WWTP	100.00
Pennbrooke	WWTP	100.00
Sandalhaven	EWD Capacity	42.24
Sandalhaven	Transmission	100.00
Sanlando	WWTP	100.00
UIF-Marion	WWTP	74.78

**Issue 10:** What are the appropriate used and useful percentages for the water distribution and related facilities of each water system?

**Approved Type II Stipulation:** All water distribution and related facilities are 100% used and useful.

**Issue 11:** What are the appropriate used and useful percentages for the collection lines and related facilities of each wastewater system?

**Approved Type II Stipulation:** All collection lines are 100% used and useful.

**Issue 12:** Should any adjustments be made to test year accumulated depreciation?

**Recommendation:** Staff recommends no further adjustments to the adjusted test year accumulated depreciation balances. All necessary adjustments to accumulated depreciation associated with pro forma additions should be made as set forth and discussed in Issues 3 and 4. (Bennett)

**Position of the Parties**

**UIF:** Yes. Water – (\$5,249,620); Wastewater – (\$2,869,610).

**OPC:** Yes. The adjustments should be consistent with OPC’s recommendations regarding utility plant additions. OPC recommends an accumulated depreciation adjustment of \$62,729 for water per Exhibit ACC-2, Schedule 5 and of \$3,318,796 for wastewater.

**Staff Analysis:**

**PARTIES’ ARGUMENTS**

**UIF**

In its brief, the Utility stated that the adjustments to test year accumulated depreciation were due to the allocation of common plant between water and wastewater and to correct the over-amortization of Sandalhaven intangible plant. (UIF BR 12; EXH 48, P 5) In addition, UIF made adjustments to annualize accumulated depreciation for test year additions. (EXH 48, P 12–13) The Utility asserted that OPC did not dispute any test year changes. (UIF BR 12)

**OPC**

In its brief, OPC discussed adjustments related to pro forma plant projects; these are discussed in Issue 3. (OPC BR 12-13)

**ANALYSIS**

UIF witness Swain made test year adjustments to the accumulated depreciation balance to correct the allocation of common plant between water and wastewater and to correct the over-amortization of Sandalhaven intangible plant. (EXH 48, P 13) The Utility also made adjustments to annualize accumulated depreciation for test year plant additions. (EXH 48, P 13-14) Although it addressed adjustments corresponding to pro forma plant, OPC did not dispute these adjustments. Further, staff witness Dobiac’s testimony did not reflect any audit adjustments to the test year accumulated depreciation balances. (EXH 90) As such, staff believes UIF’s test year adjustments are appropriate. Pro forma adjustments to accumulated depreciation are addressed in Issues 3 and 4.

**CONCLUSION**

Based on the above, staff recommends no further adjustments to the adjusted test year accumulated depreciation balances. All necessary adjustments to accumulated depreciation associated with pro forma additions should be made as set forth and discussed in Issues 3 and 4



**Issue 13:** Should any adjustments be made to test year CIAC balances?

**Recommendation:** Staff recommends no further adjustments to the adjusted test year CIAC balances. All necessary adjustments to CIAC associated with pro forma additions should be made as set forth and discussed in Issue 4. (Thurmond)

**Position of the Parties**

**UIF:** Yes. Water – (\$87,827); Wastewater – (\$753,220).

**OPC:** Yes. The adjustments should be consistent with OPC’s recommendations regarding utility plant additions and associated retirements. OPC’s adjustments increase CIAC (increase the ratebase deduction) by \$71,685 for water, and by \$207,947 for sewer. All amounts represent adjustments to the Company’s claimed position.

**Staff Analysis:**

**PARTIES’ ARGUMENTS**

**UIF**

In its brief, UIF stated this issue is a fall out from the determination of Issue 3. (UIF BR 12)

**OPC**

In its brief, OPC discussed adjustments related to pro forma retirements; these are discussed in Issue 4. (OPC BR 13) OPC maintained that these adjustments should be made to adjust the CIAC balance for projected plant retirements based on its recommended adjustments to pro forma plant. (TR 269; OPC BR 13; EXH 88; EXH 89)

**ANALYSIS**

In its initial filing, the Utility’s only adjustments to CIAC are retirements associated with certain pro forma plant projects. (EXH 48, P 15) Further, staff witness Dobiac’s testimony did not reflect any audit adjustments to test year CIAC balances. (EXH 90) Pro forma adjustments to accumulated amortization of CIAC are addressed in Issue 4. As such, staff recommends no further adjustments to the adjusted test year accumulated amortization of CIAC balances. All necessary pro forma adjustments to accumulated amortization of CIAC should be made as set forth and discussed in Issue 4.

**CONCLUSION**

Based on the above, staff recommends no further adjustments to the adjusted test year CIAC balances. All necessary adjustments to CIAC associated with pro forma additions should be made as set forth and discussed in Issue 4.

**Issue 14:** Should any adjustments be made to test year accumulated amortization of CIAC?

**Recommendation:** Staff recommends no further adjustments to the adjusted test year accumulated amortization of CIAC balances. All necessary adjustments to accumulated amortization of CIAC associated with pro forma additions should be made as set forth and discussed in Issue 4. (Thurmond)

**Position of the Parties**

**UIF:** Yes. Water – (\$88,677); Wastewater – (\$2,217,848)

**OPC:** Yes. Adjustments to accumulated amortization should be made consistent with the adjustment to CIAC balances discussed in Issue 13. These adjustments increase accumulated amortization of CIAC (increase the ratebase addition) by \$71,685 for water and by \$207,947 for sewer.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**UIF**

In its brief, UIF stated that this is a fallout from the determination of Issue 3. (UIF BR 12)

**OPC**

In its brief, OPC stated adjustments should be made consistent with the adjustment of CIAC balances discussed in Issue 13. (OPC BR 13)

**ANALYSIS**

In its initial filing, the Utility's only test year adjustment to the accumulated amortization of CIAC balance was to correct the over amortization of CIAC. (EXH 48, P 15) This adjustment was made to the same three systems in UIF's last rate case.<sup>26</sup> Further, staff witness Dobiac's testimony did not reflect any adjustments to test year accumulated amortization of CIAC balances. (EXH 90) The remaining adjustments to accumulated amortization of CIAC in UIF's initial filing are related to retirements associated with pro forma plant projects. (EXH 48, P 15) Pro forma adjustments to accumulated amortization of CIAC are addressed in Issue 4.

**CONCLUSION**

Based on the above, staff recommends no further adjustments to the adjusted test year accumulated amortization of CIAC balances. All necessary adjustments to accumulated amortization of CIAC associated with pro forma additions should be made as set forth and discussed in Issue 4.

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<sup>26</sup> Order No. PSC-2017-0361-FOF-WS, issued September 25, 2017, in Docket No. 20160101-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.*



Docket No. 20200139-WS  
Date: April 8, 2021

Issue 15

***Issue 15:*** DROPPED.

**Issue 16:** What is the appropriate working capital allowance?

**Recommendation:** The appropriate working capital allowance is \$1,795,933 for water and \$2,577,454 for wastewater. As such, the working capital allowance should be decreased by \$2,355,199 for water and \$2,973,713 for wastewater. (Thurmond)

**Position of the Parties**

**UIF:** Water - \$4,151,132; Wastewater - \$5,551,167

**OPC:** The appropriate working capital allowance for water is \$1,847,933 as shown on Exhibit ACC-2, Schedule 3. The appropriate working capital allowance for sewer is \$2,348,716, as shown on Exhibit ACC-3, Schedule 3.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**UIF**

In its brief, UIF stated that the presumed cash balance included in working capital is a reasonable substitute for actual intercompany receivables and payables. (UIF BR 12) The cash balance of 2 percent of rate base proposed by UIF witness Swain was based upon the ratio of allowed cash to gross plant allowed in prior Commission cases. (UIF BR 12; TR 217) Witness Swain explained that UIF could have included the full intercompany receivable and payable balances in working capital since they meet the requirements of inclusion in working capital, as they are not interest bearing, and not otherwise included in rate base. (TR 216; UIF BR 13) Instead, UIF proposed a more conservative approach by estimating what it presumed to be a reasonable cash balance. (TR 795-796, UIF BR 13) Lastly, UIF stated in its brief that it should be clear that for a company the size of UIF, with substantial ongoing capital projects, that a reasonable cash requirement would be greater than the \$3,000 of petty cash currently included on UIF's books. (UIF BR 13)

UIF also stated in its brief that the studies related to pro forma projects should be included as adjustments to working capital. (UIF BR 13) Further, UIF maintained that OPC witness Crane's recommendation to remove the studies from working capital and classify the studies as CWIP is not consistent with Commission practice. (UIF BR 13) UIF stated that in its last rate case, all pro forma studies were included in rate base after adjustments to update costs, with OPC agreeing to the accounting treatment.<sup>27</sup> (UIF BR 13; TR 790-791) UIF witness Flynn suggested that another alternative to including the studies in working capital would be to amortize the expense over a reasonable time frame, such as five years. (UIF BR 13; TR 783)

**OPC**

In its brief, OPC asserted that UIF failed to meet its burden to support its requested level of cash, specifically how its requested level of cash is necessary for the provision of safe and reliable utility service. (OPC BR 14; TR 271) While acknowledging cash can be a component in determining rate base, OPC witness Crane also specified that a valid basis is necessary for

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<sup>27</sup> Order No. PSC-2017-0361-FOF-WS.

supporting the level of cash. (OPC BR 14, TR 319) OPC further argued that the two Commission orders UIF used to develop its imputed cash value are not applicable, as the Commission did not use a ratio of gross plant as a methodology for deciding the appropriate level of cash. (OPC BR 14) OPC maintained that the estimate UIF proposed in this case is arbitrary and not reasonably related to the company's day-to-day operational requirements. (OPC BR 14)

## ANALYSIS

Rule 25-30.433(2), F.A.C., requires that Class A Utilities use the balance sheet method to calculate the working capital allowance. In its MFRs, UIF requested a total working capital allowance of \$4,151,132 for water and \$5,551,167 for wastewater. (EX 48, P 10-11) Staff believes additional adjustments are necessary.

### Imputed Cash Balance

In her direct testimony, UIF witness Swain stated that UIF does not maintain its own unique bank accounts, but instead records cash transactions through intercompany accounts. (TR 216) Witness Swain stated that the overall magnitude of the balance in these accounts as compared to rate base was very large and that she was not able to isolate a specific account that would be appropriate to include in working capital. (TR 217) As an alternative, she reviewed other utilities and cases to develop a presumed cash balance. (TR 217) To derive the presumed cash value, witness Swain used the Commission-approved cash and rate base balances from KW Resorts Utilities Corp.'s (KWRU) 2015 rate case and 2017 rate case to calculate a percentage representing the ratio of working capital to rate base.<sup>28</sup> (TR 217) In the KWRU 2015 rate case, the cash balance represented approximately two percent of approved rate base and in the KWRU 2017 rate case, the cash balance represented approximately 1.65 percent of approved rate base. Based on those percentages of gross plant, witness Swain made an adjustment to impute UIF's cash balance based on two percent of requested rate base, resulting in a pro forma increase of \$2,355,199 and \$3,061,123 to water and wastewater working capital, respectively. (TR 217; EXH 48, P 16)

OPC witness Crane recommended completely removing the Utility's adjustment to its cash balance. (TR 271) In her direct testimony, she outlined several reasons to support her assertion that UIF has not demonstrated a valid basis or need for the level of cash requested, specifically as it pertains to the provision of safe and reliable utility service. (TR 271-272) She first highlighted and questioned the applicability of the KWRU rate cases due to the large difference in levels of actual cash maintained by the two utilities, with KWRU reflecting a cash balance of nearly \$900,000 in its 2017 Rate Case prior to the Commission approving nearly a third of that amount. Witness Crane also expressed her concern with witness Swain's inability to identify specific intercompany accounts to attribute to working capital, though she relied on the accounts as a basis to impute presumed cash. (TR 272) She further stated that the total balance of working capital allowances for water and wastewater, excluding the Utility's adjustments to cash, are in

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<sup>28</sup> Order No. PSC-17-0091-FOF-SU, issued March 13, 2017, in Docket No. 150071-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*; Order No. PSC-2018-0446-FOF-SU, issued September 4, 2018, in Docket No. 20170141-SU, *In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.*

line with the Commission-approved balances, \$1,130,422 for water and \$3,030,342 for wastewater, from UIF's last rate case. (TR 272)

In response to witness Crane, witness Swain stated that under the balance sheet method of working capital, the entire net balance of intercompany accounts is eligible for inclusion in working capital, as it is not interest bearing or included in rate base or capital structure. (TR 795) She explained that she proposed her methodology to develop a reasonable cash balance in lieu of the large intercompany account balances and chose the KWRU rate cases because the Commission considered and determined the appropriate level of cash in both cases. (TR 796) Witness Swain also pointed out that the working capital balances approved in UIF's last case are comparable because they did not include a cash balance or intercompany accounts as well. (TR 796)

Staff agrees with OPC and recommends removing the Utility's adjustment to increase cash in working capital. In so recommending, staff notes that "it is the [Commission's] prerogative to evaluate the testimony of competing experts and accord whatever weight to the conflicting opinions it deems necessary."<sup>29</sup> Ultimately, it is a utility's burden of proof to support its requested rate increase before the Commission.<sup>30</sup> Staff believes UIF has not provided a sound basis for imputing its requested cash balance, or a sound basis for the methodology it proposed.

In regards to the Utility's proposed methodology, staff believes the KWRU rate cases used by witness Swain to derive a cash value are not applicable to this case. In the KWRU 2015 rate case, there was one specific adjustment to cash to reflect a more recent 13-month average cash balance for the Utility, as the test year represented an anomaly.<sup>31</sup> In the KWRU 2017 rate case, the cash balance was adjusted to equal the balance in the previous rate case. However, this adjustment was made after the Commission identified a specific account lending to the excessive balance that was more representative of capital expenditures, not day-to-day operations. Upon consideration of the remaining balance left after excluding the account, the Commission decided it was reasonable to hold the balance to the amount approved in the previous case. The Commission did not use any percent of rate base to determine a reasonable level of cash for either of these cases.<sup>32</sup> Witness Swain's methodology does not line up with the Commission's basis for making adjustments in either case. Nor did she provide any further support for using KWRU as a proxy to develop the level of cash to impute for UIF. Thus, staff believes using two percent of rate base is an arbitrary methodology.

When asked if she thought the ratio of cash to rate base was an appropriate indicator to derive a presumed cash balance, witness Crane stated she did not think a ratio of cash to rate base was appropriate, and that a ratio of operating expenses would be more appropriate. (TR 333-334) As further explained by witness Crane, working capital represents the short-term liabilities and assets that are needed to operate. (TR 318) In the KWRU 2017 rate case, the Commission agreed that the working capital allowance should reflect day-to-day operations. This concept is further supported by Rule 25-30.433(2), F.A.C., which requires Class B and C utilities to use the

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<sup>29</sup> See *Gulf Power Co. v. FPSC*, 453 So. 2d 799, 805 (Fla. 1984)

<sup>30</sup> See *Florida Power Corp. v. Cresse*, 412 So. 2d 1187 (Fla. 1982)

<sup>31</sup> Order No. PSC-17-0091-FOF-SU.

<sup>32</sup> Order No. PSC-2018-0446-FOF-SU.

formula method to calculate working capital by taking one eighth of operation and maintenance (O&M) expense. When asked to explain how the ratio of cash to total rate base was an appropriate indicator of an appropriate level of cash, the Utility brought up the fact that other components of working capital can be allocated between water and wastewater based on various factors that include gross plant. (EXH 152, BSP 172) Although that is true, deriving an allocation of a known value in working capital is not comparable to estimating the appropriate level of a component of working capital.

When asked if the Utility considered other alternatives to calculate a presumed cash balance, witness Swain stated that they considered including the net balance of all intercompany receivables and payables in their entirety. (EXH 152, P 9) UIF's initial basis for making an adjustment to increase cash in working capital stems from the Utility's intercompany accounts that are used for cash transactions in lieu of specific bank accounts and therefore not reflected in its cash balance. (TR 216) However, the details provided about the intercompany accounts were sparse and not entirely clear. This made it difficult to assess the Utility's original request and basis for imputing cash, as well as to evaluate the reasonableness of the requested level of cash. Of the various accounts that comprise the net balance, specific account detail was not available for the Utility's witness to determine if a particular intercompany receivable or payable could be included in the working capital calculation prior to developing her alternative methodology. (TR 217) The balances were characterized as significant in size. (TR 216) However, upon staff's requests in discovery, the Utility never quantified or provided support for the accounts. (EXH 153; EXH 154, BSP 201) One of the responses stated that "it is not possible to determine the amount of cash included in the intercompany accounts. Over many years the intercompany accounts have been used to record obligations to and from the related companies." (EXH 154, BSP 201) Other discovery responses stated that the accounts are only representative of UIF transactions. (EXH 152, BSP 171)

UIF maintained that the accounts are not interest bearing or reflected in rate base or capital structure, thus making them eligible to be included in working capital under the balance sheet method. (EXH 154, BSP 201; TR 796) The lack of clear detail and support documentation provided in relation to the accounts made it difficult to evaluate the Utility's original request, much less support the inclusion of the entire balance. Further, even if staff was able to ascertain the magnitude of the net balance, the level of the balance would still be evaluated and subject to adjustments, just as the Commission did in the KWRU rate cases cited. While the Utility's proposal is not altogether unreasonable, it ultimately failed to support its request. As such, staff is recommending a decrease in working capital of \$2,355,199 for water and \$3,061,123 for wastewater to remove the Utility's requested presumed cash balance.

### **Pilot Studies and Investigations**

In its initial filing, UIF included an adjustment to increase working capital for wastewater to reflect studies and preliminary investigations for pro forma projects yet to be completed. (EXH 48, P 16) The Utility's MFRs listed a Chlorine Dioxide Pilot Study for Summertree and two separate investigations related to I&I and smoke testing for Cypress Lakes. (EXH 48, P 16) As explained by witness Crane, the Chlorine Dioxide Pilot Study relates to the water system instead of wastewater, and one of the Smoke Testing/I&I Investigations labelled as Cypress Lakes, in the amount of \$89,328, should actually reflect two separate investigations—one for Sandalhaven in

the amount of \$\$61,847 and one for Summertree in the amount of \$27,481. (TR 273) Additionally, the Utility's "Total Pro Forma Adjustments to Working Capital" in the amount of \$3,202,451 for wastewater, Line 17, does not include the \$45,000 listed for Cypress Lakes' I&I Investigation. (EXH 48, P 16) Before making corrections for the errors listed above, staff evaluated each pro forma project using the same process used to evaluate costs and the prudence of pro forma plant projects.

Additionally, staff evaluated the circumstances of each project to determine if it was appropriate to include in working capital. The Commission, in Order No. PSC-01-1374-PAA-WS, cited the NARUC USOA accounting instructions for Account 183 – Preliminary Survey and Investigation, as stated below.<sup>33</sup>

This account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of projects under contemplation. If construction results, this account shall be credited and the appropriate utility plant account charged. If the work is abandoned, the charge shall be to account 426 - Miscellaneous Nonutility Expenses, or to the appropriate operating expense account unless otherwise ordered by the Commission (See account 675 - Miscellaneous Expenses).<sup>34</sup>

The Commission's order further explained that because the results of the pilot project in question were not yet completed, it was appropriate to recognize the costs in working capital in that rate proceeding and address the appropriate final treatment for the costs in a future rate proceeding. According to the Utility, as referenced in Table 16-1 below, future projects stemming from the results of the I&I investigations are probable. Therefore, staff recommends inclusion of the updated total amount for each project in working capital. As discussed in Issue 3, the Chlorine Dioxide Pilot Study has already resulted in a capital project, and staff is recommending the capitalization of those costs to plant. As such, the costs associated with the study should be removed from working capital. In total, staff is recommending a decrease to wastewater working capital of \$4,453 to reflect the appropriate amount of pro forma studies and preliminary investigations, as shown in Table 16-1 below.

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<sup>33</sup> Order No. PSC-01-1374-PAA-WS, issued June 27, 2001, in Docket No. 010518-WS, *In re: Notice of intent to increase water and wastewater rates in Pasco County, based upon application of provisions of Section 367.081(4)(a) & (b), F.S., by Aloha Utilities, Inc.*

<sup>34</sup> Pursuant to Rule 25-30.115, F.A.C., water and wastewater utilities must maintain their accounts and records in conformity with the 1996 NARUC USOA.

**Table 16-1  
 Working Capital Adjustments for Pilot Study and I&I Investigations**

<b>PCF No.</b>	<b>Description</b>	<b>Status</b>	<b>MFR Amt</b>	<b>Staff Recom. Total</b>	<b>Adjustment</b>
1	I&I Investigation-Cypress Lakes	Future project probable.	\$0	\$42,500	\$42,500
21	I&I Investigation-Sandalhaven	Future project probable.	61,847	58,255	(3,592)
38	Chlorine Dioxide Pilot Study	Capitalizing to completed capital project.	52,000	0	(52,000)
39	I&I Investigation-Summertree	Project commencing.*	<u>27,481</u>	<u>36,120</u>	<u>8,639</u>
<b>Total</b>			<b><u>\$141,328</u></b>	<b><u>\$136,875</u></b>	<b><u>\$4,453</u></b>

\*Not being recovered in the instant docket.

Source: EXH 156, BSP 215; EXH 133

**Miscellaneous Deferred Debits**

The final adjustment to working capital is a corresponding adjustment to miscellaneous deferred debits. Based on staff's recommendation to amortize pro forma O&M expenses discussed in Issues 3 and 26, miscellaneous deferred debits should be increased to reflect the unamortized portion of each expense. As such, wastewater working capital should be increased by \$91,863 to reflect the unamortized balance, total expense less a year of amortization, of the amortized expenses associated with WWTP permitting in PCF-8 and I&I inspection in PCF-32.

**CONCLUSION**

The appropriate working capital balance is \$1,795,933 for water and \$2,577,454 for wastewater. Thus staff is recommending a decrease in working capital of \$2,355,199 for water and \$2,973,713 (-\$3,061,123 - \$4,453 + \$91,863) for wastewater.

**Issue 17:** What is the appropriate rate base for the adjusted December 31, 2019 test year?

**Recommendation:** Consistent with recommended adjustments, the appropriate 13-month average rate base is \$54,410,589 for water and \$85,280,139 for wastewater. (Thurmond)

**Position of the Parties**

**UIF:** Water - \$56,913,982; Wastewater - \$89,747,179

**OPC:** The appropriate ratebase for the December 31, 2019 test year for water is \$54,066,409, as shown in Exhibit ACC-2, Schedule 3. The appropriate ratebase for the December 31, 2019 test year for sewer is \$75,375,380.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**UIF**

In its brief, UIF stated this is a fallout determination. (UIF BR 13)

**OPC**

In its brief, OPC stated the appropriate rate base for the December 31, 2019 test year is \$54,066,409 for water and \$75,375,380 for wastewater. (OPC BR 14-15)

**ANALYSIS**

This is a fallout issue. Based upon the Utility's adjusted 13-month average test year balances and staff's recommended adjustments, the appropriate 13-month average rate base is \$54,410,589 for water and \$85,280,139 for wastewater. Schedule Nos. 1-A and 1-B reflect staff's recommended rate base calculations for each system. Staff's proposed adjustments to rate base for each system are shown on Schedule No. 1-C.

**Issue 18:** What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

**Recommendation:** The appropriate amount of accumulated deferred income taxes to include in the capital structure is \$12,510,275. This amount includes \$7,156,450 shown on UIF's balance sheet, as well as \$5,353,825 related to the flow back of protected accumulated deferred income taxes associated with the Tax Cut and Jobs Act of 2017 (TCJA), amortized over 21.51 years. (D. Buys, Cicchetti)

**Position of the Parties**

**UIF:** \$7,156,450, plus \$5,353,825 in TCJA.

**OPC:** The components of the capital structure should be adjusted consistent with the recommendations of Mr. Garrett regarding the percentages of long-term debt, short-term debt, and common equity. The capital structure should reflect 4.88% accumulated deferred taxes, which is the percentage of accumulated deferred taxes reflected in the capital structure proposed by UIF.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**UIF**

The appropriate amount of accumulated deferred income taxes is presented in MFR Schedule D-1. (TR 217) The amount includes \$7,156,450 of regular accumulated deferred income taxes, and \$5,353,825 of protected accumulated deferred income taxes as a result of the TCJA, for a total of \$12,510,275. (UIF BR 13; TR 217; EXH 48, P. 99)

**OPC**

The capital structure should reflect 4.88 percent accumulated deferred income taxes, which is the percentage of accumulated deferred taxes reflected in the capital structure proposed by UIF. (OPC BR 15)

**ANALYSIS**

The appropriate amount of accumulated deferred income taxes (ADITs) was not a disputed issue in this case. UIF proposed a capital structure that included an accumulated deferred income tax ratio of 4.88 percent, not including the protected amounts as a result of the TCJA. (TR 217; EXH 48, P. 99) OPC agreed that the capital structure should reflect 4.88 percent of ADITs. (TR 263-264; OPC BR 15) OPC witness Crane explained that deferred income taxes are taxes that have been collected from ratepayers but have not yet been paid by the utility due to differences in the tax treatment utilized by regulatory commissions and taxing authorities, including the Internal Revenue Service (IRS). (TR 295)

The ADITs balance for the historic test year ended December 31, 2019, as reflected on MFR Schedule D-1 was \$7,156,450. (TR 217; TR 295; EXH 48, P. 99) UIF also included an

additional amount of \$5,353,825 to reflect the protected ADITs that were created as a result of the TCJA. (UIF BR 131; EXH 48, P. 99) Witness Crane explained the TCJA reduced the federal income tax rate from 35 percent to 21 percent thereby creating excess deferred income taxes on the Utility's books. (TR 296) The protected excess ADITs are associated with plant-related balances primarily related to accelerated depreciation methodologies (including bonus depreciation) that were permissible for tax purposes, but which were not reflected for ratemaking purposes. (TR 296) Protected excess deferred income taxes are required to be returned to ratepayers using the Average Rate Assumption Method (ARAM) or an alternate method such as the Reverse South Georgia Method (RSGM), which generally provides that the excess deferred income taxes cannot be flowed-through to ratepayers more rapidly than the average remaining life of the underlying property that gave rise to the deferred taxes. (TR 296) Witness Swain explained that UIF performed an analysis to record an adjustment to the deferred tax balance as a result of the reduced tax rate as required by the TCJA, creating a new liability account of protected ADITs. (TR 217) The protected ADIT balance of \$5,353,825 would be amortized over a 21.51-year period reflecting the remaining depreciation life of the associated assets. (TR 218; EXH 48, P 56, line 22)

### **CONCLUSION**

Based on record evidence, the appropriate amount of accumulated deferred income taxes to include in the capital structure is \$12,510,275. This amount includes \$7,156,450 shown on UIF's balance sheet, as well as \$5,353,825 related to the flow back of protected accumulated deferred income taxes associated with the Tax Cut and Jobs Act, amortized over 21.51 years.

**Issue 19:** What is the appropriate amount of customer deposits to include in the capital structure?

**Approved Type II Stipulation:** \$248,501 (0.18% of the capital structure)

**Issue 20:** What is the appropriate cost rate for short-term debt for the test year?

**Approved Type II Stipulation:** 4.04%

**Issue 21:** What is the appropriate cost rate for long-term debt for the test year?

**Approved Type II Stipulation:** 5.78%

**Issue 22:** What is the appropriate return on equity (ROE) for the test year?

**Recommendation:** The appropriate ROE for the test year ended December 31, 2019 is 9.90 percent with a range of plus or minus 100 basis points. (D. Buys)

**Position of the Parties**

**UIF:** 11.75%. (UIF BR 14)

**OPC:** The appropriate ROE for the test year is 9.50%. (OPC BR 15)

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**UIF**

UIF argued that the return on equity of 9.69 percent produced by the Commission's leverage formula understates the investor required return on equity for UIF. (BR 14) Witness D'Ascendis argued the indicated common equity cost rate for UIF is 10.75 percent based on the results of multiple financial models applied to a Utility Proxy Group. (BR 15; TR 54) Witness D'Ascendis argued this cost rate must be adjusted upward by 100 basis points to reflect UIF's unique business and financial risks relative to his Utility Proxy Group. (BR 15-16; TR 54) Witness D'Ascendis contended that his recommended authorized ROE of 11.75 percent is consistent with the *Hope and Bluefield* standard of just and reasonable rates of return and balances the interests of both customers and UIF. (BR 14; TR 90) UIF argued that an ROE of 11.75 percent would provide UIF with sufficient earnings to enable the Company to attract necessary new capital efficiently and at a reasonable cost. (BR 19)

**OPC**

OPC argued that UIF's requested 11.75 percent ROE is excessive and unreasonable. (OPC BR 15; TR 357) OPC argued that the awarded ROE should be based on the cost of equity capital as set forth in the *Hope and Bluefield* Supreme Court Decisions. (OPC BR 15; TR 362-363) Witness Garrett contended that UIF's awarded ROE should be based on its estimated cost of equity of 6.00 percent. (TR 356) OPC argued that witness Garrett's ROE analysis properly took into account the historically low interest rates and that utility stocks are less risky than average stocks in the marketplace, and thus, have a lower cost of equity. (OPC BR 16) OPC argued that consistent with the U.S. Supreme Court finding in the *Federal Power Commission v. Hope Natural Gas Co.* case,<sup>35</sup> the awarded ROE should also be fair and reasonable. (OPC BR 15; TR 356) Witness Garrett opined that while an ROE of 6.00 percent is accurate from a technical analysis standpoint, he recommended the Commission award an ROE of 9.50 percent. (TR 356) Witness Garrett argued that an awarded ROE of 9.50 percent represents a good balance between the Supreme Court's decision in the *Hope* case that awarded ROEs should be based on cost, while recognizing the end result must be reasonable. (TR 357) OPC argued that OPC witness Garrett's recommended ROE of 9.50 percent is closest to the result of 9.69 percent from the Commission's leverage formula. (OPC BR 17)

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<sup>35</sup>See *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944)

## ANALYSIS

### Cost of Equity Models

The ROE is the allowed cost of common equity included in a utility's regulatory capital structure to determine the overall rate of return used to establish a revenue requirement. UIF's common equity is not publicly traded, and as such, a market-based cost rate for the Utility cannot be directly observed. (TR 53) Consequently, both OPC witness Garrett and UIF witness D'Ascendis applied cost of equity financial models to a proxy group of publicly traded companies with similar risk to UIF to derive approximations of the required ROE. (TR 53; TR 355) OPC witness Garrett used the same proxy group of publicly traded water utilities as that of UIF witness D'Ascendis. (TR 374)

Both OPC and UIF witnesses used the Discounted Cash Flow (DCF) model and the Capital Asset Pricing Model (CAPM) to estimate the cost of equity. In addition, UIF witness D'Ascendis employed two risk premium methods, the PRPM (predicted risk premium model) and the adjusted total market approach RPM (risk premium model) to estimate the cost of equity. (TR 70-73). Neither OPC witness Garrett nor UIF witness D'Ascendis believe the Commission's Leverage Formula approved in Order No. PSC-2020-0222-PAA-WS<sup>36</sup> is appropriate for setting the allowed ROE in this case. Witness Garrett argued the result from the Commission's Leverage Formula is too high and doesn't have an input for market risk and witness D'Ascendis contended it is too low and doesn't meet the *Hope and Bluefield*<sup>37</sup> standard. (TR 360-361; TR 56-57)

The DCF model is based on the theory that a stock's current price represents the present value of all expected future cash flows. In its basic form, the DCF model is expressed as the dividend yield of a stock plus the expected long-term growth rate. (TR 68)

$$\text{ROE} = (\text{dividend} \div \text{stock price}) + \text{growth rate}$$

The CAPM is a risk premium method that estimates the cost of equity for a stock as a function of a risk-free return plus a risk premium. The market risk premium is defined as the incremental return of the stock market as a whole less the risk-free rate multiplied by the beta for the individual security. The beta is expressed as the volatility or expected return of an individual security compared against the stock market as a whole. A beta value of 1.0 indicates the individual security has the same volatility or expected return as the stock market. A beta value of less than 1.0 is considered less risky than the stock market as a whole and a beta value greater than 1.0 is considered more risky. (TR 78; TR 401-404)

$$\text{ROE} = \text{risk-free rate} + \text{Beta} (\text{expected market return} - \text{risk-free rate})$$

The risk premium approach is based on the principle that an investment in equity securities is more risky than an investment in bond securities and equity investors require a higher return than debt investors to compensate equity investors for bearing greater risk. (TR 70) In the risk

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<sup>36</sup>Order No. PSC-2020-0222-PAA-WS, Issued June 29, 2020, in Docket No. 20200006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

<sup>37</sup>See *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 692-93 (1923), and *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944)

premium approach, the cost of equity is derived from the sum of the estimated equity risk premium and the expected yield on a particular class of bonds. (TR 70)

$$\text{ROE} = \text{risk premium} + \text{bond yield}$$

## UIF

Witness D'Ascendis recommended that the Commission authorize a return on common equity of 11.75 percent. (TR 52) In support of his recommendation, witness D'Ascendis applied several cost of equity models to a proxy group of regulated water companies and a second proxy group of non-regulated companies. (TR 52) Those models included the DCF, CAPM, and two Risk Premium Models; a Predictive RPM and a RPM using an adjusted total market approach. (TR 53; TR 70) In addition, witness D'Ascendis argued that an upward adjustment of 100 basis points is necessary to compensate UIF for its unique business risk and smaller size as compared to his Utility Proxy Group. (TR 54; TR 88) Table 22-1 summarizes the results from witness D'Ascendis' cost of equity models and recommendation.

**Table 22-1**  
**UIF Witness D'Ascendis' ROE Model Results**

<b>Common Equity Cost Rate Model</b>	<b>Results</b>
Discounted Cash Flow Model (DCF)	9.07%
Risk Premium Model (RPM)	10.91%
Capital Asset Pricing Model (CAPM)	10.90%
Cost of Equity Models Applied to Non-Price Regulated Proxy Group	11.48%
<b>Indicated ROE from model results</b>	<b>10.75% (Avg. of Mean and Median)</b>
Business Risk Adjustment	1.00%
<b>Recommended ROE</b>	<b>11.75% (10.75% + 1.00%)</b>

Source: (TR 54)

Witness D'Ascendis selected seven publicly traded water companies for his Utility Proxy Group. (TR 65) The most recent five-year average common equity ratio (including short-term debt) for the Utility Proxy Group is 51.09 percent. (TR 66) That is comparable to UIF's common equity ratio of 49.39 percent. (TR 66) The seven companies are listed below.

- American States Water Company
- American Water Works Co., Inc.
- California Water Service Corp.
- Essential Utilities, Inc.
- Middlesex Water Co.
- SJW Corporation

- York Water Co.

Witness D'Ascendis applied the single-stage constant growth DCF model to his Utility Proxy Group as one method to estimate the ROE. (TR 68) He adjusted the dividend yield in the formula to account for quarterly dividend payments to reflect the actual payout frequency of the companies. (TR 68) Witness D'Ascendis relied on security analysts' five-year forecasts of earnings per share for the growth estimate in his application of the DCF. (TR 69) The average result of the DCF analyses of the seven water companies in the proxy group was 8.70 percent. The median result was 9.44 percent. Witness D'Ascendis then averaged the mean and median results to arrive at his recommended DCF result of 9.07 percent for the Utility Proxy Group. (TR 69)

Witness D'Ascendis applied both the traditional CAPM and the Empirical CAPM (ECAPM) to the companies in his Utility Proxy Group. (TR 78-82) The ECAPM, unlike the traditional CAPM, includes an algebraic adjustment to increase the Beta value in the equation to reflect the assumption that empirical studies demonstrate low beta securities earn returns somewhat higher than the traditional CAPM predicts. (TR 79) The CAPM and ECAPM require three inputs, the Beta coefficient, the risk-free rate, and the return on the stock market. For the Beta coefficient, witness D'Ascendis relied on an average of the adjusted Beta coefficient published by Value Line and provided by Bloomberg Professional Services. (TR 80) For the risk-free interest rate, witness D'Ascendis used the Blue Chip Financial Forecast (Blue Chip) to estimate the projected 30-year U.S. Treasury Bond Yield rate. He used the consensus forecast from the most future six annual quarters ending with the third quarter in 2021 as published in the May 1, 2020 Blue Chip. He averaged the more recent forecast with the long-range five-year forecasts for 2021 – 2025 and 2026 – 2030, as published in the December 1, 2019 Blue Chip. Witness D'Ascendis did not calculate an implied market return, but instead determined the expected equity risk premium for the market using six estimated market returns from three different sources: three from Ibbotson historical data, two from Value Line, and one from Bloomberg. (TR 71; EXH 52, page 27 of 38) In his CAPM, witness D'Ascendis used a risk-free rate of 2.03 percent, an estimated equity risk premium of 11.94 percent (indicating the expected return on the market is 14 percent), and an average beta for the Utility Proxy Group of 0.71. The CAPM results are summarized in Table 22-2.

**Table 22-2**  
**Summary of Witness D'Ascendis' CAPM Results**

	Average Beta	Risk-Free Rate	Market Equity Risk Premium	Traditional CAPM	Empirical CAPM	Average of CAPM and ECAPM
Mean	0.69	2.03%	11.94%	10.29%	11.21%	10.75%
Median	0.72	2.03%	11.94%	10.63%	11.46%	11.05%
Average of Mean and Median	0.71	2.03%	11.94%	10.46%	11.34%	10.90%

Source: (EXH 51, P. 26)

Date: April 8, 2021

Witness D'Ascendis also relied on two risk premium methods to support his recommended ROE for UIF. (TR 70) The first method is a Predictive Risk Premium Model (PRPM) and the second method is a risk premium method (RPM) using an adjusted total market approach. (TR 70) Witness D'Ascendis obtained a result of 11.31 percent and 10.50 percent, respectively, for his PRPM and RPM approaches. (TR 78) Witness D'Ascendis averaged the results of his two risk premium methods to arrive at an overall result of 10.91 percent for his risk premium models.

Witness D'Ascendis explained the PRPM estimates the risk/return relationship directly as the predicted equity risk premium is generated by the predictability of volatility using autoregressive conditional heteroskedasticity (ARCH). (TR 71) The inputs to the models are the historical returns on the common equity of each company in the Utility Proxy Group, minus the monthly yield on long-term U.S. Treasury securities through April 2020. (TR 71) Witness D'Ascendis used a generalized form of ARCH (or GARCH) to determine each utility's projected equity risk premium using Eviews statistical software. (TR 71) The mean and median results from witness D'Ascendis application of his PRPM to the Utility Proxy Group were 11.66 percent and 10.96 percent, respectively. (TR 71) Witness D'Ascendis then averaged the mean and median results to arrive at his final result of 11.31 percent for the PRPM. (TR 71)

Witness D'Ascendis' second RPM, an adjusted total market approach, added a prospective public utility bond yield to the average of an equity risk premium derived from a beta-adjusted total market equity risk premium and an equity risk premium based on the S&P Utility Index. (TR 72) First, witness D'Ascendis calculated a prospective Moody's A-rated public utility bond yield of 3.82 percent for the Utility Proxy Group based on the group's average Moody's issuer rating of A2/A3. (TR 73; EXH 52, P 17, 18) Next, witness D'Ascendis used a derivation of a beta-derived RPM by determining a market risk premium of 10.71 percent based on an average result from six different methodologies, and multiplying the result by an adjusted beta of 0.71. (TR 73) The forecasted equity risk premium from witness D'Ascendis' beta-adjusted derivation was 7.60 percent ( $10.71\% \times 0.71 = 7.60\%$ ). The results are summarized in Table 22-3.

**Table 22-3**  
**Witness D'Ascendis' Beta-Adjusted RPM Derivation Results**

	<b>Equity Risk Premium Methodology</b>	<b>Utility Proxy Group</b>
1.	Ibbotson Equity Risk Premium	5.78%
2.	Regression on Ibbotson RPM data	9.12%
3.	Ibbotson Equity Risk Premium based on PRPM	11.95%
4.	Equity Risk Premium based on Value Line Summary and Index	15.50%
5.	Equity Risk Premium based on Value Line S&P 500 Companies	11.58%
6.	Equity Risk Premium based on Bloomberg S&P 500 Companies	10.32%
	Average of RPM results	10.71%
	Adjusted Beta	0.71
	<b>Forecasted Equity Risk Premium</b>	<b>7.60%</b>

Source: (EXH 51, P. 21)

Witness D'Ascendis also derived the equity risk premium based on three RPMs using the S&P Utility Index holding period returns, and two RPMs using expected returns of the S&P Utility Index using Value Line and Bloomberg data. (TR 77) For the three RPMs using historical returns, witness D'Ascendis relied on a traditional RPM, a regression based RPM, and the PRPM. (TR 77) For the two RPMs using expected returns, witness D'Ascendis relied on the expected total returns on the S&P Utility Index using forecasted data from Value Line and Bloomberg Professional Services. (TR 77) Witness D'Ascendis averaged the results for an Implied Equity Risk Premium of 5.76 percent. Witness D'Ascendis' results using RPM on the S&P Utility Index is summarized in Table 22-4.

**Table 22-4**  
**Witness D'Ascendis' RPM results for the S&P Utility Index**

<b>RPM Methodology</b>	<b>S&amp;P Utility Index Total</b>	<b>A-rated public utility bonds</b>	<b>Implied Equity Risk</b>
Historical Equity Risk Premium	10.74%	6.53%	4.21%
Regression of Historical Equity Risk Premium	6.68%	n/a	6.68%
Forecasted Equity Risk Premium using PRPM	5.95%	n/a	5.95%
Forecasted Equity Risk Premium using Value Line Data	10.50%	3.74%	6.76%
Forecasted Equity Risk Premium using Bloomberg Data	8.97%	3.74%	5.23%
<b>Average Equity Risk Premium</b>			<b>5.76%</b>

Source: (EXH 51, P. 25)

Witness D'Ascendis averaged the results from his RPM based on the total market using his beta adjusted approach (7.60 percent) with the results using the holding period returns of the S&P Utility Index with A-rated utility bonds (5.76 percent). (TR 78) The equity risk premium applicable to the Utility Proxy Group was 6.68 percent. Witness D'Ascendis then added his RPM result of 6.68 percent to his adjusted prospective bond yield of 3.82 percent to derive the final result of 10.50 percent for his estimate of an equity risk premium through the use of an adjusted total market approach. (EXH 51, P 16)

Witness D'Ascendis also applied cost of equity models to a proxy group of domestic, non-price regulated companies. (TR 82) Witness D'Ascendis explained that the Supreme Court, in the *Hope and Bluefield*<sup>38</sup> cases, did not specify that comparable risk companies had to be utilities. (TR 82) He argued that non-price regulated companies make an excellent proxy if they are comparable in total risk to the Utility Proxy Group and are appropriate because all of the companies compete for capital in the same markets. (TR 82) Witness D'Ascendis selected twelve companies comparable in total risk to the Utility Proxy Group. (TR 82) Witness D'Ascendis explained the total risk can be determined by the measurement of the variance of returns as measured by the companies' beta coefficients. (TR 83) Companies that have similar betas and

<sup>38</sup>*Id.*

standard errors of regression are similar in total risk. (TR 83) The twelve non-price regulated companies selected by witness D'Ascendis are Casey's General Stores, Cboe Global Markets, Cracker Barrel, Campbell Soup, Dunkin' Brands Group, Darden Restaurants, Hormel Foods, Lancaster Colony, Eli Lilly, Lamb Weston Holdings, Altria Group, and Valvoline Inc. (EXH 51, P 30)

Witness D'Ascendis applied the DCF, RPM, and CAPM to the non-price regulated proxy group in an identical manner as he did the Utility Proxy Group except for the PRPM. (TR 83) The average of the mean and median of his results were 11.48 percent for the twelve company non-price regulated proxy group. (TR 84) The results are summarized in Table 22-5.

**Table 22-5**  
**Witness D'Ascendis' ROE estimate for a**  
**non-price regulated proxy group of companies**

<b>Cost of Equity Models</b>	<b>Indicated ROE</b>
DCF	8.41%
RPM	13.12%
CAPM	11.83%
Mean	11.12%
Median	11.83%
<b>Average of Mean and Median</b>	<b>11.48%</b>

Source: (EXH 51, P. 31)

Witness D'Ascendis contended that due to its small size relative to the companies in the Utility Proxy Group, UIF has greater business risk which should be reflected in its awarded ROE. (TR 85) As such, witness D'Ascendis opined that 100 basis points should be added to his ROE estimate of 10.75 percent for a final recommended ROE of 11.75 percent. (TR 54) Witness D'Ascendis explained that smaller companies are less able to cope with risk exposure to negative business cycles and economic downturns. (TR 85-86) Investors require higher returns from riskier companies to compensate for less marketability and liquidity of small company stocks. (TR 86) Witness D'Ascendis cited several well-known articles in support of his testimony. (TR 86-87) Witness D'Ascendis argued that consistent with financial principles of risk and return, increased risk due to small size must be considered in the allowed rate of return on common equity. (TR 87) UIF's market capitalization is \$196 million as compared to the \$5.66 billion average market capitalization of the Utility Proxy Group; a difference of almost 29 times that of UIF. (TR 88) Witness D'Ascendis also testified that the Commission's leverage formula recognizes a size adjustment by adding a 50-basis point private placement premium and a 50-basis point small utility risk premium to the results of cost of capital models used in its derivation of the annual leverage formula. (TR 89) Additionally, the long-term debt of UIF's parent company, Corix Regulated Utilities (US), Inc. (CRU-US), is privately placed debt. (TR 89) Therefore, witness D'Ascendis argued, a size premium is necessary to reflect UIF's greater risk due to their smaller size relative to the Utility Proxy Group. (TR 88)

### **OPC**

OPC witness Garrett also used versions of the CAPM and DCF model to calculate the cost of equity and determined the market cost of equity derived from his models indicated an ROE of 6.00 percent. (TR 355-356) Nonetheless, witness Garrett recognized that in the *Hope*<sup>39</sup> case, the U.S. Supreme Court found that although the awarded ROE should be based on the utility's cost of capital, the Supreme Court also indicated that the end result should be just and reasonable. (TR 356) Therefore, witness Garrett recommended UIF's allowed mid-point ROE should be 9.50 percent. (TR 356) Witness Garrett opined that while an awarded ROE of 6.00 percent would be technically accurate, an allowed ROE of 9.50 percent is a good balance between the Supreme Court's "end result" doctrine that the awarded ROE be based on the actual cost of equity and be reasonable. (TR 357)

Witness Garrett argued that allowed ROEs for utilities have been above the average required market return for two decades. (TR 366) Witness Garrett contended that because utility stocks are less risky than the average stock in the market, the cost of equity for utilities is below the market cost of equity. (TR 357) Witness Garrett recognized that an awarded ROE of 6.00 percent would be a substantial change from prior awarded ROEs and suggested the ratemaking concept of gradualism, which is usually applied to ratepayers to avoid rate shock, could be applied to shareholders and slowly reduce awarded ROEs towards their true market-based cost of equity. (TR 357) Witness Garrett explained if the Commission suddenly changed the awarded ROE anticipated by regulatory stakeholders, it could have the undesirable effect of increasing the utility's risk profile and would be at odds with the Supreme Court's "end result" doctrine. (TR 357) Witness Garrett argued that an awarded ROE of 9.50 percent represents a gradual move toward UIF's market-based cost of equity, and would be fair to UIF's shareholders because 9.50 percent is over 300 basis points above the Company's market-based cost of equity. (TR 357)

OPC witness Garrett testified that the cost of capital should be evaluated objectively and closely tied to economic realities based on stock prices, dividends, growth rates and, most importantly, risk. (TR 364) Witness Garrett opined that utility stocks are less risky than the average stock in the market and the cost of equity for utilities is below that of the market cost of equity. (TR 366-367) Witness Garrett opined that like regulated electric and gas utilities, water utilities' risk can be objectively measured through beta coefficients. (TR 368) Witness Garrett explained:

Beta represents the sensitivity of a given security to the market as a whole. The market portfolio of all stocks has a beta equal to one. Stocks with betas greater than one are relatively more sensitive to market risk than the average stock. For example, if the market increases (decreases) by 1.0%, a stock with a beta of 1.5 will, on average, increase (decrease) by 1.5%. In contrast, stocks with betas of less than one are less sensitive to market risk, such that if the market increases (decreases) by 1.0%, a stock with a beta of 0.5 will, on average, only increase (decrease) by 0.5%. Thus, stocks with low betas are relatively insulated from market conditions. (TR 379)

Witness Garrett opined that firms with high betas are affected more than firms with low betas, which is why firms with high betas are riskier. (TR 380) Stocks with betas greater than one are

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<sup>39</sup>See *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944)

Date: April 8, 2021

generally known as cyclical stocks. (TR 380) Firms in cyclical industries are sensitive to recurring patterns of recession and recovery known as the business cycle. (TR 380) Thus, cyclical firms are exposed to a greater level of market risk. (TR 380) Securities with betas less than one, on the other hand, are known as defensive stocks. (TR 380) Companies in defensive industries, such as public utility companies, will have low betas and performance that is comparatively unaffected by overall market conditions. (TR 380) Therefore, witness Garrett argued, since utilities are defensive firms that experience little market risk and are relatively insulated from market conditions, that fact should be appropriately reflected in UIF's awarded ROE. (TR 381)

Witness Garrett applied the single stage quarterly compounding DCF model and the CAPM to the same Utility Proxy Group used by witness D'Ascendis. (TR 373-374) In his DCF application, witness Garrett obtained the current 30-day average of reported dividend and stock prices for the Utility Proxy Group to determine the dividend yield, then added a long-term terminal growth rate representing the U.S. nominal gross domestic product (GDP) of 3.90 percent. The result of his DCF model was 6.00 percent. (EXHs 68-71) Witness Garrett argued that the terminal growth rate used in the DCF model should not exceed the aggregate economic growth rate. (TR 390) According to the Congressional Budget Office, the U.S. GDP is 3.90 percent which includes an inflation rate of 2.0 percent. (TR 391) Witness Garrett argued that utilities are in the maturity stage of the business life cycle and their real growth opportunities are limited to the population growth within their defined service territory. (TR 390) For mature companies such as regulated utilities, witness Garrett argued, the terminal growth rate will likely fall between the expected rate of inflation and the expected nominal GDP. (TR 391)

Applying the CAPM to the Utility Proxy Group, witness Garrett obtained a result of 6.00 percent. In his CAPM derivation, witness Garrett used a risk-free rate of 1.51 percent which was based on the then current 30-day average of daily 30-year U.S. Treasury Bond Yield rate. (TR 403) Witness Garrett used the Utility Proxy Group average beta of 0.76 as published by Value Line Investment Survey even though there is evidence suggesting that betas published by sources like Value Line may overestimate the risk of utilities. (TR 404) For his equity risk premium (ERP), witness Garrett relied primarily on the ERP reported in published expert surveys, and an implied ERP which he calculated. Witness Garrett explained his implied ERP relied on the Gordon Growth Model version of the DCF model to calculate the implied market return using the companies in the S&P 500. (TR 408) Witness Garrett obtained a result of 7.50 percent for the S&P 500 market return and subtracted the risk-free rate of 1.51 percent to obtain an ERP result of 6.00 percent. (TR 410) For his final ERP estimate, witness Garrett considered six ERP results ranging from 4.40 percent to 6.00 percent and conservatively selected the highest estimate of 6.00 percent. (TR 411) The final result of witness Garrett's CAPM yielded a result of 6.00 percent. The CAPM equation is presented here;  $K = R_f + B(ERP)$  or  $6.07\% = 1.51\% + 0.76(6.00\%)$ . (TR 412)

To test the reasonableness of his cost of equity estimate, witness Garrett used the same methods as he did to derive the ERP and risk-free rate in his CAPM. (TR 422) Witness Garrett opined that the risk-free rate plus the ERP is equal to the required return on the stock market (TR 421) Witness Garrett contended that the cost of equity of utility stocks must be less than the total market cost of equity as indicated by the average utility company beta of less than 1.0. (TR 421)

Using the same expert surveys and implied ERP calculations, witness Garrett concluded that the average market cost of equity is 7.00 percent which provides an upper limit to UIF's actual cost of equity. (TR 421)

Witness Garrett also recommended the Commission increase the long-term debt ratio in UIF's capital structure used for setting rates from approximately 45 percent to 50 percent. (TR 428) Witness Garrett opined that UIF's proposed capital structure consists of an insufficient amount of debt, especially since UIF's awarded ROE will certainly be above the market-based cost of equity. (TR 430) Witness Garrett explained that equity capital has a higher cost than debt capital and companies can reduce their weighted average cost of capital (WACC) by increasing their debt financing. (TR 423) Witness Garrett argued that while competitive firms maximize their value by minimizing their WACC, regulated utilities can increase their revenue requirement by increasing their WACC. (TR 425) Comparatively, the Utility Proxy Group has an average debt ratio of 50 percent. (EXH 81) The higher proportion of debt in the capital structure, the higher the financial risk which must be factored into the common equity cost rate. (TR 64)

### **OPC Critique of UIF Testimony**

Witness Garrett testified to four main disagreements with and critiques of witness D'Ascendis' ROE testimony and quantitative analyses. (TR 358, TR 417-418) First, witness Garrett argued that witness D'Ascendis used short-term, quantitative growth estimates published by analysts that resulted in high long-term growth rates in his DCF model analysis. (TR 400) Second, that witness D'Ascendis' market equity risk premium estimate of 11.94 percent used in his CAPM derivation was overstated and unsupported. (TR 413) Third, witness D'Ascendis' use of a non-price regulated proxy group is unnecessary and the risk inherent in the non-regulated proxy group is greater than that of the Utility Proxy Group. (TR 359) Fourth, witness Garrett disagreed with witness D'Ascendis that a 100-basis point upward adjustment to the ROE is necessary to account for UIF's small-size risk. (TR 418)

### **DCF**

Witness D'Ascendis used short-term growth rate estimates from analysts as high as 14 percent in his DCF model analysis. (TR 400) Witness Garrett explained that analysts' growth rates are based on short-term projections of earnings growth rates published by institutional research analysts such as Value Line and Bloomberg. (TR 387) Analysts' earnings growth rate estimates range from three to ten years and many ROE analysts inappropriately use them as long-term growth projections in the single-stage constant growth DCF model as witness D'Ascendis did in his analysis. (TR 497-498; TR 68) Witness Garrett argued that a growth rate of 14 percent for one of the companies in witness D'Ascendis' DCF model is more than three times the projected U.S. GDP growth rate of 3.9 percent, which makes the results of witness D'Ascendis' DCF model upwardly biased and not reflective of current market conditions. (TR 358; EXH 52, P. 6)

### **CAPM**

Witness Garrett argued that witness D'Ascendis' market equity risk premium estimate of 11.94 percent used in his CAPM derivation was overstated and unsupported. (TR 359; EXH 52, P. 9) Witness Garrett pointed out that witness D'Ascendis' market equity risk premium estimate of 11.94 percent is significantly higher than the average estimates reported by 2,156 responses from people and entities in the U.S.A. to a 2020 IESE Business School survey. (TR 359 and 364; EXH

175, BSPs 000355-000356) The average estimates for the market risk premium as reported by the 2020 IESE Business School survey was 5.60 percent with a maximum estimate of 13.40 percent. (EXH 176, BSP 000621) Witness Garrett compared witness D'Ascendis' equity risk premium estimate with three other independent sources ranging from 4.40 percent to 6.00 percent. (TR 414-415; EXH 75) Witness D'Ascendis' equity risk premium is twice that of the other independent sources for the ERP and clearly not within the range of reasonableness. (TR 415)

### ***Non-Price Regulated Proxy Group***

Witness Garrett argued that there is no marginal benefit from applying the same CAPM and DCF model to a group of non-price regulated, non-utility companies in this case. (TR 416) Witness Garrett contended that using a group of non-regulated, non-utility companies will not indicate a required return commensurate with returns of investments of corresponding risk. (TR 417) Also, witness D'Ascendis' application of CAPM suffers from the same overestimated equity risk premium used in the analysis of the Utility Proxy Group. (TR 417)

### ***Small Size Premium***

Witness Garrett disagreed with witness D'Ascendis that a 100-basis point upward adjustment to the ROE is necessary to account for UIF's small size risk. (TR 418) Witness Garrett argued that small-cap stocks do not consistently outperform large-cap stocks. (TR 418) Witness Garrett testified that the small size premium was short-lived from 1936-1975, and more recent studies demonstrated that after 1983, U.S. small-cap stocks underperformed relative to large-cap stocks. (TR 418) Witness Garrett opined that in a 2002 study by Elroy Dimson, Paul Marsh & Mike Staunton, *Triumph of the Optimists: 101 Years of Global Investment Returns*, the authors found that after the size effect phenomenon was discovered in 1981, it disappeared in a few years. (TR 418) Witness Garrett argued that utility witnesses often use the term "size effect" to imply there should be a small-size premium to artificially inflate the cost of equity. (TR 419)

### **Business Risk**

Business risk refers to the viability of a business and the ability to generate sufficient revenue to cover its operational expenses and cost of capital. (TR 57) Some examples of business risk facing water companies are the legal and regulatory environment, customer growth, declining customer water consumption, water supply restrictions, and significant water quality requirements. (TR57-58) Witness D'Ascendis opined that because water utility companies have the obligation to provide safe, adequate, and reliable water service at all times, they do not have the option to delay capital-intensive investments in infrastructure. (TR 58) Witness D'Ascendis testified that increasingly stringent environmental standards from regulatory agencies such as the U.S. Environmental Protection Agency and other state and county health agencies and water management districts require additional investment in infrastructure to comply with new health and consumption standards. (TR 58-59) Because the water utilities invest in capital-intensive long-lived assets, long-term business risks are of considerable concern to investors. (TR 58) Witness D'Ascendis testified that the capital intensity of the water utility industry, that is, the capital investment required to produce one dollar of revenue, is greater than in other industries including gas and electric utilities. (TR 60) Witness D'Ascendis explained that in 2019, it required \$4.70 of net water utility plant to produce \$1.00 in operating revenue, while for the Gas and Electric Industries, it required net plant of \$2.33 and \$2.93, respectively. (TR 60) Witness

D'Ascendis also mentioned water utility companies have risk associated with their long-lived assets through low depreciation rates. (TR 62) Lower depreciation rates mean water utilities have lower depreciation expense and cannot rely on depreciation as a source of cash flow as much as other regulated industries. (TR 62) For example, witness D'Ascendis testified that water utilities' average depreciation rates in 2019 were 2.59 percent as compared to the natural gas and electric utilities that averaged depreciation rates of 3.35 percent and 3.64 percent, respectively. (TR 62) Witness D'Ascendis concluded that, “. . . the water utility industry's high degree of capital intensity and low depreciation rates, coupled with the need for capital spending to replace aging and failing water infrastructure, makes the need to maintain financial integrity and the ability to attract needed new capital through the allowance of a sufficient rate of return, increasingly important in order for water utilities to be able to successfully meet the challenges and investment needs they face.” (TR 63)

### **Financial Risk**

Financial risk is the additional risk that a company may not have sufficient cash flow to meet its financial obligations. (TR 63) The higher proportion of debt in the capital structure, the higher the financial risk which must be factored into the ROE. (TR 64) Witness Garrett explained the more risk an investor assumes the larger return the investor will demand. (TR 374) UIF proposed to use a capital structure consisting of 50.61 percent debt and 49.39 percent equity. (TR 66; TR 477) The range of equity ratios for the Utility Proxy Group is between 38.48 percent and 57.05 percent, with an average of 49.34 percent. (TR 66) Witness Garrett argued that because regulated utilities have large amounts of fixed assets, stable earnings, and low risk relative to other industries, they can afford to have relatively higher debt ratios for leverage. (TR 426) Competitive firms can minimize their cost of capital by including a sufficient amount of debt in their capital structures. (TR 427) Witness Garrett opined that the average debt ratios of a utility proxy group will likely be lower than what would be observed in a pure competitive environment. (TR 426)

### **UIF Critique of OPC Testimony**

Witness D'Ascendis disagreed with seven recommendations and assumptions in witness Garrett's testimony. (TR 515) First, witness Garrett's recommendation to increase the debt ratio in the capital structure from 50 percent to 55 percent is unreasonable because it is based on the debt ratios of non-utility industries. (TR 518) Second, witness Garrett's recommended ROE of 9.50 percent was not supported by the results of his cost of equity models. (TR 519) Third, witness Garrett confused the relationship between the allowed ROE, the required ROE, the expected return, and the cost of equity. (TR 521) Fourth, witness Garrett incorrectly concluded that allowed returns for utility companies exceed the required return on the market. (TR 525) Fifth, witness Garrett did not apply the DCF model appropriately. (TR 528) Sixth, witness Garrett did not apply the CAPM appropriately. (TR 535) Seventh, witness Garrett did not consider using a small size premium for UIF in his ROE recommendation. (TR 545)

### **Capital Structure**

Witness D'Ascendis rebutted witness Garrett's recommendation to increase UIF's debt ratio in its capital structure from 50 percent to 55 percent and explained the CRRRA (Certified Rate of Return Analyst) Guide recommends using a hypothetical capital structure when 1.) the utility's capital structure is deemed to be substantially different from the typical or proper capital

structure, or 2.) the utility's capital structure is funded as part of a diversified organization whose overall capital structure reflects its diversified nature rather than its utility operations only.<sup>40</sup> (TR 516-517) Further, witness D'Ascendis pointed out that UIF's parent capital structure is in line with the capital structures of the companies in the Utility Proxy Group and UIF's parent, Corix Regulated Utilities, Inc., which solely operates regulated water utilities and is not diversified. (TR 517) UIF's proposed capital structure consisting of a common equity ratio of 49.39 percent compares very closely with that of the Utility Proxy Group's average capital structure consisting of 49.34 percent. (TR 517-518)

### ***Lack of Empirical Basis for 9.50 percent ROE***

Witness D'Ascendis argued that witness Garrett's recommended ROE of 9.50 percent is fundamentally disconnected from his analytical model results of 6.00 percent and far removed from observable and relevant data. (TR 519) Witness D'Ascendis disagreed with witness Garrett's application of the concept of gradualism to this case and pointed out that gradualism is usually applied from the ratepayers' viewpoint as a method to avoid rate shock and is not applicable to the awarded ROE. (TR 520) In rebuttal, witness D'Ascendis stated, "Given that Mr. Garrett's analyses in this case point to a lower return of 6.00%, but he recommended a 9.50% return, it is unclear to the extent that Mr. Garrett finds the analyses he presents to be reliable, as they clearly have no correlation with his recommendation." (TR 520) Witness D'Ascendis opined that witness Garrett's recommendation is without merit or empirical support, and should be given no weight by the Commission. (TR 520)

### ***Relationship between various types of returns and ROE***

In his rebuttal testimony, witness D'Ascendis opined that witness Garrett's explanation of the relationship between the allowed ROE and investor-required ROE changed throughout his testimony. (TR 521) On page 5 of his testimony, witness Garrett stated, "While cost of equity, required ROE, earned ROE and awarded ROE are interrelated factors and concepts, they are all technically different from each other." (TR 521; TR 354) Witness D'Ascendis then claimed witness Garrett contradicted his prior statement on page 14 by stating that awarded ROEs and cost of equity are very different concepts. (TR 521) Witness D'Ascendis contended that witness Garrett continued to change his position regarding the equivalency, or non-equivalency of the allowed and required ROE. (TR 521) Witness D'Ascendis rebutted witness Garrett by explaining "For regulated utilities, the ROE equals the investor-required return on equity which equals the allowed ROE, as reflected in the *Hope and Bluefield* Supreme Court decisions cited in both my Direct Testimony and Mr. Garrett's testimony." (TR 522)

### ***Allowed ROEs Exceed the Investor-required return on the market***

Witness D'Ascendis argued that witness Garrett's conclusion that allowed ROEs have exceeded the investor-required return on the market is his own opinion and misplaced. (TR 525) Witness D'Ascendis disagreed with witness Garrett's methodology used to calculate the market cost of equity which ranged from a high of 11.96 percent in 1990 to 7.12 percent in 2019, with the lowest result of 6.91 percent in 1998. (TR 526; EXH 79) In rebuttal, witness D'Ascendis calculated the market cost of equity for the same period using his PRPM methodology which ranged from approximately 19 percent in 1990 to 13.50 percent in 2019. (TR 527-528) Witness

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<sup>40</sup>See, David C. Parcell, *The Cost of Capital – A Practitioner's Guide*, Prepared for the Society of Utility and Regulatory Financial Analysts, 2010 Edition, at 47.

D'Ascendis opined that his results made intuitive sense as the ratio of allowed ROEs versus the required market return averages about 0.70, which is consistent with utility betas over the same period. (TR 527)

### ***Misapplication of the DCF Model***

Witness D'Ascendis argued that witness Garrett's use of a 3.90 percent growth rate in his DCF model is not based on any measure of company-specific growth. (TR 529) Witness Garrett's assumption that one growth rate applies to all companies in the Utility Proxy Group has no basis in theory or practice. (TR 529) Further, GDP is not an upper limit for terminal growth in the DCF model as witness Garrett contends. (TR 531) GDP is not a market measure, but rather a measure of the value of the total output of goods and services, excluding inflation, in an economy. (TR 531) Witness D'Ascendis argued that while projected growth in earnings per share (EPS) is not a market measure, it is well established in financial literature that EPS is the superior measure of dividend growth in a DCF model. (TR 531; EXH 151, attachments 8-11) Since the utility industry is in its mature phase of the company life cycle, which is characterized by limited investment opportunities and steady earnings growth, the company-specific projected EPS growth rate, not the projected GDP growth rate is the appropriate measure for growth in the DCF model. (TR 531)

### ***Misapplication of the CAPM***

Witness D'Ascendis disagreed with witness Garrett's use of the average 30-year U.S. Treasury Yields to estimate his risk-free rate and the various methods he used to estimate the MRP (market return less the risk-free rate). (TR 535) Witness Garrett's risk-free rate is not based on prospective estimates in contradiction to his testimony that a forward looking risk premium should be used in the CAPM. (TR 535; TR 406) The MRP surveys used by witness Garrett, such as the Duff and Phelps survey, are based on an expected return on the market which has no relevance to the investor-required return. (TR 536; TR 411) Further, the Graham and Harvey survey did not provide a reasonable prospective market return estimate. (TR 537) Witness D'Ascendis demonstrated that the Graham and Harvey survey respondents have provided forecasts that significantly underestimated actual market returns. (TR 537) From 2012 through 2019 the Graham and Harvey Survey averaged an expected market return of 5.30 percent while the actual average market return was 15.55 percent. (TR 537-538) Witness D'Ascendis opined witness Garrett's implied MRP using the Constant Growth DCF methodology is based on a series of questionable assumptions, to which a small set of very reasonable adjustments produces a higher market return estimate. (TR 543) Witness Garrett argued witness Garrett's growth rate of 5.37 percent is too low and he should have used the arithmetic mean which would have equated to a growth rate of 7.35 percent and an estimated market return of 7.98 percent. (TR 541) Witness Garrett's CAPM analysis is flawed because it uses a historical risk-free rate and MRPs based on expected returns. (TR 544)

### ***Lack of a Small Size Premium***

Witness D'Ascendis took issue with witness Garrett's position that a small size premium is not necessary as studies have shown that small-cap stocks do not consistently outperform large-cap stocks, and therefore, a small size premium is not appropriate. (TR 545; TR 418) Witness D'Ascendis argued that witness Garrett's position focuses only on the returns of small companies versus large companies. (TR 545) Smaller companies face greater risk than larger

companies as they are less able to overcome significant events that affect business operations. (TR 545) As quoted by witness D'Ascendis, Duff & Phelps indicated that the size of a company is one of the most important risk elements to consider when developing cost of equity estimates. Duff & Phelps' 2017 Valuation Handbook – U.S. Guide to Cost of Capital: Cost of Capital Navigator states:

The size of a company is one of the most important risk elements to consider when developing cost of equity estimates for use in valuing a firm. Traditionally, researchers have used market value of equity (i.e., “market capitalization” or simply “market cap”) as a measure of size in conducting historical rate of return research. For example, the Center for Research in Security Prices (CRSP) “deciles” are developed by sorting U.S. companies by market capitalization. Another example is the Fama-French “Small minus Big” (SMB) series, which is the difference in return of “small” stocks minus “big” (i.e., large) stocks, as defined by market capitalization. (TR 546; EXH 151, Attachment 24, P. 2 of 3)

Witness D'Ascendis pointed to additional articles supporting the applicability of a size premium making clear that size is a risk factor that must be taken into account when setting the cost of capital. (TR 547-548; EXH 151, attachment 25) Further, the Commission's annual leverage formula allows for a 0.50 percent private placement premium and a 0.50 percent small size premium to recognize smaller companies are considered by investors to be more risky than larger companies. (TR 548)

### **Commission's Leverage Formula**

Both witness D'Ascendis and witness Garrett discussed the Commission's leverage formula in their respective testimonies. (TR 51; TR 360) Using UIF's equity ratio in the Commission's leverage formula yielded a result of 9.69 percent. (TR 51; TR 360) UIF witness D'Ascendis argued that the leverage formula result of 9.69 percent underestimated the current investor-required return for UIF. (TR 52) OPC witness Garrett testified that his results from the CAPM and DCF model indicate UIF's cost of equity is much lower than the Commission's leverage formula result of 9.69 percent. (TR 361) Witness Garrett further testified that he believed the Commission's leverage formula did not add any marginal value to the analytical process beyond the CAPM and DCF Model. (TR 361) Further, witness Garrett questioned whether the Commission's leverage formula met the Supreme Court's *Hope and Bluefield* standard because the leverage formula did not measure the cost of equity and there is no input to account for market risk, or the effect of market risk on UIF. (TR 360) In deposition, witness Garrett admitted he was not intimately familiar with the theory behind the Commission's leverage formula and was not sure how the formula is calculated or derived. (EXH 183, BSPs 00946-00947) Neither witness provided convincing testimony that the Commission's annual leverage formula was inaccurate or inappropriate for setting a ROE for small Florida water and wastewater utilities.

### **Declining Authorized ROEs**

As presented in witness Garrett's testimony, according to Regulatory Research Associates (RRA) the average authorized ROEs for water utilities in the U.S. have declined from approximately 10.25 percent in 2006 to approximately 9.40 percent in 2017. (TR 368) In his deposition, witness D'Ascendis confirmed that according to RRA the annual average allowed

return on equity for water utilities has been below 10 percent since 2012; however, he also stated that the below 10 percent rate was the average and not all of the allowed ROEs were below 10 percent, and a few were 10.50 percent. (EXH 184, BSPs 01005-01006)

### **Summary**

In general, UIF witness D'Ascendis used cost of equity models and assumptions that produced a high ROE estimate, while OPC witness Garrett used cost of equity models and assumptions that produced a low ROE estimate. The appropriate ROE is greater than OPC's recommended ROE of 9.50 percent and lower than UIF's recommended ROE of 11.75 percent. The range of results of the witnesses' cost of equity models is 6.00 percent to 11.66 percent.

The only cost of equity model analysis that supports a 10.75 percent ROE is UIF witness D'Ascendis' Predictive Risk Premium Model (PRPM) with an average result of 11.66 percent. (EXH 51, P 15) However, the record showed that the PRPM is based on the GARCH model which used Eviews statistical software to derive a predictive equity risk premium which is added to a projected risk-free rate. (EXH 51, P 15) This method is akin to a black box calculation where the inputs were entered and a result was produced using statistical software. (TR 70-72) Witness D'Ascendis and his colleagues developed the PRPM method and admitted that it is used primarily by himself and other colleagues familiar with the methodology. (EXH 184, BSPs 00985-00988) The record failed to support that witness D'Ascendis' PRPM methodology is widely accepted by other jurisdictions as a method to estimate the equity risk premium. Therefore, staff believes the cost of equity models using the PRPM should be discounted in this case.

Witness D'Ascendis also used a proxy group of twelve competitive unregulated companies of statistically equal risk to the Utility Proxy Group to derive a cost of equity of 11.48 percent. (TR 82-84; EXH 51, Ps 28-38). Witness D'Ascendis included the derived cost of equity of 11.48 percent for his non-price regulated company proxy group in his overall average for the individual cost of equity models for the Utility Proxy Group. This practice inflated the overall results of witness D'Ascendis' cost of equity models by 30 basis points. (TR 54; EXH 51, P 3) Staff agrees with OPC witness Garrett that there is no marginal benefit in this case from applying the same CAPM and DCF models to a group of non-price regulated, non-utility companies. (TR 416)

Staff agrees with UIF witness D'Ascendis that OPC witness Garrett's cost of equity model results of 6.00 percent has no correlation to, and does not provide any empirical support for, his recommended ROE of 9.50 percent. (TR 519-520) Further, a cost of equity of 6.00 percent is unreasonable considering that investors require a higher return on equity over debt and the cost of long-term debt for UIF is 5.78 percent. (TR 423, Issue 21) Therefore, witness D'Ascendis' traditional forms of the CAPM and DCF models should be given more weight than witness Garrett's CAPM and DCF models.

Staff recommends that the Commission place greater weight on the traditional forms of the CAPM and DCF models applied to a comparable Utility Proxy Group. Witness D'Ascendis' DCF model average result for the Utility Proxy Group was 8.70 percent using an average growth estimate of approximately 6.88 percent. (EXH 51, P 6) In comparison, OPC witness Garrett's DCF model result was 6.00 percent, using a growth rate of 3.90 percent. (EXH 71) Staff agrees with witness D'Ascendis that using an estimate for GDP of 3.90 percent as the growth rate in the

DCF model for calculating the cost of equity using the Utility Proxy Group is inappropriate because it is not based on any measure of growth in the utility industry. (TR 529)

Witness D'Ascendis routinely used assumptions and estimates towards the high end of the range of reasonableness in his cost of equity models. In his CAPM and ECAPM analyses, witness D'Ascendis used estimates for the return on the total market of 18.71 percent, 14.79 percent, and 13.53 percent, which translated into equity risk premiums of 15.50 percent, 11.95 percent, and 11.58 percent. (EXH 51, P 27) Additionally, in one of his risk premium derivations, witness D'Ascendis calculated an average equity risk premium of 6.68 percent using a total market approach and added the result to an adjusted prospective bond yield for the Utility Proxy Group of 3.82 percent. The result was 10.50 percent. (EXH 51, P 16) This result is higher than UIF's current allowed ROE of 10.40 percent.

In his deposition, witness D'Ascendis confirmed that his cost of equity models reflect a return on the total market of approximately 14 percent. (EXH 183, BSP 01010) However, witness D'Ascendis admitted that the historical return on the U.S. stock market has averaged 12.10 percent. Witness D'Ascendis opined that, statistically, the difference between 12 and 14 percent is indistinguishable. (EXH 183, BSP 01010) However, by using the higher estimated return on the market, witness D'Ascendis' results from his cost of equity models were inflated.

In his traditional CAPM derivation, witness D'Ascendis obtained a result for the Utility Proxy Group of 10.46 percent using a return on the market of approximately 14 percent. (EXH 51, P 26) However, if witness D'Ascendis used the average market return of 12.10 percent in his traditional CAPM derivation, along with his estimated average Beta coefficient of 0.69 and his projected risk-free rate of 2.00 percent, the result would be 9.17 percent [ $12.10\% = 2.00\% + 0.71(12.10\% - 2.00\%)$ ]. Consequently, using a bullish estimated market return of 14 percent yielded an estimated cost of equity 136 basis points. The higher ROE estimate, based on the highest market return projection, is significant when applying the result to the overall cost of capital used to set the rates UIF charges to its ratepayers.

Averaging the result of 8.70 percent from UIF witness D'Ascendis' DCF model with the result of 9.17 percent from his traditional CAPM model using an average market return of 12.10 percent, yields an estimated cost of equity of 8.94 percent. Recognizing that UIF's small size relative to the companies included in the Utility Proxy Group contributes to additional business and financial risk for UIF as compared to the companies in the Utility Proxy Group, staff believes the record reasonably supports an ROE of 9.90 percent.

## **CONCLUSION**

Based on the aforementioned, the record does not reliably support an ROE of 11.75 percent. The traditional CAPM and DCF models presented in the record, when simplified, more reliably support an indicated cost of equity of 8.94 percent. Recognizing UIF's smaller size as compared to the companies in the Utility Proxy Group contributes to additional risk, staff believes the record reasonably supports an ROE of 9.90 percent. UIF's current allowed ROE is 10.40 percent. The record indicates that allowed ROEs across the country have been trending downward to an average of below 10.00 percent. Further, the Commission's annual leverage formula reflected an estimated allowed ROE of 9.70 percent based on UIF's equity ratio of 49.39 percent. Therefore,

staff recommends that the appropriate ROE for UIF is 9.90 percent with a range of plus or minus 100 basis points.

**Issue 23:** What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure?

**Recommendation:** The appropriate capital structure consists of 49.39 percent common equity, 45.58 percent long-term debt, and 5.03 percent short-term debt as a percentage of investor sources. Based on the proper components, amounts, and cost rates associated with the capital structure for the 13-month average test year ended December 31, 2019, as discussed in Issues 18 through 22, the appropriate weighted average cost of capital for UIF for purposes of setting rates in this proceeding is 7.02 percent. (D. Buys)

### **Position of the Parties**

**UIF:** 7.889%.

**OPC:** The appropriate WACC based on OPC's proposed capital structure and cost rates is 6.73%.

### **Staff Analysis:**

## **PARTIES' ARGUMENTS**

### **UIF**

UIF argued that the weighted average cost of capital (WACC) is a fallout from the determinations of Issues 18 through 21. (UIF BR 19) Witness D'Ascendis argued that UIF's proposed capital structure is reasonable as compared with the range of equity ratios maintained by the Utility Proxy Group from which he derived his recommended common equity cost rate in Issue 22. (UIF BR 16; TR 518) Witness D'Ascendis also argued that UIF's proposed capital structure consisting of a common equity ratio of 49.39 percent compares very closely with that of the Utility Proxy Group's average capital structure consisting of 49.34 percent. (TR 517-518)

### **OPC**

OPC argued the appropriate WACC based on OPC's proposed capital structure is 6.73 percent. (OPC BR 17) Witness Garrett recommended the Commission increase the long-term debt ratio in UIF's capital structure used for setting rates from approximately 45 percent to 50 percent. (TR 428) Witness Garrett opined that, comparatively, the Utility Proxy Group has an average debt ratio of 50 percent. (TR 430: EXH 81) Witness Garrett argued that UIF's proposed capital structure consists of an insufficient amount of debt, especially since UIF's awarded ROE will certainly be above its market-based cost of equity. (TR 430) Witness Garrett explained that equity capital has a higher cost than debt capital and companies can reduce their weighted average cost of capital (WACC) by increasing their debt financing. (TR 423) Witness Garrett argued that while competitive firms maximize their value by minimizing their WACC, regulated utilities increase their revenue requirement by increasing their WACC. (TR 425)

## **ANALYSIS**

In its MFRs, UIF requested a capital structure based on a 13-month average as of December 31, 2019, consisting of common equity in the amount of \$66,098,114 (49.39 percent), long-term debt

in the amount of \$60,999,232 (45.58 percent) and short-term debt in the amount of \$6,731,596 (5.03 percent) as a percentage of investor supplied capital. (EXH 48, P 99) The ratios of UIF's investor supplied capital is based on the actual capital structure of the Utility's parent company, Corix Regulated Utilities, Inc. (TR 517, EXH 48, P 99-100) The Utility appropriately used the 13-month average to determine the capital structure for Class A utilities as required by Rule 25-30.433(4), F.A.C. UIF reconciled the capital structure to the UIF rate base using only its investor sources of capital. (EXH 48, P 100) When reconciled to the UIF rate base, the ratios are reduced to 44.85 percent for common equity, 41.39 percent for long-term debt, and 4.57 percent for short-term debt. (EXH 48, P 100)

**UIF**

Witness D'Ascendis argued that UIF's common equity ratio of 49.39 percent is reasonable and consistent with the range of common equity ratios maintained by the companies in the Utility Proxy Group. (TR 66) The range of common equity ratios for the Utility Proxy Group is between 38.48 percent and 57.05 percent, with an average of 49.34 percent. (TR 66) Witness D'Ascendis maintained that a long-term debt cost rate of 5.78 percent and a short-term debt cost rate of 4.04 percent are appropriate as they are the actual 13-month average debt cost rates for UIF's parent company. (TR 66-67)

**Table 23-1  
 UIF Requested Weighted Average Cost of Capital**

<b>Capital Component</b>	<b>Amount</b>	<b>Percentage</b>	<b>Cost Rate</b>	<b>Weighted Cost</b>
Long-Term Debt	\$60,999,232	41.59%	5.78%	2.40%
Short-Term Debt	\$6,731,596	4.59%	4.04%	0.19%
Common Equity	\$66,098,114	45.07%	11.75%	5.30%
Customer Deposits	\$248,501	0.17%	2.00%	0.003%
Tax Credits – Zero Cost	\$73,443	0.05%		
ADITs	\$7,156,450	4.88%		
ADITs - TCJA	\$5,353,825	3.65%		
<b>Total Weighted Average Cost of Capital</b>		<b>100%</b>		<b>7.89%</b>

**OPC**

Witness Garrett argued that UIF's proposed capital structure consists of an insufficient amount of debt, especially since UIF's awarded ROE will certainly be above its market-based cost of equity. (TR 430) Accordingly, witness Garrett recommended the Commission apply a capital structure consisting of 45 percent common equity, 50 percent long-term debt, and 5 percent short-term debt. (TR 430) Witness Garrett argued that under the rate base rate of return model, a higher WACC results in higher rates, all else held constant. (TR 435) Witness Garrett argued UIF's proposed debt ratio is far too low, and if adopted, would result in a reasonably high WACC for shareholders. (TR 436) OPC witness Crane testified to the WACC recommended by OPC as presented in Table 23-2.

**Table 23-2  
OPC Recommended Weighted Average Cost of Capital**

<b>Capital Component</b>	<b>Amount</b>	<b>Percentage</b>	<b>Cost Rate</b>	<b>Weighted Cost</b>
Long-Term Debt		45.63%	5.78%	2.64%
Short-Term Debt		4.56%	4.04%	0.184%
Common Equity		41.06%	9.50%	3.90%
Customer Deposits		0.17%	2.00%	0.003%
Tax Credits – Zero Cost		0.05%		
ADITs		4.88%		
ADITs - TCJA		3.65%		
<b>Total Weighted Average Cost of Capital</b>		<b>100%</b>		<b>6.73%</b>

(TR 263)

The weighted average cost of capital is a fallout issue that combines the cost rates and amounts of the capital components into a final rate of return. As discussed in Issue 18, the appropriate total amount of ADITs is \$12,510,275. For Issues 19 through 21, the cost rates for long-term debt (5.78 percent), short-term debt (4.04 percent), and customer deposits (2.00 percent) are stipulated. As staff recommended in Issue 22, the appropriate ROE is 9.90 percent. Record evidence indicates that using the capital structure of UIF’s parent, Corix Regulated Utilities, Inc., is reasonable and is comparable with the equity ratios of other regulated water utility companies in the Utility Proxy Group. Therefore, staff agrees with UIF that appropriate capital structure consists of 49.39 percent common equity, 45.58 percent long-term debt, and 5.03 percent short-term debt as a percentage of investor sources. The appropriate WACC is presented in Schedule No. 2 and in Table 23-3.

**Table 23-3  
Staff Recommended Weighted Average Cost of Capital**

<b>Capital Component</b>	<b>Amount</b>	<b>Percentage</b>	<b>Cost Rate</b>	<b>Weighted Cost</b>
Long-Term Debt	\$57,822,168	41.39%	5.78%	2.39%
Short-Term Debt	\$6,382,518	4.57%	4.04%	0.18%
Common Equity	\$62,653,823	44.85%	9.90%	4.44%
Customer Deposits	\$248,501	0.17%	2.00%	0.00%
Tax Credits – Zero Cost	\$73,443	0.05%		
ADITs	\$7,156,450	5.12%		
ADITs - TCJA	\$5,353,825	3.83%		
<b>Total Weighted Average Cost of Capital</b>		<b>100%</b>		<b>7.02%</b>

### CONCLUSION

The appropriate capital structure consists of 49.39 percent common equity, 45.58 percent long-term debt, and 5.03 percent short-term debt as a percentage of investor sources. Based on the proper components, amounts, and cost rates associated with the capital structure for the 13-month average test year ended December 31, 2019, as discussed in Issues 18 through 22, the appropriate weighted average cost of capital for UIF for purposes of setting rates in this proceeding is 7.02 percent.

**Issue 24:** What are the appropriate test year revenues?

**Recommendation:** The appropriate test year revenues for UIF's water and wastewater systems are \$16,621,916 and \$20,308,695, respectively. UIF's test year revenues should be increased by \$17,989 for water and \$2,813 for wastewater. (Bethea, Bruce, Sibley)

**Position of the Parties**

**UIF:** Water - \$16,603,928; Wastewater - \$20,305,882.

**OPC:** Regarding proposed rates, there should be adjustments of \$1,693,982 to UIF's claimed water revenue deficiency of \$2,823,848. Also, OPC's proposed sewer adjustments indicate a revenue deficiency of no more than \$2,720,043, per Exhibit ACC-3, Schedule 1, update attached hereto as Attachment A.<sup>41</sup> This reflects revenue requirement adjustments of \$3,809,340 to the Company's claimed revenue deficiency of \$6,529,383.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**UIF**

UIF argued the appropriate test year revenues are \$16,603,928 for water and \$20,305,882 for wastewater, as set forth in the Utility's MFRs. (UIF BR 20) (EXH 210)

**OPC**

OPC did not propose any adjustments to the Utility's adjusted test year revenues. (OPC BR 17) However, OPC argued there should be adjustments of \$1,693,982 to UIF's claimed water revenue deficiency of \$2,823,848, as shown on Exhibit ACC-2, Schedule 1, which results in an overall water revenue increase of no more than approximately 6.8 percent. For wastewater, OPC argued that the adjustments indicate a revenue deficiency of no more than \$2,720,043, which reflects revenue requirements of \$3,809,340 to the Utility's revenue deficiency of \$6,529,383. This would result in an overall wastewater increase of no more than approximately 13.4 percent. (OPC BR 17-18)

**ANALYSIS**

In its MFRs, the Utility reflected test year revenues of \$16,603,928 for water and \$20,305,882 for wastewater. (EXH 210) UIF contended that its MFR schedules reflect the appropriate amount of test year revenues. (EXH 210) The test year revenues consist of service revenues of \$16,243,430 and miscellaneous revenues of \$360,497 for water. For wastewater, test year revenues consist of service revenues of \$19,974,976 and miscellaneous revenues of \$330,906. Pursuant to the audit report, the Utility understated the number of water residential bills by 1,323

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<sup>41</sup> Prior to the update, OPC's proposed sewer adjustments indicated a revenue deficiency of no more than \$2,577,689. This reflected revenue requirement adjustments of \$3,951,694 to the Company's claimed revenue deficiency of \$6,529,383. OPC's original proposed adjustments would result in an overall sewer revenue increase of no more than approximately 12.7%.

in its MFR Schedule E-2, which results in the understatement of water test year revenues by \$14,923. (EXH 90)

In addition, the Utility had a price index adjustment during the test year resulting in an increase to service rates and miscellaneous service charges. However, in its MFRs, the Utility annualized services revenues, but it did not annualize miscellaneous revenues. Annualizing for the increase in miscellaneous service charges results in miscellaneous revenues of \$363,563 for water and \$333,719 for wastewater. (EXH 148) As a result, test year revenues should be increased by \$3,066 ( $\$363,563 - \$360,497$ ) for water and \$2,813 ( $\$333,719 - \$330,906$ ) for wastewater. OPC's arguments pertain to UIF's requested revenue increase rather than the test year revenues.

Based on the above, the appropriate test year revenues for UIF's water and wastewater systems are \$16,621,916 and \$20,308,695, respectively. UIF's test year revenues should be increased by \$17,989 ( $\$14,923 + \$3,066$ ) for water and \$2,813 for wastewater.

**Issue 25:** What is the appropriate amount of rate case expense?

**Approved Type II Stipulation:** The appropriate amount of rate case expense is \$743,084. This should be amortized over four years for an annual expense of \$185,771. Based on the Utility's original request for amortization of rate case expense of \$197,144, annual amortization of rate case expense should be decreased by \$11,373. Pursuant to Order No. PSC-2019-0363-PAA-WS, \$39,727 of the total rate case expense is appellate and remand rate case expense related to Docket No. 20160101-WS.

**Issue 26:** Should any adjustment be made to the Utility's proposed pro forma expense?

**Recommendation:** Yes. Pro forma expenses should be decreased by \$145,884 for water and \$350,418 for wastewater. (Doehling, Knoblauch, D. Andrews)

**Position of the Parties**

**UIF:** Yes.

618/718 Chemicals, Water - (\$29,448), Sewer - \$1,121

675/775 Telephone Expense, Water – (\$480), Sewer – (\$439).

**OPC:** No post-hearing position was provided in its brief.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**UIF**

UIF argued that adjustments to chemical expense related to its Lake Groves facilities were needed, as well as adjustments to telephone expense related to the new employees requested in this proceeding. However, no adjustment to telephone expense was required for the full-time position that UIF had requested be converted from a current part-time position to full-time. (UIF BR 20, EXH 150) The Utility stated that two adjustments should be made to salaries, consisting of annualizing the three-percent salary increase so that a full year of salary expense was included, and to increase the salaries another three percent for the annualized salary increase that would take place in 2020. UIF stated that OPC witness Crane testified that it was not appropriate to include new post-test year employees; however, the Utility argued that witness Crane “overlooked the fact that the Commission approved new but not yet hired employees as a pro forma adjustment in UIF’s last rate case.” (UIF BR 20)

**OPC**

OPC argued that it was the Utility’s burden to prove that the additional employees it requested were needed. OPC also stated that UIF had admitted that it had not yet hired any of the additional employees; therefore, O&M expense should be reduced by \$107,421 for water and \$98,602 for wastewater. (OPC BR 18)

**ANALYSIS**

UIF requested several pro forma expense adjustments in its MFRs. (EXH 48, P 52) OPC witness Crane testified that for the requested pro forma expense adjustments, the Utility had not provided a description of the adjustments or why the adjustments were necessary. Witness Crane stated supporting workpapers and calculations were requested from UIF for these adjustments; however, the information provided was inadequate in many cases. (TR 275-276) Witness Crane only included adjustments to the Utility’s requested salaries and benefits, telephone, and truck fleet expenses as she recommended denial of the new employees. (EXH 88, EXH 89) Witness Crane did not recommend an adjustment to any other pro forma expense discussed in this issue.

### **Amortized O&M Expense**

As discussed in Issue 3, staff is recommending the reclassification of costs associated with two pro forma plant projects (PCF-8, PCF-32) as amortized O&M expense. As such, wastewater miscellaneous expense should be increased by \$10,250 to amortize the WWTP permitting expenses in PCF-8 and \$15,278 to amortize the I&I inspection expenses in PCF-32.

### **Capitalized Labor**

In response to staff discovery, UIF indicated that capitalized labor expense was recorded for many of the pro forma projects as of October 1, 2020. (EXH 153, BSP 178-179) The capitalized labor is included in staff's recommended pro forma plant additions in Issue 3. As the labor expense is being recovered through the pro forma plant projects, a corresponding adjustment should be made to reduce test year salaries and wages expense. Although the Utility did not make this corresponding adjustment to its instant filing, capitalized Water Services Corporation (WSC) labor has been an issue previously addressed in several rate cases involving the former sister companies prior to its reorganization. The Commission allowed the inclusion of capitalized WSC labor expenses in rate case expense as long as the utility demonstrated that a corresponding reduction was made to test year salaries to remove the capitalized labor.<sup>42</sup> The Commission's decision was based on the principal of avoiding double recovery. The Commission has also previously approved this adjustment to capitalize labor associated with plant projects.<sup>43</sup> As such, staff recommends decreasing salaries and wages expense by \$61,245 for water and \$353,675 for wastewater. A corresponding adjustment should be made to decrease payroll tax expense by \$4,685 for water and \$27,056 for wastewater.

### **New Employee Positions**

UIF requested the addition of four new employee positions as pro forma expense adjustments. (EXH 48, P 52) The Utility also requested adjustments to telephone expense and truck fleet expense related to the new employees, which will be discussed in more detail below. The four requested positions included a meter reader, a meter technician, a full-time water/wastewater operator, and a part-time water/wastewater operator being converted to full-time. (EXH 156, BSP 215) For the requested meter reader position, UIF did not provide any description or information supporting the need for the position in its MFRs, witness testimony, or through discovery. The Utility also stated that none of the additional employees it requested had been hired. (EXH 163)

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<sup>42</sup> Order Nos. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, *In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida*; and PSC-14-0283-PAA-WS, issued May 30, 2014, in Docket No. 130212-WS, *In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.*

<sup>43</sup> Order Nos. PSC-99-1399-PAA-WU, issued July 21, 1999, in Docket No. 981663-WU, *In re: Application for staff-assisted rate case in Orange County by Tangerine Water Company, Inc.*; PSC-17-0209-PAA-WU, issued May 30, 2017, in Docket No. 160065-WU, *In re: Application for increase in water rates in Charlotte County by Bocilla Utilities, Inc.*

**Table 26-2**  
**UIF Requested Salary Adjustments for New Employees**

<b>Position</b>	<b>Requested Salary Adjustment</b>
Meter Reader	\$29,000
Meter Technician	\$40,956
Water/Wastewater Operator	\$52,000
Water/Wastewater Operator	\$18,400

Source: EXH 156

In response to discovery, UIF stated that the meter technician would test, calibrate, repair, and/or replace water meters in the Sanlando system. During the test year, Sanlando had experienced excessive unaccounted for water and the Utility indicated additional support was needed to flow test the large meters in the system. Sanlando has over 300 large meters in use which, due to the age of the meters, may be under-recording water use. UIF also stated that the current field staff was barely able to test ten percent of its meters annually, as required by the Commission, as well as fulfill the meter tests requested by customers and required by the water management district. (EXH 163) The Utility listed that a single meter technician was employed by UIF; however, it also staffed nearly 30 field technicians, who also perform some meter related tasks. (EXH 157, BSP 221)

An additional full-time water/wastewater operator was requested primarily in support of the Lake Groves WTP and WWTP, and occasionally for the Barrington WWTP. The Utility stated that this new full-time operator was needed to operate, maintain, manage, and monitor the Lake Groves WTP following the addition of chlorine dioxide to its treatment process. The position would also provide additional support at the Lake Groves WWTP, where plant flows have continued to increase due to customer growth in the service area, and the employee would help with the daily reclaimed water volume delivered to reuse customers. When needed, the new employee would also assist with monitoring, operating, and managing of the Barrington WWTP, which was acquired in 2019, and provide additional support during preparation and recovery from storms. As with the Eagle Ridge and Cross Creek WWTPs discussed below, the Lake Groves WWTP must be staffed by a certified operator for a minimum of six hours per day, seven days a week. (EXH 163) For Barrington and Lake Groves, UIF indicated it had a combined total of five water/wastewater operators assigned to the two systems. (EXH 161; BSP 271)

The conversion of a part-time water/wastewater operator position to a full-time position would be in support of the Eagle Ridge, Cross Creek, Sandalhaven, and Lake Placid systems. The Utility stated that the Eagle Ridge and Cross Creek WWTPs must be staffed a minimum of six hours per day, seven days a week to meet DEP Part III public access reclaimed water requirements. The conversion to a full-time position would provide an increase of 16 hours per week of available man-hours to staff the Cross Creek WWTP, particularly on weekends. Furthermore, the full-time position would allow for staffing at either of the Eagle Ridge or Cross Creek WWTPs in the event one of the other three plant operators was on leave or in training. UIF stated that based on recent storm events, additional manpower was needed to prepare for and recover from storms impacting its systems. (EXH 163) For the Eagle Ridge, Cross Creek, and

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Lake Placid WWTPs, UIF specified that it had a combined total of four operators assigned to the three systems. (EXH 161; BSP 271)

OPC witness Crane testified that it was inappropriate to include additional employees unless other corresponding adjustments were also made. Witness Crane argued that the costs the Utility incurred during the test year were the costs required to provide water and wastewater service, which included its employee base at the time. (TR 278) UIF's request for additional employees did not also include an adjustment to its water or wastewater sales to reflect post-test year growth. (TR 278-279) Witness Crane testified that the Utility had experienced customer growth over the period from December 2016 to the end of the test year, which included approximately 4 percent for water and 4.6 percent for wastewater. Specific to the test year, witness Crane stated that UIF experienced growth "of approximately 1.7 percent in the water utility and of 2.3 percent in the sewer utility." (TR 278) Therefore, witness Crane recommended that if the costs for the additional employees were included, a corresponding adjustment should be made to reflect additional revenues related to customer growth or, at a minimum, the actual growth that occurred during the test year should be annualized. (TR 279)

For the new meter technician and the part-time position moving to full-time, UIF did not indicate customer growth as a factor in the need for the additional employees. Instead, the two new positions would be to support existing operations, which require additional manpower to meet the necessary meter testing and DEP staffing requirements. For the new full-time operator position, the Utility stated that in addition to increased plant flows, an additional operator was needed due to the treatment change at Lake Groves and due to the recent acquisition of the Barrington system. Taking into account the information provided by UIF for the additional employees and the argument presented by witness Crane, customer growth does not appear to be the primary driver for the requested positions.

Considering the size of the Sanlando system, that only one meter technician is currently employed, and the Utility is attempting to address the issue of unaccounted for water, the addition of a new meter technician position for Sanlando appears reasonable. Staff believes that moving a part-time operator position to full-time is reasonable in order to ensure DEP staffing requirements are met for the Eagle Ridge, Cross Creek, Sandalhaven, and Lake Placid systems. Furthermore, accounting for the recent addition of the Barrington WWTP and the new treatment system at the Lake Groves WTP, staff believes the addition of a new operator position to support those systems is also reasonable. Finally, due to a lack of support, staff does not recommend approval of the meter reader position requested by UIF.

UIF allocated salary and wages and pensions and benefits expense for the requested meter reader based on ERCs. (EXH 156, BSP 215) As such, staff recommends decreasing UIF's requested salary and wages expense by \$15,121 ( $\$29,000 \times 52.14\%$ ) for water and \$13,879 ( $\$29,000 \times 47.86\%$ ) for wastewater. Additionally, staff recommends a corresponding adjustment to decrease UIF's requested pensions and benefits expense by \$7,830 ( $\$15,017 \times 52.14\%$ ) for water and \$7,187 ( $\$15,017 \times 47.86\%$ ) for wastewater. (EXH 156, BSP 215) There should also be a corresponding adjustment to decrease payroll tax expense by \$1,287 for water and \$1,181 for wastewater.

### **Labor Escalator**

The Utility requested an adjustment to increase salary and wages and pensions and benefits expense by 3.75 percent. (EXH 48, P 52) This includes two parts: (1) a 3.00 percent pro forma increase for the year after the test year, and, (2) a 0.75 percent increase to annualize test year salaries that were increased by three percent in April of the test year. (TR 797) OPC witness Crane recommended limiting this adjustment to 3.0 percent due to her belief that any further increase would essentially reflect costs in 2021. (TR 277) However, as UIF witness Swain indicated in her rebuttal testimony, the extra 0.75 percent increase is used to annualize the test year increase, not to move the increase beyond 2020. (TR 797) Further, the same 3.75 percent labor escalator was allowed in UIF's prior rate case in Order No. PSC-2017-0361-FOF-WS.<sup>44</sup> Therefore, staff recommends no adjustment.

### **Chemicals Expense**

UIF requested a \$71,653 adjustment to chemicals expense for the Lake Groves and Summertree systems. (EXH 48, P 52) For the Lake Groves system, UIF requested an increase of \$66,653 to annualize hydrochloric acid and sulfuric acid chemical costs. The Utility stated the Lake Groves water treatment process was upgraded in June 2019, which uses hydrochloric acid to maintain the level of disinfection byproducts below the required amount. (EXH 150, BSP 151; EXH 163, BSP 279-290) For its Lake Groves system, UIF indicated that a six-month supply of hydrochloric acid is \$1,121, which results in an annual cost of \$2,242. (EXH 150, BSP 151)

Further, the Utility stated that sulfuric acid is used to pretreat the raw water from Lake Groves Well 3. However, Well 3 could not be used for the first six months of 2019 while upgrades were being completed; therefore, no sulfuric acid was purchased during those months. (EXH 163, BSP 279-280) In response to discovery, UIF indicated that a six-month supply of sulfuric acid is \$37,205, which results in an annual cost of \$74,410. (EXH 150, BSP 151) This results in an annual chemical cost of \$76,652 (\$74,410 + \$2,242) for hydrochloric acid and sulfuric acid for the Lake Groves system. However, UIF included \$38,914 for sulfuric acid and hydrochloric acid chemicals in its MFRs for the test year. Therefore, staff recommends that an adjustment be made to reduce pro forma chemicals expense for Lake Groves by \$28,914 (\$76,652 - \$38,914 - \$66,653).

For the Summertree system, UIF requested a \$5,000 adjustment for chlorine dioxide chemicals as part of a pilot study performed under project PCF-38. (EXH 150, BSP 152) The Utility stated that the study was initiated to reduce chlorine demand in the piping system. (EXH 163, BSP 280) Witness Flynn stated the DEP approved the pilot study on August 8, 2020, and it will continue at least through January 19, 2021 or longer. (EXH 150, BSP 152) In addition, witness Flynn stated the required amount of chlorine dioxide is expected to decrease over time as the system reaches equilibrium over the course of the study. (EXH 150, BSP 152) Therefore, staff recommends that the \$5,000 adjustment for chlorine dioxide be removed, as the study is still ongoing, and the required amount of chlorine dioxide is unknown. Based on the above, staff recommends a total reduction of \$33,914 (\$28,914 + \$5,000) be made to chemicals expense.

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<sup>44</sup> Order No. PSC-2017-0361-FOF-WS, issued September 25, 2017, in Docket No. 20160101-WS, *In re: Application for rate increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.*

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### **Contractual Services - Testing Expense**

UIF requested a \$24,500 adjustment to Contractual Services – Testing, indicating that the adjustment was related to polyfluoroalkyl substances (PFAS) testing for the Summertree system. (EXH 48, P 52) In response to discovery, the Utility stated that in 2020, it had “sampled and analyzed each water system’s point of entry for the presence of PFAS constituents, specifically PFAS and PFOA.” (EXH 150, BSP 153) Staff requested documentation supporting the amount of \$24,500, and UIF provided an invoice totaling \$2,850 for testing related to its Orangewood system. However, the invoice provided was billed to the Utility’s parent company and no specific system name was indicated on the document. (EXH 149, BSP 148) No other documentation or justification was provided to support the \$24,500 adjustment. Therefore, staff recommends removing \$24,500 from Contractual Services - Testing due to a lack of documentation and justification to support the adjustment.

### **Contractual Services - Other Expense**

UIF requested an increase of \$33,600 to Contractual Services - Other, indicating that the adjustment was related to increased ground maintenance costs for the Sandalhaven and Eagle Ridge systems. (EXH 48, P 52) For the Eagle Ridge system, UIF requested a \$22,800 adjustment for the increased cost to maintain new sod and native plant species. (EXH 163, BSP 280-281) As part of project PCF-5, the Utility stated these items were required to be installed by Lee County to establish a visual buffer for a new field office and surge tank. (EXH 6) In response to discovery, UIF provided a monthly contract price for the groundwork totaling \$2,500. (EXH 164, BSP 295) This results in an annual contract service cost of \$30,000 for the Eagle Ridge system. Therefore, staff recommends that an adjustment be made to increase contract services by \$7,200 (\$30,000 - \$22,800) for the Eagle Ridge system.

For the Sandalhaven system, UIF requested a \$10,800 adjustment for ground maintenance costs. (EXH 48, P 52) In response to discovery, the Utility indicated it replaced the previous ground maintenance contractor for the Sandalhaven system because they did not adequately maintain the property or provide maintenance at any of the 13 lift stations. (EXH 163, BSP 280-281) In response to discovery, UIF provided a monthly contract for the new ground maintenance contractor totaling \$900. (EXH 164, BSP 295) This results in an annual contract service cost of \$10,800 for the Sandalhaven system. However, since the contract started in July 2019, UIF included \$5,400 in its MFRs for the test year. Therefore, staff recommends that an adjustment be made to decrease contractual services by \$5,400 (\$10,800 - \$5,400) for the Sandalhaven system to account for the six months of the annual contract service already included. Based on the above, staff recommends a total adjustment be made to increase Contractual Services - Other by \$1,800 (\$7,200 - \$5,400).

### **Telephone Expense**

As discussed above, UIF requested the addition of four new employees and the costs associated with those positions. One of the requested adjustments related to the new employees was an increase to telephone expense of \$1,917 for water and \$1,759 for wastewater. (EXH 48, P 52) In response to discovery, the Utility indicated that these adjustments were originally for four new employees; however, the new positions included a current part-time employee moving to full-time. Therefore, only three of the new positions would require a phone and UIF decreased its requested adjustments to \$1,437 for water and \$1,320 for wastewater. (EXH 150, BSP 154) As

discussed above, staff is recommending approval of three of the requested employees, including the conversion of the part-time position to full-time. Based on the documentation and justification provided by the Utility, staff recommends the appropriate telephone expense should be \$958 for water and \$880 for wastewater for the two new positions requiring phones. (EXH 149, BSP 148) Therefore, staff recommends decreasing UIF's requested telephone expense adjustments by \$959 for water and \$879 for wastewater.

### **Truck Fleet Expense**

UIF requested an adjustment to truck fleet expense of \$6,931 for water and \$6,362 for wastewater. (EXH 48, P 52) The Utility indicated that these adjustments were for three new vehicles, which would be needed for the new employees. UIF stated that it currently has "79 vehicles assigned to Utility employees. The adjustment in fleet expense reflects the increase to 82 assigned vehicles and thus a pro rata increase of 3.8 percent in fleet expense in the test year." (EXH 163, BSP 281) Staff updated the requested truck fleet expense amounts to \$4,615 for water and \$4,236 for wastewater to reflect the recommended disallowance of one new employee. Therefore, staff recommends decreasing UIF's requested truck fleet expense adjustments by \$2,316 for water and \$2,126 for wastewater.

### **CONCLUSION**

Based on the above, staff recommends pro forma expense should be decreased by \$145,884 for water and \$350,418 for wastewater.

**Issue 27:** Should any further adjustments be made to the Utility's test year O&M expenses?

**Recommendation:** Yes. Test year O&M expenses should be decreased by \$55,135 for water and \$55,617 for wastewater. (D. Andrews, Kistner, Thompson)

**Position of the Parties**

**UIF:** Yes. Water - \$373,246; Wastewater - \$575,233.

**OPC:** Yes. OPC proposes that several adjustments to the Company's pro forma expense claims should be made, as discussed on pages 20-41 of Ms. Crane's testimony. The total adjustments should be \$331,436 for water and \$304,228 for sewer. OPC's expense adjustments are summarized on Exhibit ACC-2, Schedule 8 for water and on the updated exhibit ACC-3, Schedule 9 for sewer.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**UIF**

In its brief, UIF argued that the Commission should allow for the recovery of lobbying expenses that are for the benefit of customers through rates. (UIF BR 22) UIF claimed that lobbying activities related to Fair Market Value (FMV) legislation would reduce the cost for current customers "by allowing UIF to spread individual system costs over a larger customer base" and would benefit new customers by "achieving economies of scale for the systems acquired." (UIF BR 22; TR 559) Given the "unique nature" of the lobbying, UIF stated that it is appropriate for these costs to be recovered through rates. (UIF BR 22)

Additionally, UIF argued that the Commission has frequently approved the recovery of costs associated with Incentive Compensation Plans (ICP) through rates. (UIF BR 21) UIF contended that OPC witness Crane's recommendation to disallow 50-percent of the expense was arbitrary. (UIF BR 21) UIF further stated that arbitrary action, such as that recommended by OPC, has previously been struck down in court.<sup>45</sup> (UIF BR 21) UIF also stated that unlike the Florida Power & Light Company (FPL) case that OPC relied upon in its argument to disallow, witness Crane made no attempt to evaluate whether total compensation to employees was unnecessary or unreasonable, nor did the witness argue such.<sup>46</sup> (UIF BR 21; TR 592) UIF further highlighted the testimony of UIF witness EliceGUI which presented results of a study in order to demonstrate that total compensation is reasonable and concluded that "compensation amounts compared favorably to the market." (TR 44-45; EXH 55, 56, 57; UIF BR 21)

In its brief, UIF also argued that the Commission recognizes that "a utility may legitimately include severance payments to employees as part of its base rate calculation."<sup>47</sup> (UIF BR 21) UIF

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<sup>45</sup> *Florida Bridge Company v. Bevis*, 363 So. 2nd 799 (Fla. 1978)

<sup>46</sup> Order No. PSC-10-0153-FOF-EI, issued March 17, 2010, in Docket No. 080677-EI, *In re: Petition for increase in rates by Florida Power & Light Company*.

<sup>47</sup> Order No. PSC-92-0708-FOC-TL, issued July 24, 1992, in Docket No. 910980-TL, *In re: Application for a rate increase by United Telephone Company of Florida*.

contended that OPC witness Crane's testimony stating that UIF did not provide detail for this expense was false and that details were provided in a discovery request response. (TR 280; TR 590; EXH 157, BSP 223; EXH 169, BSP 320-321). UIF also stated that while the Commission usually adopts the three-year average when determining the appropriate amount for variable expenses, the Utility did not request an adjustment to the test year, as the test year amount was less than the three-year average approach. (UIF BR 21; TR 591)

## **OPC**

In its brief, OPC asserted that the Commission has a policy of disallowing lobbying expenses. (OPC BR 18) OPC argued that UIF did not present evidence of any benefit received by customers for its lobbying related to its Fair Market Value (FMV) legislation and as such any recovery through rates would be inappropriate. (OPC BR 19) Furthermore, OPC claimed that the bill would have benefited shareholders instead of customers. (OPC BR 19) Additionally, OPC stated that while UIF claimed both customers and shareholders would have benefited from the legislation, the Commission should disallow the entire cost because the Utility failed to present evidence that it attempted to quantify the actual benefit to customers or apportion the costs between customers and shareholders. (TR 565-566) OPC concluded that since UIF's FMV bill did not pass the 2020 legislature it could not have benefited the Utility's customers and is therefore reason alone to disallow the recovery of related expenses through rates. (OPC BR 19; TR 322-323; EXH 169, BSP 321; TR 563)

In its brief, OPC argued that the recovery of costs through rates related to the Employee Deferred Incentive Compensation Program (EIP) should be disallowed, as it was designed to primarily benefit shareholders. (OPC BR 19) OPC maintained that all costs of the EIP that are tied to financial metrics should be recovered from shareholders and not customers as the recovery of costs through rates would be inconsistent with a utility's mandate to provide safe and reliable utility service at the lowest reasonable cost. (OPC BR 19; TR 283) OPC reiterated this point by contending that the Commission has frequently disallowed the recovery of costs associated with EIPs that are determined by financial metrics. (OPC BR 19) OPC further stated that UIF failed to perform a study comparing its EIP to other EIPs in which the Commission allowed for the recovery of costs through rates. (OPC BR 20; TR 624; EXH 200) Additionally, OPC stated that the Commission has found that incentive compensation tied to earning per share could have consequences contrary to customer welfare and safety. (OPC BR 20) While witness Crane recommended only a 50-percent disallowance of costs associated with incentive compensation in her testimony, OPC contended that because UIF failed to meet its burden of proof to justify the costs of the Long-Term Incentive Plan (LTIP), the Commission should disallow 100 percent of costs related specifically to the LTIP. (OPC BR 21; TR 281; TR 609-611; TR 614; TR 718-719)

In its brief, OPC argued that non-qualified retirement benefit plans should not receive favorable treatment by the Commission, just like they do not receive favorable treatment by the Internal Revenue Service (IRS). (OPC BR 21; TR 284-285) OPC stated that these expenses are not under the same scrutiny as qualified retirement benefit plans. (OPC BR 21) Under the Employee Retirement Income Security Act (ERISA), OPC claimed, qualified plans must adhere to strict requirements including a \$285,000 compensation cap and the prohibition of discrimination among employees regarding retirement benefits. (OPC BR 21; TR 284) OPC continued that non-qualified plans do not fall under the purview of ERISA and by offering these plans, a company is

able to provide additional benefits to highly paid officers and executives. (OPC BR 21; TR 285) OPC contended that shareholders, not ratepayers, should fund these benefits. (OPC BR 21)

In its brief, OPC argued that all UIF's parent company's severance costs should be disallowed because UIF did not show that these costs are necessary to provide safe and reliable utility service. (OPC BR 21) OPC stated that UIF failed to meet its burden of proof by providing details regarding the reason for the costs, the recurring nature of the costs, the number of employees involved, and the underlying factors that resulted in these severance payments. (OPC BR 21; TR 280) OPC also added that while the needed detail was not provided, including any non-recurring costs in ongoing rates by itself would be inappropriate. (OPC BR 22)

## ANALYSIS

### Incentive Compensation

UIF witness Deason testified that the Utility's EIP is a short-term incentive plan for the executive management team and select senior leaders at the parent company level. (TR 612-614) The only person in Florida who is subject to the EIP is the president of UIF, Gary Rudkin. (TR 614) All other employees under this plan are at the parent company level. (TR 614) The largest weighting factor in this plan is financial performance. (TR 621)

OPC witness Crane testified that in order for any award to be made under the EIP, the company must achieve a targeted level of return on investment and must be free from any code red safety or environmental incidents. (TR 282) Seventy percent of the company performance metric is based on financial performance measures. (TR 282) OPC witness Crane is recommending that the incentive compensation award costs that are tied to financial metrics be recovered from the Utility's shareholders, and denied for recovery in this case. (TR 282) Given the overall EIP's objective to maximize shareholder value and the overall requirement that certain financial metrics must be achieved prior to any awards being made, OPC witness Crane recommended an adjustment to eliminate 50 percent of the incentive compensation costs identified by UIF. (TR 283)

In rebuttal testimony, UIF witness Deason argued that OPC witness Crane made no allegations or presented any evidence that the total compensation paid to employees at UIF, or its parent company CORIX, is unnecessary or unreasonable. (TR 592) UIF witness Deason referenced past Commission orders that allowed recovery for incentive plans tied to the achievement of corporate goals because they provide an incentive to control costs.<sup>48</sup> (TR 593-594) The Commission also allowed incentive compensation when a utility's total compensation package was set near the median level of benchmarked compensation. (TR 593) UIF witness EliceGUI testified that charges included in the revenue requirement reflect shared and Corporate Services provided from the parent company at cost with no mark-up or profit. (TR 42) To compare with outside providers, adjusted shared and Corporate Service costs were reduced to an hourly rate and compared to market benchmarks. (TR 44) According to these benchmarks for Management

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<sup>48</sup> Order Nos. PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, *In re: Petition for a rate increase by Florida Power Corporation*; PSC-09-0283-FOF-EI, issued April 30, 2009, in Docket No. 20080317-EI, *In re: Petition for rate increase by Tampa Electric Company*.

Consultants, UIF's costs were less than half of what the costs would have been from an outside provider. (TR 45)

As referenced in earlier orders, Commission practice has been to allow incentive compensation in rates if the total compensation is at or below median market benchmarks. All of the employees included in the EIP, with the exception of the President of UIF, are at the parent company level. Based on UIF witness Elicegui's analysis of corporate service costs, staff believes that the total compensation package of employees at the parent company level are reasonable for recovery. Therefore, staff recommends no adjustment. In so recommending, staff notes that "it is the [Commission's] prerogative to evaluate the testimony of competing experts and accord whatever weight to the conflicting opinions it deems necessary."<sup>49</sup>

### **Severance Pay**

During the test year, UIF incurred approximately \$57,000 in severance expense, all of which was allocated down from the parent company level which totaled \$748,552, in Canadian dollars, prior to allocation. (EXH 157, BSP 223) OPC witness Crane recommended removing this expense for two reasons. First, OPC witness Crane asserted that UIF provided no details regarding these severance costs and, therefore, has not met its burden of proof to demonstrate that these costs are necessary to the provision of safe and reliable utility service. (TR 280) Second, she pointed out that we do not know if these are recurring costs. (TR 280)

In rebuttal testimony, UIF witness Deason argued that OPC witness Crane was mistaken in both of her arguments. (TR 590) He first explained that detail for the test year was in fact provided in response to OPC discovery. (TR 590; EXH 157, BSP 223) He also stated that the amount of severance expense is recurring, but varies from year to year. (TR 590) He pointed to recent fluctuations in the expense to illustrate his point. (TR 590-591) In 2017, the parent company recorded \$0 in severance expense, but then recorded \$4,415,800, in Canadian dollars, in 2018. (TR 591) For variable expenses such as this, UIF witness Deason argued that it is common regulatory practice to take a three-year average for rate setting purposes. (TR 591) In this case, UIF reflected the test year amount, which is significantly less than the three-year average. (TR 591)

All of the severance expense incurred in this case comes from the parent company level. As discussed above, for incentive compensation, the overall compensation package for employees at the parent company level is well below the level UIF would incur if they outsourced management services. Staff believes that, although severance pay is a variable expense, it is reasonable to expect some level of severance expense in any given year. Therefore, staff recommends no adjustment.

### **Non-Qualified Retirement Benefits**

OPC witness Crane testified that UIF included non-qualified retirement benefits to its employees in the test year and recommended the removal of this expense. (TR 284-285) These non-qualified plans provide supplemental retirement benefits for key executives that are in addition to the normal retirement programs provided by the Utility. (TR 284) "Qualified" plans limit the amount of compensation that can be considered for purposes of determining pension benefits.

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<sup>49</sup> See *Gulf Power Co. v. FPSC*, 453 So. 2d 799, 805 (Fla. 1984)

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(TR 284) In addition, non-qualified plans allow a company to avoid rules and regulations that apply to qualified plans, such as requirements of the Employee Retirement Income Security Act. (TR 284) Non-qualified plans also do not qualify for the more favorable tax treatment that is available to qualified retirement plans under the Internal Revenue Service (IRS) Tax Code. (TR 284-285) These benefits are available to a very small group of officers and other executives that also receive the normal retirement plan benefits offered by UIF. (TR 285)

UIF witness Deason argued that OPC witness Crane's recommended adjustment to remove non-qualified retirement expense from the test year is inconsistent with prudent regulatory policy. (TR 596) He once again maintained that her analysis focused entirely on how certain employees are compensated, not on how much they are compensated, and that she provided no analysis demonstrating that the total amount of compensation is excessive to the marketplace for these employees. (TR 596) He asserted that UIF and CORIX have designed its compensation packages in order to be competitive in attracting and retaining well qualified and effective employees, so that it will achieve its mandate of providing safe and reliable service. (TR 596)

Although staff agrees with UIF's focus on evaluating total compensation, staff believes the distinguishing factor that requires further consideration is OPC's point that non-qualified plans allow a utility to avoid certain rules and regulations, while also receiving less favorable tax treatment from the IRS. Staff agrees that these expenses should not be borne by the customers. UIF directly incurred non-qualified retirement plan costs of \$26,853 in the test year. (TR 285; EXH 157, BSP 222) The Utility was also allocated approximately 22 percent of WSC's total costs, resulting in an allocation of \$27,985 ( $\$127,203 \times 22\%$ ). (TR 285; EXH 157, BSP 222) The total amount of the expense, \$54,838 ( $\$26,853 + \$27,985$ ), was allocated to water and wastewater based on ERCs. Therefore, staff recommends decreasing pensions and benefits expense by \$28,592 ( $\$54,837 \times 52.14\%$ ) for water and \$26,245 ( $\$54,837 \times 47.86\%$ ) for wastewater.

### **Lobbying Expense**

In OPC's first set of interrogatories to UIF, OPC asked for expenses included in the filing that were directed toward lobbying activities by the organization. In response to OPC's discovery, UIF provided a spreadsheet showing about \$76,000 included in expense paid to several companies for lobbying. (EXH 157, BSP 230) In response to follow up discovery from OPC, UIF indicated \$45,827 paid to Gunster was to monitor legislative activity on the issue of Fair Market Valuation (FMV) with respect to water and wastewater acquisitions. (EXH 163, BSP 283) The remaining expenses were utilized for regulatory assistance. (EXH 163, BSP 283) UIF witness Snow suggested that passage of the FMV legislation would not only benefit UIF but also the customers due to increasing UIF's ability to acquire underfunded systems and offer robust financial and operational resources as well as allowing the Utility to spread individual system costs across an even larger customer base thus achieving economies of scale. (TR 559) OPC witness Crane testified that lobbying costs are not necessary for the provision of safe and adequate utility service and that lobbying activities of a regulated utility may be focused on policies and positions that enhance shareholders but may not benefit, and may even harm, ratepayers. (TR 287) It was indicated in UIF witness Snow's testimony that the FMV legislation that Gunster was monitoring for UIF did not pass the Legislature. (TR 563) Staff agrees with

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witness Crane that it has been the Commission's practice to disallow lobbying expense.<sup>50</sup> Therefore, staff recommends decreasing O&M expenses by \$23,894 (\$45,827 x 52.14%) for water and \$21,933 (\$45,827 x 47.86%) for wastewater.

### **Holiday Party**

In response to OPC's discovery, UIF indicated that the Utility has one office holiday social event each year. (EXH 157, BSP 230-231) During the test year, the event was held at a restaurant in Orlando at a cost of \$5,079. (EXH 157, BSP 231) This amount was allocated between water and wastewater based on ERCs or \$2,648 for water and \$2,431 for wastewater. (EXH 157, BSP 231) OPC witness Crane recommended that costs for the annual holiday social event be born by shareholders instead of ratepayers. (TR 288) UIF provided no testimony opposing OPC witness Crane's recommendation to remove these costs from expenses. Staff agrees that these social costs should not be borne by ratepayers and should be removed. Therefore, staff recommends decreasing O&M expense by \$2,648 for water and \$2,431 for wastewater.

### **Infiltration & Inflow**

This is a fall out to Issue 6, which is a Type II stipulated issue. In its original filing, UIF included O&M expense adjustments to reflect I&I in Lincoln Heights and Orangewood. (EXH 48, P 58) However, the Utility's filing should have also included O&M adjustments to reflect I&I in Summertree. UIF witness Swain provided these corrections to her testimony. (TR 212) As such, staff recommends decreasing purchased wastewater expense by \$4,901 and purchased power expense by \$107 for wastewater to reflect her corrections.

### **Sludge Removal Expense**

The Utility recorded sludge removal expense of \$639,081 for wastewater. This is an increase of \$199,434 from the prior rate case test year. UIF stated that the DEP has severely restricted the volume of biosolids that can be land applied to agricultural properties located in the Lake Okeechobee basin. This has caused an increase in prices for sludge hauling contractors. (EXH 146, BSP 89) Staff recommends no adjustments, and therefore recommends sludge removal expense of \$639,081 for wastewater. OPC did not make a recommendation on sludge removal expense.

### **Chemicals**

The Utility recorded chemical expense of \$457,621 for water and \$420,056 for wastewater for a total of \$877,677. Staff reviewed UIF's chemical expenses from the prior rate case test year which were \$367,915 for water and \$453,080 for wastewater for a total of \$820,995. Staff calculated an increase in chemical expense of \$56,682 from the prior rate case test year. The Utility made a negative \$40,974 adjustment to water chemicals expense and a positive \$102,121 adjustment to wastewater chemical expense. These adjustments include the annualization of test year chemical expenses, due to DEP regulations, as well as corrections to allocations made at some facilities. (EXH 146, BSP 86-88; EXH 144, BSP 31; EXH 144, BSP 33) Staff recommends

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<sup>50</sup> Order Nos. PSC-11-05470-FOF-EI, issued November 23, 2011, in Docket No. 110009-EI, *In re: Nuclear cost recovery clause*; and PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, *In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.*; and PSC-14-07140-FOF-EI, issued December 31, 2014, in Docket No. 140007-EI, *In re: Environmental cost recovery clause.*

no additional adjustments, and therefore recommends chemicals expense of \$416,646 for water and \$522,177 for wastewater. OPC did not make a recommendation on either water or wastewater chemical expenses.

### **CONCLUSION**

Based on the above, staff recommends test year O&M expenses should be decreased by \$55,135 (-\$28,592 - \$23,894 - \$2,648) for water and \$55,617 (-\$26,245 - \$21,933 - \$2,431 - \$4,901 - \$107) for wastewater.

**Issue 28:** Should any adjustments be made to operating expense amortizations?

**Approved Type II Stipulation:** Yes, pursuant to Order No. PSC-2017-0361-FOF-WS, the amortization expense associated with early retirements should be \$46,750 for the Summertree water system, \$193,294 for the Longwood wastewater system, and \$30,511 for the Sandalhaven wastewater system. Therefore, amortization expense should be increased by \$46 and \$121,916 for water and wastewater, respectively.

**Issue 29:** Should any adjustments be made to test year taxes other than income?

**Recommendation:** Yes. Test year taxes other than income (TOTI) should be decreased by \$134,050 for water and \$339,107 for wastewater. (D. Andrews)

**Position of the Parties**

**UIF:** Yes. Water - \$203,117; Wastewater - \$617,805.

**OPC:** Yes. A payroll tax adjustment should be applied. For water, a payroll tax expense adjustment of \$17,537 should be made, as shown on Exhibit ACC-2, Schedule 13. For sewer, a payroll tax adjustment of \$16,097 should be made, as shown on Exhibit ACC-2, Schedule 14.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**UIF**

In its brief, UIF argued that TOTI is a fallout adjustment determined by issues 3, 16, and 27. (UIF BR 22)

**OPC**

In its brief, OPC reflected adjustments related to pro forma plant projects; these are discussed in Issues 3, 9, 26, and 27. (OPC BR 22) OPC argued that a fallout adjustment should be made to payroll tax expense to reflect the impact of OPC's recommended adjustments to eliminate cost for new employee positions, reduce the annual labor cost escalator, eliminate severance costs, and reduce incentive compensation award costs. (OPC BR 22) OPC also stated that fallout adjustments should be made to property tax expense to reflect reductions associated with its recommended adjustments to pro forma plant projects and non-U&U adjustments to rate base for wastewater. (OPC BR 22)

**ANALYSIS**

This is a fall-out issue. Based on staff's adjustments to test year revenues and to remove the Utility's requested increase, regulatory assessment fees (RAFs) should be reduced by \$125,751 for water and \$293,349 for wastewater. To reflect staff's recommended adjustment to remove capitalized labor from salaries and wages expenses, payroll taxes should be reduced by \$4,685 for water and \$27,056 for wastewater. To reflect staff's recommended adjustment to pro forma salaries, payroll taxes should be reduced by \$1,287 for water and \$1,181 for wastewater. To reflect staff's recommended adjustments to pro forma plant, property taxes should be reduced by \$2,328 for water and \$7,778 for wastewater. Lastly, to reflect staff's non-U&U adjustment to rate base, property taxes should be reduced by \$9,743 for wastewater. In total, test year TOTI should be decreased by \$134,050 (-\$125,751 - \$4,685 - \$1,287 - \$2,328) for water and \$339,107 (-\$293,349 - \$27,056 - \$1,181 - \$7,778 + \$9,743) for wastewater.

**Issue 30:** Should any adjustments be made to test year depreciation expense?

**Recommendation:** Staff recommends no further adjustments to the adjusted test year depreciation expense. All necessary adjustments to depreciation expense should be made as set forth and discussed in Issues 3, 4, and 9. (Bennett)

**Position of the Parties**

**UIF:** Yes. Water - \$189,350; Wastewater - \$430,120.

**OPC:** Yes. For water, a net depreciation expense reduction of \$11,914 related to plant additions should be made. (Exhibit ACC-2, Schedule 18, lines 1-2). For sewer, a net depreciation expense reduction related to plant additions and retirements of \$300,001 should be made.<sup>51</sup> Additionally, for sewer a reduction in depreciation expense of \$101,214 related to non-used and useful plant should be made.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**UIF**

UIF stated that the adjustments were fall out from Issues 2, 3, and 16. (UIF BR 22; EXH 48, P 81-82)

**OPC**

In its brief, OPC reflected adjustments related to pro forma plant projects; these are discussed in Issues 3, 4, and 9. (OPC BR 22-23) OPC stated that a reduction should be made to water and wastewater depreciation expense of \$11,914 and \$300,001, respectively, based on its pro forma plant recommendations. (OPC BR 23; EXH 88; EXH 89) OPC also stated that a reduction of \$101,214 should be made to wastewater to reflect non-U&U rate base adjustments. (OPC BR 22-23; EXH 88; EXH 89).

**ANALYSIS**

UIF witness Swain made test year adjustments to reclassify the amortization of early retirements and to correct the over-amortization of Sandalhaven intangible plant. (EXH 48, P 52) The Utility also made adjustments to annualize depreciation expense for test year plant additions. (EXH 48, P 53-54) Although it addressed adjustments corresponding to pro forma plant and non-U&U rate base, OPC did not dispute the Utility's other adjustments to depreciation expense. Further, staff witness Dobiac's testimony did not reflect any audit adjustments to the test year depreciation expense. (EXH 90) As such, staff believes the Utility's adjustments are appropriate.

The remaining adjustments to depreciation expense in UIF's initial filing are related to a non-U&U adjustment to rate base and pro forma plant projects. (EXH 48, P 53-54) Pro forma and non-U&U adjustments to depreciation expense are addressed in Issues 3, 4, and 9.

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<sup>51</sup> This data was originally reflected in Exhibit ACC-3, Schedule 19, line 3; an updated Schedule 19 was provided to UIF's counsel.

### **CONCLUSION**

Staff recommends no further adjustments to the adjusted test year depreciation expense. All necessary adjustments to depreciation expense should be made as set forth and discussed in Issues 3, 4, and 9.

**Issue 31:** Should any adjustments be made to test year amortization of contributions in aid of construction (CIAC) expense?

**Recommendation:** Staff recommends no further adjustments to the adjusted test year CIAC amortization. All necessary adjustments to CIAC amortization should be made as set forth and discussed in Issues 4 and 9. (Thurmond)

**Position of the Parties**

**UIF:** Yes. Water – (\$3,126); Wastewater – (\$440,021).

**OPC:** For water, a reduction to the amortization of CIAC expense of \$1,667 should be made. For sewer, a reduction to the amortization of CIAC expense in the amount of \$6,555 should be made related to plant additions.<sup>52</sup> Also for sewer, an increase to the amortization of CIAC expense in the amount of \$24,123 should be made related to non-used and useful plant.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**UIF**

In its brief, UIF stated that this is a fall out issue from the determination of Issue 3. (UIF BR 22)

**OPC**

In its brief, OPC reflected adjustments related to pro forma plant projects; these are discussed in Issues 3, 4, and 9. (OPC BR 23) OPC stated that water and wastewater CIAC amortization expense should be reduced by \$1,667 and \$6,555, respectively, in relation to its adjustments to plant additions. (OPC BR 23) OPC also stated that CIAC amortization expense should be increased by \$24,123 should be made to reflect non-U&U rate base adjustments. (OPC BR 23)

**ANALYSIS**

In its initial filing, the Utility's only test year adjustment to CIAC amortization was to correct the over amortization of CIAC. (EXH 48, P 53) This adjustment was made to the same three systems in UIF's last rate case.<sup>53</sup> Further, staff witness Dobiac's testimony did not reflect any audit adjustments to test year amortization of CIAC expense. (EXH 90) The remaining adjustments to CIAC amortization in UIF's initial filing are related to a non-U&U adjustment to rate base and retirements associated with pro forma plant projects. (EXH 48, P 53) Pro forma and non-U&U adjustments to CIAC amortization are addressed in Issues 4 and 9. As such, staff recommends no further adjustments to the adjusted test year CIAC amortization. All necessary adjustments to CIAC amortization should be made as set forth and discussed in Issues 4 and 9.

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<sup>52</sup>This data was originally reflected in Exhibit ACC-3, Schedule 19, line 3; an updated Schedule 19 was provided to UIF's counsel.

<sup>53</sup> Order No. PSC-2017-0361-FOF-WS, issued September 25, 2017, in Docket No. 20160101-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida.*

## **CONCLUSION**

Staff recommends no further adjustments to the adjusted test year CIAC amortization. All necessary adjustments to CIAC amortization should be made as set forth and discussed in Issues 4 and 9.

**Issue 32:** What is the appropriate amount of test year income taxes?

**Recommendation:** The appropriate amount of test year income taxes is \$375,393 for water and \$111,993 for wastewater. In addition, as discussed in Issue 33, staff has calculated a revenue increase of \$1,747,370 for water and \$4,715,496 for wastewater. As a result, income taxes should be increased by \$420,938 for water and \$1,135,954 for wastewater to reflect the change in revenues.

The Commission has discretion regarding the period over which to amortize unprotected excess deferred income taxes. Staff recommends a 5-year amortization period is reasonable and recommends the Commission approve a 5-year amortization.

Staff believes a composite state corporate income tax rate of 5.348 percent, as opposed to 4.458 percent or 5.5 percent, is reasonable and represents an equitable balancing of interests between customers and shareholders. Consequently, staff recommends the Commission approve a state corporate income tax rate of 5.348 percent. (D. Buys, Cicchetti, D. Andrews)

### **Position of the Parties**

**UIF:** Water - \$909,274; Wastewater - \$1,433,944.

**OPC:** The income taxes will depend upon the specific level of revenues authorized by the Commission. However, the income taxes should reflect a state income tax rate of 4.46% in determining pro forma income tax expense. In addition, the Commission should return unprotected excess deferred income taxes to ratepayers over a five-year period.

### **Staff Analysis:**

## **PARTIES' ARGUMENTS**

### **UIF**

Income tax expense is a fallout of the specific revenues and expenses requested. Regarding the amortization of unprotected excess deferred income taxes, UIF argued they should be flowed back to customers over ten years, consistent with prior Commission decisions. (TR 217-218, 597-598, 722-724) Regarding the state corporate income tax rate, the rate will revert back to 5.5 percent on January 1, 2022. (TR 246, 640, 727; EXH 186) UIF argued this is a known and measurable change and as such should be applied to UIF's income in this case. (UIF BR 23; TR 598, 728)

### **OPC**

Income taxes depend on the specific level of revenues authorized by the Commission. (OPC BR 23) Regarding the flow back of unprotected excess deferred income taxes, OPC argued UIF should return unprotected excess deferred income taxes to customers over five years. OPC witness Crane testified that, given the pandemic and financial difficulties of Floridians, a five-year versus ten-year amortization will provide needed relief to customers. (OPC BR 24) Regarding the state corporate income tax rate, OPC argued that income taxes should reflect a rate of 4.458 percent. OPC argued that on September 12, 2019, the Florida Department of Revenue

announced a reduction in the rate from 5.5 percent to 4.458 percent for tax years 2019, 2020, and 2021. For the historical test year of 2019, the rate was 4.458 percent. (OPC BR 24) The Commission should set rates to collect the rate in effect at the time of setting rates and during the test year, as this is the only equitable, known and measurable tax rate. (OPC BR 25)

## **ANALYSIS**

### **Income Taxes**

As a result of staff's recommended adjustments, the appropriate amount of test year income taxes is \$375,393 for water and \$111,993 for wastewater. In addition, as discussed in Issue 33, staff has calculated a revenue increase of \$1,747,370 for water and \$4,715,496 for wastewater. As a result, income taxes should be increased by \$420,938 for water and \$1,135,954 for wastewater to reflect the change in revenues.

### **Amortization of Unprotected Excess Deferred Income Taxes**

The Commission has discretion regarding the period over which to amortize unprotected excess deferred income taxes. In the recent past, the Commission has approved amortization periods of as much as 10 years and in one instance, a settlement agreement, an amortization period of 1 year. (TR 636, 639)

As pointed out by OPC witness Crane, unprotected excess deferred income taxes represent money that is owed to customers. (TR 328) Staff believes it is appropriate to return excess deferred income taxes to customers as quickly as possible as long as it does not create a cash flow problem for the Utility, i.e. a liquidity problem with regard to operations. OPC witness Crane testified that UIF has not provided any evidence that a five-year amortization period would create a cash flow problem for UIF. (TR 332) When UIF witness Deason was asked at hearing if he could provide any analysis that indicated a five-year amortization would cause a cash flow problem for UIF, he could not. (TR 726) Consequently, staff believes a five-year amortization period is reasonable and recommends the Commission approve a five-year amortization for unprotected excess deferred income taxes.

### **State Corporate Income Tax Rate**

In 2019, the Florida Department of Revenue announced a reduction in the state corporate income tax rate from 5.5 percent to 4.458 percent for tax years 2019, 2020, and 2021. As shown on Exhibit 186, the state corporate income tax rate is expected to revert to 5.5 percent on January 1, 2022. UIF argued that this is a known and measurable change and as such should be applied to UIF's income in this case. (TR 598, 728) However, that change will occur seven months after UIF's rates are to go into effect.

OPC argued that the rate for the historical test year was 4.458 percent and that rate should be applied. Furthermore, OPC argued, that UIF witness Deason agreed that if the rate is set at 5.5 percent, there would be a period of over-collection throughout 2021. (OPC BR 25)

At hearing, staff asked UIF witnesses Deason and Swain if a composite state corporate income tax rate was developed, using a four-year period that incorporated a 4.458 percent rate for the seven months of 2021 and a 5.5 percent rate for the remainder of the 4-year period, whether that would allow UIF the opportunity to earn its expected amount of state corporate income taxes

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over the 4-year period. Both witnesses answered yes, it would. However, both witnesses qualified their answers by indicating that if UIF did not seek a rate case for new rates becoming effective by the beginning of year five, that the allowance for income tax expense would be insufficient after year four. (TR 246, 727)

A composite state corporate tax rate that incorporates a 4.458 percent rate for the seven months of 2021 and a 5.5 percent rate for the remainder of the four-year period will allow UIF the opportunity to earn its expected amount of state corporate income taxes over the next four years. UIF has filed rate cases in 2012, 2016, and 2020. (TR 677, 678) Consequently, staff believes using a four-year period to develop a composite rate is reasonable. It should be noted, when asked about how long UIF would agree to stay-out if the Sewer and Water Infrastructure Mechanism (SWIM) program were approved, witness Deason indicated two years. (TR 676, EXH 197) Using a four-year composite tax rate, and all other things being equal, if UIF were to file a rate case for new rates becoming effective by the beginning of year five, UIF would actually recover more than its expected income tax expense. (TR 728, 729) That is because 5.5 percent would represent a greater percent of actual income tax expense than the percentage of 4.458 percent used in the composite rate.

A composite tax rate calculated as described above results in a rate of 5.348 percent. Staff believes a composite rate of 5.348 percent, as opposed to 4.458 percent or 5.5 percent, is reasonable and represents an equitable balancing of interests between customers and shareholders. Consequently, staff recommends the Commission approve a state corporate income tax rate of 5.348 percent.

### **CONCLUSION**

As a result of staff's recommended adjustments, the appropriate amount of test year income taxes is \$375,393 for water and \$111,993 for wastewater. In addition, as discussed in Issue 33, staff has calculated a revenue increase of \$1,747,370 for water and \$4,715,496 for wastewater. As a result, income taxes should be increased by \$420,938 for water and \$1,135,954 for wastewater to reflect the change in revenues.

The Commission has discretion regarding the period over which to amortize unprotected excess deferred income taxes. Staff believes a five-year amortization period is reasonable and recommends the Commission approve a five-year amortization.

Staff believes a composite state corporate income tax rate of 5.348 percent, as opposed to 4.458 percent or 5.5 percent, is reasonable and represents an equitable balancing of interests between customers and shareholders. Consequently, staff recommends the Commission approve a state corporate income tax rate of 5.348 percent.

**Issue 33:** What is the appropriate revenue requirement for the adjusted December 31, 2019 test year?

**Recommendation:** The appropriate revenue requirement is \$18,369,286 for water and \$25,024,191 for wastewater. (D. Andrews)

**Position of the Parties**

**UIF:** Water - \$19,416,373; Wastewater - \$26,827,568.

**OPC:** The appropriate revenue requirement should be calculated using a base revenue increase of \$1,129,866 for water, as shown in Exhibit ACC-2, Schedule 1 and a base revenue increase of \$2,720,043 for sewer, as shown in Attachment A hereto, which is the updated Exhibit ACC-3, Schedule 1.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**UIF**

In its brief, UIF argued that this issue is a fall out based on the determination of all other issues. (UIF BR 23)

**OPC**

In its brief, OPC argued that the appropriate revenue requirement should be calculated using a base revenue increase of \$1,129,866 and \$2,720,043 for water and wastewater, respectively. (OPC BR 25; OPC BR 41; TR 297)

**ANALYSIS**

This is a fall out issue. In its filing, UIF requested a revenue requirement to generate annual revenue of \$19,416,372, representing a revenue increase of \$2,812,445, or 16.94 percent, for water and \$26,827,568, representing a revenue increase of \$6,521,686, or 32.12 percent, for wastewater. Consistent with staff's recommendations regarding rate base, cost of capital, and operating income issues, the appropriate revenue requirement is \$18,369,286 for water and \$25,024,191 for wastewater. Staff's recommended revenue requirement for water is \$1,747,370 greater than recommended test year revenues of \$16,621,916 or an increase of 10.51 percent. Staff's recommended revenue requirement for wastewater is \$4,715,496 greater than recommended test year revenues of \$20,308,695 or an increase of 23.22 percent. Staff's recommended revenue requirement will allow the Utility the opportunity to recover its expenses and earn a 7.02 percent return on its investment in rate base. Schedule Nos. 3-A and 3-B reflect staff's recommended net operating income and resulting revenue requirement. Staff's proposed adjustments to net operating income are shown on Schedule No. 3-C.

**Issue 34:** What are the appropriate rate structures and rates for the water systems?

**Approved Type II Stipulation:** The appropriate rate structure is a continuation of the existing rate structure and the percentage increase should be applied as an across-the-board increase to service rates at the time of filing. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues of \$363,563 should be removed from the test year revenues.

The fall-out percentage increase to service rates is as follows:

**Table 34-1**  
**Percentage Service Rate Increase – Water**

	<u>Water</u>
1 Total Test Year Revenues	\$16,621,916
2 Less: Miscellaneous Revenues	<u>\$363,563</u>
3 Test Year Revenues from Service Rates	\$16,258,353
4 Revenue Increase	<u>\$1,747,370</u>
5 Percentage Service Rate Increase (Line 4 / Line 3)	10.75%

**Issue 35:** What are the appropriate private fire protection charges?

**Type II Stipulation:** The appropriate private fire protection charges for UIF should be calculated based on one-twelfth of the respective base facility charge pursuant to Rule 25-30.465, F.A.C.

**Issue 36:** What are the appropriate rate structures and rates for the wastewater systems?

**Approved Type II Stipulation:** The appropriate rate structure is a continuation of the existing rate structure and the percentage increase should be applied as an across-the-board increase to service rates at the time of filing. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues of \$333,719 should be removed from the test year revenues.

The fall-out percentage increase to service rates is as follows:

**Table 36-1**  
**Percentage Service Rate Increase – Wastewater**

	<u>Wastewater</u>
1 Total Test Year Revenues	\$20,308,695
2 Less: Miscellaneous Revenues	<u>\$333,719</u>
3 Test Year Revenues from Service Rates	\$19,974,976
4 Revenue Increase	<u>\$4,715,496</u>
5 Percentage Service Rate Increase (Line 4 / Line 3)	23.61%

**Issue 37:** What are the appropriate reuse rates?

**Approved Type II Stipulation:** The appropriate rate structure is a continuation of the existing rate structure and the percentage increase should be applied as an across-the-board increase to service rates at the time of filing. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues of \$333,719 should be removed from the test year revenues.

The fall-out percentage increase to service rates is as follows:

**Table 37-1**  
**Percentage Service Rate Increase – Wastewater**

	<u>Wastewater</u>
1 Total Test Year Revenues	\$20,308,695
2 Less: Miscellaneous Revenues	<u>\$333,719</u>
3 Test Year Revenues from Service Rates	\$19,974,976
4 Revenue Increase	<u>\$4,715,496</u>
5 Percentage Service Rate Increase (Line 4 / Line 3)	23.61%

**Issue 38:** What are the appropriate customer deposits?

**Type II Stipulation:** The appropriate customer deposits for UIF should reflect an average of two months service for residential customers with a 5/8" x 3/4" meter and two times the average customer bill for all other meter sizes.

**Issue 39:** What are the appropriate guaranteed revenue charges?

**Approved Type II Stipulation:** The guaranteed revenue charges should remain unchanged.

**Issue 40:** Should a new Allowance for Funds Used During Construction (AFUDC) rate be established? If yes, what is the appropriate AFUDC rate and when will it be effective?

**Recommendation:** No. A new AFUDC rate should not be established in this docket. UIF should be required to file with the Commission a request to change its AFUDC rate pursuant to Rule 25-30.116, F.A.C. within 30 days after the issuance of the Final Order in this docket. (D. Buys)

### **Position of the Parties**

**UIF:** No. The current AFUDC rate should remain unchanged.

**OPC:** Yes. The AFUDC rate should be reduced to 6.73% as of the effective date of the Final Order in this docket. (BR 25)

### **Staff Analysis:**

## **PARTIES' ARGUMENTS**

### **UIF**

UIF argued that over the years the cost of capital, which is used to establish the AFUDC rate, has varied above and below the current AFUDC rate. (UIF BR 25) Since the cost of capital varies from year-to-year it is not necessary to change the AFUDC rate. (UIF BR 25) UIF witness Swain argued that UIF's current AFUDC rate of 9.03 percent is in compliance with Commission Order No. PSC-2004-0262-PAA-WS, when the Utility previously petitioned the Commission for an AFUDC rate. (TR 798) UIF argued that if the AFUDC rate is changed, it must be based on a cost of capital rate of 7.889 percent. (UIF BR 25)

### **OPC**

OPC argued UIF has not updated its AFUDC rate since 2004, despite the fact that interest rates have declined since 2004. (OPC BR 25) OPC argued that UIF's current AFUDC rate of 9.03 percent is excessive, has been in place for 18 years, and negatively impacts Florida customers by unduly causing current customers to pay higher rates than necessary. (OPC BR 25; TR 299-300) OPC witness Crane argued that the Commission should authorize a prospective AFUDC rate of 6.73 percent. (OPC BR 25; TR 300)

## **ANALYSIS**

UIF did not request to revise its AFUDC rate in this proceeding and proposed to maintain its current AFUDC rate of 9.03 percent. (TR 798) OPC witness Crane proposed the Commission authorize a prospective AFUDC rate of 6.73 percent. (TR 300) UIF's current AFUDC rate of 9.03 percent is based on the cost of capital for the 12-month period ended December 31, 2002, which includes an ROE of 11.32 percent. Since that time, UIF's cost of capital has decreased by 201 basis points. Witness Crane testified that the debt rate reflected in the 9.03 percent AFUDC rate is based on a long-term debt of 7.82 percent and zero short-term debt. (TR 300) Witness Crane opined that in spite of the significant decline in capital costs, UIF has continued to accrue AFUDC at the same rate of 9.03 percent. (TR 300) Based on the record evidence, UIF's current

AFUDC rate no longer reflects its current cost of capital and should be revised to reflect UIF's most recent 12-month embedded cost of capital.

Pursuant to Rule 25-30.116(3), F.A.C., the applicable AFUDC rate shall be determined as follows:

- (a) The most recent 12-month average embedded cost of capital, except as noted below, shall be derived using all sources of capital and adjusted using adjustments consistent with those used by the Commission in the Company's last rate case.
- (b) The cost rates for the components in the capital structure shall be the midpoint of the last allowed return on common equity, the most recent 12-month average cost of short term debt and customer deposits and a zero cost rate for deferred taxes and all investment tax credits. The cost of long term debt and preferred stock shall be based on end of period cost. The annual percentage rate shall be calculated to two decimal places.
- (c) A company that has not had its equity return set in a rate case must calculate its return on common equity by applying the most recent water and wastewater equity leverage formula.

The embedded cost of capital in the record does not comport with the requirements of Rule 25-30.116, F.A.C. The record does not include the most recent 12-month embedded cost of capital since the approved test year in this case is the 13-month average test year ended December 31, 2019. Further, the cost rates of short-term debt and customer deposits in this case are based on a 13-month average whereas the AFUDC rule requires the use the most recent 12-month average. In addition, the AFUDC rate requires the cost of long-term debt be based on end of period cost, which is not the case in this docket. Because the cost rates and methods to determine the embedded cost of capital filed in the instant docket do not comport with Rule 25-30.116, F.A.C., staff believes it is more appropriate to determine the AFUDC rate in a separate docket at the conclusion of the instant rate case proceeding. Further, the AFUDC rate established in a new docket would be based on a more recent test year ended December 31, 2020, and be effective January 1, 2021.

### **CONCLUSION**

UIF's AFUDC rate should not be revised in this proceeding. UIF should be required to file with the Commission a request to change its AFUDC rate pursuant to Rule 25-30.116, F.A.C. within 30 days after the issuance of the Final Order in this docket.

**Issue 41:** Should the Utility's request for a Sewer and Water Improvement Mechanism (SWIM) be approved? If yes, what is the amount of the first year revenue requirement?

**Recommendation:** No. UIF's request for a SWIM program should be denied. (Norris, Trierweiler, Ellis)

**Position of the Parties**

**UIF:** Yes. The implementation of SWIM does not impact the current rate case revenue requirement. UIF proposes to implement SWIM in conjunction with its annual index filing in 2022, and annually thereafter.

**OPC:** No, the SWIM idea tossed out by UIF is unlawful and the idea is not supported by fact, policy or law and should be rejected. If the commission wants to entertain the idea, it should be pursuant to legislative direction, and only then, after rulemaking.

**Staff Analysis:**

**UIF'S SWIM PROPOSAL**

As part of its request in this proceeding, UIF petitioned the Commission for approval of a Sewer and Water Improvement Mechanism (SWIM), to allow UIF to recover the revenue requirement on capital expenditures for the replacement of aging infrastructure through an annual increase to base rates. UIF's initial plan for the recovery of SWIM-related costs was described in witness Deason's direct testimony, to be recovered through an annual filing in conjunction with UIF's annual index and pass through filings. (TR 97) The testimony provided an outline of how the SWIM program might work, but provided very little substantive detail.

UIF first altered its initial SWIM proposal in response to staff's discovery, when UIF stated that it was acceptable for the filing to be handled as a docketed case before the Commission, such as a tariff filing. (EXH 155) UIF went further in witness Deason's rebuttal testimony and explained that it would be amenable to a process that allows for Commission review of the costs for prudence and agreed to apply SWIM only to linear infrastructure. (TR 588-589) He further proffered that UIF would be willing to cap the annual SWIM-related increase in base rates, provided the rate increase was reasonable. (TR 590) He further testified that if SWIM were approved, UIF would agree to a stay-out provision, provided the stay-out timeframe was reasonable. (TR 590) The witness did not provide any testimony as to what would constitute a "reasonable" cap or stay-out timeframe, however. Witness Deason also analogized UIF's proposed SWIM program to the Commission-approved Gas Reliability Infrastructure Program (GRIP), which was initially approved by Order No. PSC-2012-0490-TRF-GU, discussed briefly below.<sup>54</sup> (TR 585-586)

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<sup>54</sup> Issued September 24, 2012, in Docket No. 20120036-GU, *In re: Joint petition for approval of Gas Reliability Infrastructure Program (GRIP) by Florida Public Utilities Company and the Florida Division of Chesapeake Utilities Corporation*. There are three different Commission-approved natural gas utility programs that address the replacement of cast iron and bare steel pipelines, all of which all have a similar process for truing-up the costs associated with those programs. For ease of reference, the term "GRIP" is used throughout this issue.

On cross examination, UIF further modified its proposal to gravitate toward and then to embrace GRIP, with witness Deason testifying that UIF's SWIM proposal was like GRIP; that UIF was not opposed to handling recovery as a separate tariff filing; that UIF would agree to a \$10 million dollar annual cap on expenditures; that GRIP is valid precedent for UIF's SWIM proposal; and UIF would further limit the replacement of linear assets to those that were at or beyond useful life. (TR 585, 646-648, 680-681, 687, 689-690) In its post-hearing brief, UIF further refined its proposal and offered to limit the SWIM program to coincide with UIF's 5-year planning horizon for capital improvements. (UIF BR 29; TR 206)

As discussed above, UIF witness Deason discussed the natural gas GRIP program as precedent and support for UIF's SWIM proposal. GRIP was designed to accelerate the replacement of cast iron and bare steel pipelines, in order to proactively respond to public concerns regarding aging gas infrastructure reliability and safety. The natural gas utilities who sought approval for GRIP cited to the Pipeline and Hazardous Safety Administration's (PHMSA) amended Federal Pipeline Safety Regulations that required natural gas distribution pipeline operators to develop and implement Distribution Integrity Management Plans (DIMPs). Changes to the Natural Gas Pipeline Safety Act required the Secretary of the Department of Transportation (DOT) to review the DIMPs to evaluate the continuing priority to enhance protections for public safety and to reduce risk in high consequence areas. At the time the Commission considered the initial GRIP petition, twenty-four states had established programs for the replacement of cast iron and bare steel pipelines, and several other states had pending programs.

## **PARTIES' ARGUMENTS**

### **UIF**

#### ***Justification for SWIM***

UIF asserted that the objective of the SWIM program is the same as that of the GRIP program: to proactively respond to concerns over the reliability and safety of aging infrastructure. (UIF BR 27; TR 739) Witness Deason testified as to the benefits that would accrue from UIF's proposal, which he asserted would reduce the need for costlier rate proceedings, have positive impacts on economic development, help prioritize capital replacements, and provide improved opportunity for oversight. (UIF BR 27; TR 739-745)

UIF argued that the proposed SWIM program is designed to reduce the regulatory lag associated with traditional base rate proceedings through the inclusion of Commission-approved capital expenditures in rates on an annual basis, thus also reducing the Utility's need and frequency for filing rate cases. (UIF BR 25, 27-29; TR 587-588) He stated that this mechanism would benefit customers in the form of reduced rate case expense passed on to the customers, less rate shock, better unit pricing for the investments reflected in rates, along with fewer impacts to UIF's customers and communities through the anticipated replacement schedule. (UIF BR 27-28; TR 587-588) The Utility added that, although the majority of the SWIM projects are related to operational assets (including buildings and other structures for treating and pumping water and wastewater), it would be willing to limit the scope of the projects to the replacement of linear infrastructure (mains and pipes for water and wastewater), if the Commission believes this will optimize the value to the customers. (UIF BR 28; TR 590)

UIF also stated that not only is SWIM modeled after GRIP, but like GRIP, the SWIM program is authorized pursuant to the Commission's broad ratemaking authority. (UIF BR 25-27; TR 585) The Utility maintained that Sections 367.011(2) & (3), 367.081, and 367.121(1)(a) & (d) provide a legal basis for implementing the SWIM program. (UIF BR 25-26; TR 584) UIF highlighted in particular Section 367.121(1)(d), F.S., which authorizes the Commission to require repairs and improvements if reasonably necessary to provide adequate and proper service. UIF stated that the objective of the SWIM program is to replace aging water and wastewater infrastructure, and that the Commission addressed much the same need within the gas industry through its approval of the GRIP programs. (UIF BR 26; TR 93-94, 584-587)

As further precedent for its SWIM proposal, UIF relied on the Commission's broad ratemaking powers in Sections 366.04, 366.05, and 366.06, F.S. For example, in *Action Group v. Deason*, 615 So. 2d 683 (Fla. 1993), the Florida Supreme Court upheld approval of a 15-year rate rider charged to customers in a specific service area to retire the existing debt of a financially distressed system that Florida Power Corporation had purchased. The Court stated that the Commission had authority under Section 366.04(1), F.S., to fix "just, reasonable, and compensatory rates, charges, fares, tolls, or rentals" and under Section 366.05(1), F.S., to prescribe "fair and reasonable rates and charges [and] classifications." The Court stated this authority was to be construed liberally. (UIF BR 26) See also Section 366.041(2), F.S., which provides that the "power and authority herein conferred upon the commission shall... be construed liberally to further the legislative intent that adequate service be rendered by public utilities." (UIF BR 26) UIF also relied on the Commission's broad ratemaking authority in approving surcharges for Florida Power & Light Company (FPL)<sup>55</sup> and Progress Energy Florida, Inc. (Progress)<sup>56</sup> for the recovery of costs incurred after an unusually heavy series of storms. (UIF BR 26) In response to OPC's arguments, detailed below, UIF argued that a full rate case is not required to change base rates, citing to other "analogous" investment recovery mechanisms approved by the Commission, such as the GRIP and storm surcharges. (UIF BR 28; TR 590)

### ***SWIM's Cost Recovery Method***

UIF's initial plan for recovery of SWIM related costs was to establish an administrative mechanism similar to the Utility's annual index and pass through filings pursuant to Section 367.081(4), F.S. (TR 97) Witness Deason explained that under an annual administrative SWIM program, the additional revenue collected would be limited to the return on the investment using the equity and debt components of the weighted average cost of capital from UIF's prior rate case along with the corresponding depreciation expense pursuant to Rule 25.30-140, F.A.C., grossed up for income taxes. (TR 97) He stated that the Utility was also proposing to combine the recovery of the additional SWIM revenue with its annual index filing, thus merging the two revenue requirements to calculate a combined percentage increase in base rates. (TR 97) As described by witness Deason, the annual administrative SWIM filing would detail this calculation along with the corresponding investments. (TR 97) The filing would also have a projection of scheduled investments for the subsequent two years, along with the estimated corresponding revenue requirements. (TR 97) After the first year of implementation, the Utility

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<sup>55</sup> Docket No. 041291-EI, *In re: Petition for authority to recover prudently incurred storm restoration costs related to 2004 storm season that exceed storm reserve balance, by Florida Power & Light Co.*

<sup>56</sup> Docket No. 041272-EI, *In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.*

would annually file a true-up prior to April 30th for the previous 12-month historical period ending December 31 demonstrating the actual replacement costs, actual index revenue, and any resulting over or under recovery. (TR 97) The timing of the true-up would be such that any over or under recovery amounts could be included in the current year's SWIM calculation. (TR 97; EXH 142, BSP 10)

Beginning first with responses to discovery requests and then with its rebuttal testimony, UIF modified its initial recovery proposal to adopt a GRIP-like annual tariff filing and to accept a cap of the amount of the annual increase in base rates associated with SWIM projects. (UIF BR 27-29; TR 592; EXH 155) UIF also suggested a prudence and cost review process, and to limit recovery under SWIM only to linear infrastructure projects. (UIF BR 28; TR 588-589) Witness Deason stated that UIF was not opposed to handling recovery as a separate tariff filing as is done with GRIP. (TR 687) Witness Deason also stated that UIF would agree to a \$10 million annual cap on capital expenditures, and that SWIM projects could be limited to those linear assets at or beyond their useful life. (UIF BR 28; TR 680, 690) Finally, in its post-hearing brief, UIF discussed all of the above, and concluded by agreeing to a limited initial implementation period of 5 years, which was consistent with UIF's planning horizon. (UIF BR 29; TR 206)

### **OPC**

OPC described UIF's proposal for a new sewer and water cost recovery mechanism as unnecessary and stated that the ratemaking process already provides ample opportunities for utilities to conduct prudent maintenance. (OPC BR 2) OPC identified what it deemed as the "fundamental drawback" of UIF's proposal—the lack of substance provided in its initial proposal and the shortcomings of its subsequent efforts to supplement information in rebuttal. (OPC BR 26, 30) OPC argued that this left the Utility's proposal deficient in several aspects, and that UIF has failed to provide support for Commission approval of the SWIM concept. (OPC BR 26) OPC also objected to UIF's shifting position on how SWIM would be implemented: first in its initial filing as being taken up administratively along with UIF's annual index and pass-through filing, then evolving into a GRIP-like annual filing. OPC objected to the evolution of UIF's proposal taking place so late in the course of the litigation, such that the final approach UIF ultimately endorsed first appeared in UIF's rebuttal testimony and "ad hoc colloquies on redirect." (OPC BR 26)

OPC further argued that Section 367.081, F.S., was the exclusive means by which Class A water and wastewater utilities could fix or change their rates outside of annual index and pass-through filings. (OPC BR 26) OPC argued that the Commission lacks the authority to create alternative ratemaking methods for Class A water and wastewater utilities based on the specific and limited authority set forth in Section 367.081, F.S. (OPC BR 26) To support its assertion, OPC cited Section 367.0814, F.S., which addresses staff assistance in setting rates for primarily Class C utilities. (OPC BR 27) It explained that the statute contains a specific provision granting the Commission the authority to establish criteria and procedures, by rule, that deviate from the rate setting requirements of Section 367.081, F.S. (OPC BR 27) OPC concluded with the assertion that the elements of due process and protection of the customers' substantial interests are preserved in rate cases, which are required to be conducted pursuant to traditional ratemaking procedures (specifically, pursuant to Sections 367.081, 120.57, and 120.569, F.S.). OPC argued that UIF expects to be given an exemption from statutory requirements, due process

requirements, and long-standing Commission prudence-determination policy, supporting such deviation through the filing of a mere eight sentences of direct testimony. (OPC BR 28; TR 100)

OPC also asserted that SWIM, if adopted, would be subject to reversal "...due to a clear lack of authority to depart from the mandatory statutory method for establishing the prudence of, and method for recovering the cost of, plant additions, and the Commission has no record basis to explain such a departure." (OPC BR 28) OPC argued that UIF failed to meet its burden of proof, provided vague responses on cross-examination, and provided a number of bold claims (including the assertion that SWIM would save customers money on rate case expense) with absolutely no support. (OPC BR 30)

Significantly, according to OPC, GRIP cannot be relied upon to provide precedent for SWIM. (OPC BR 30 – 34) OPC pointed out that GRIP is a highly specific, unique approach to a highly specific and well documented problem. Unlike UIF's SWIM proposal, the cast iron and bare steel rider and GRIP cost recovery mechanisms were a specific response to an imminent safety risk in the transportation of a highly combustible product that was subject to a concrete federal requirement and program DIMP. (OPC BR 31; TR 643. EXH 202-203). No such circumstances exist or were demonstrated in evidence by UIF. (OPC BR 31; TR 648, 672) OPC criticized UIF's late attempt to shore up its SWIM proposal by offering to limit recovery to "linear infrastructure," noting that the term lacked specifics other than "linear infrastructure" referring to a catch-all generalization encompassing "things that are below ground." (OPC BR 31; TR 589, 690)

OPC cited to UIF witness Deason's rebuttal, in which he noted that in the GRIP order the Commission said "[h]ere we are approving a similar surcharge, for a *discreet period*, due to *unusual circumstances*."<sup>57</sup> (OPC BR 32; TR 586, 650-651) OPC also noted that the Commission emphasized in the GRIP order that "[i]t is clear that we have the authority under our broad ratemaking powers found in Sections 366.04, 366.05 and 366.06, F.S., to establish this type of surcharge to recover a discreet set of costs incurred in response to unusual urgent circumstances."<sup>58</sup> (OPC BR 32; TR 586) OPC stated that the terms "surcharge," "unusual," and "urgent" are each materially significant in GRIP and do not apply to SWIM. (OPC BR 32) OPC also argued that in approving the GRIP surcharge, the Commissioners expressly noted the "urgency related to deaths and explosions and the exigency behind the actions of the Federal regulators." (OPC BR 32; EXH 202, 203) OPC concluded that "For SWIM, there is neither urgency nor regulation nor a regulatory agency that has identified an imminent harm or risk of immediate death or injury if so-called linear facilities are not modernized at UIF's unbridled whim. GRIP does not justify SWIM." (OPC BR 32; TR 672)

OPC also took exception to the reference by witness Deason, made for the first time in rebuttal, to recent sewage spills in Ft. Lauderdale (unrelated to a UIF system), in order to promote the idea that SWIM could proactively prevent such events. (OPC BR 37; TR 585) On cross-examination, OPC pointed out that witness Deason was unable to identify the cause of the Ft. Lauderdale wastewater spills, or draw a connection between these coastal spills and UIF's freshwater wastewater systems, or with UIF's own experience with spills beyond the statement

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<sup>57</sup> Order No. PSC-2012-0490-TRF-GU, at 11. (Emphasis added in OPC's brief)

<sup>58</sup> *Id.* at 10

that wastewater spills present health hazards. (OPC BR 37, 38; TR 585, 668-673) OPC asserted that in contrast to the detailed, specific projects discussed in the GRIP proposal, UIF would be “looking into” the useful life of facilities that would be subject to SWIM, and later stated that such a process has been ongoing “for several years.” (OPC BR 37; TR 740, 741) OPC stated that it views UIF’s claim, that SWIM would support economic development at a time when the State is recovering from the economic fallout of the pandemic, as not nearly enough to remedy the complete absence of evidence to support approval of SWIM. (OPC BR 38-39; TR 743) OPC concluded that for all these reasons, SWIM is unlawful, unsubstantiated, and should be denied. (OPC BR 39)

### **ANALYSIS**

UIF’s initial proposal, briefly outlined in witness Deason’s direct testimony, was to recover SWIM-related costs administratively through an annual filing in conjunction with UIF’s annual index and pass through filings. Minimal detail was provided explaining the need for the program or the benefits to the customers of approving such a program. (TR 97) As the docket progressed, UIF’s request evolved to propose recovery of costs via GRIP-like tariff filings, which would establish a surcharge to be trued-up annually based upon actual and projected costs. (EXH 155; UIF BR 25; TR 585) OPC noted that when witness Deason was asked to explain why the SWIM program wasn’t more fully developed, he responded that he intended to do so in response to staff and OPC’s inquiries in the course of the docket. (OPC BR 29-30; TR 118-119) OPC contends – and staff agrees – that it is not the burden of the Commissioners, staff, or OPC to extract details from the Utility to support its request. (OPC BR 30) OPC argued that the ad hoc process by which UIF has attempted to shore-up support for its SWIM proposal does not provide the other participants in the docket, or the Commission, with a meaningful opportunity to examine the program. OPC witness Crane characterized the details of UIF’s SWIM program as “vague, incomplete, and inadequate for purposes of a thorough analysis.” (TR 302) Staff agrees with witness Crane’s assessment.

As a possible benefit of UIF’s proposal, witness Flynn stated that local and state economies are positively impacted by the capital investment needed to replace and repair failing infrastructure. (TR 177) However, he did not distinguish between the benefit of the replacement of aging water and wastewater infrastructure recovered through a SWIM program and the replacement of infrastructure that would be completed in the normal course of business and recovered through a rate case or limited proceeding. Indeed, it appears that these capital investments are actually part of an ongoing, routine, and significant component of cost for the water and wastewater utility, rather than required to abate a certain hazard or immediate public safety concern. (UIF BR 38; TR 741)

Witness Flynn also characterized the issues pertaining to aging water and wastewater infrastructure as a nationwide problem jeopardizing reliable access to safe water, and described the potential negative economic impacts of failing essential infrastructure at a macro level, such as business failure and costs associated with lost water and leaks. (TR 177) Witness Flynn stated that UIF has invested more than \$90 million in its Florida systems over the past 10 years to better serve its customers in a safe and reliable manner. However, he failed to provide evidence concerning how SWIM would significantly improve UIF’s ability to make similar capital

investments in the future. (TR 177) Witness Flynn also explained that PCF-46, a 5-year capital improvement plan (CIP) developed by Kimley-Horn and Associates, was developed as part of the Utility's plan to replace assets that have exceeded or are approaching the end of their service lives. (TR 179) In exhibit PCF-46, UIF provided detail and estimates for each project in the CIP, as well as a general summary of the recommended projects and the associated total costs for each of the 5 years. (EXH 47, BSP 4-48) Witness Flynn's statement that these planned projects were primarily related to linear assets, with some vertical assets as well, became more relevant when UIF later conceded that it would be willing to limit SWIM recovery to the replacement of linear infrastructure. (UIF BR 28; TR 179, 590)

While UIF witness Deason analogized the replacement of cast iron and bare steel pipe under GRIP as "very similar" to the issue of replacing aging water and wastewater infrastructure, he admitted to not researching the facts and circumstances leading to the GRIP order. (TR 643-644) The proposed SWIM program responds to no federal or state legislation or regulatory mandates, and fails to identify specific assets which, barring accelerated replacement via SWIM, pose a risk of injury or death. (TR 672)

Despite UIF's contention that it modelled SWIM after GRIP, UIF failed to provide justification for either the replacement of linear infrastructure or the accelerated recoupment of its costs. (OPC BR 25-27) GRIP was predicated upon a federally mandated program to identify known hazardous gas pipes for remediation. Natural gas utilities were required by law to develop DIMPs, and then use those plans to enhance safety and reduce risks to their systems.<sup>59</sup> Changes to the Natural Gas Pipeline Safety Act required DOT to review the DIMPs to evaluate the continuing priority to enhance protections for public safety and to reduce risk in high consequence areas. (OPC BR 31; TR 643; EXH 202-203) For example, the companies' DIMPs identified specific assets as risks, such as bare steel pipes. The installation of these pipes had been prohibited since the early 1970s and are vulnerable to leaks, which can result in catastrophic injury, death, or destruction of property in the event of failure. (TR 648) In support of GRIP, the natural gas companies asserted that the federal regulatory findings compelled them to conduct an evaluation and abate the hazards associated with cast iron and bare steel mains and services that would ultimately fail due to age, leak history, soil conditions, and other pertinent criteria, and stated that these concerns ranked highest in "threats and risks to its gas distribution pipeline."<sup>60</sup>

Staff agrees with OPC that the Utility has provided very little evidence to support a finding that SWIM should be approved for the same reasons GRIP was approved. The Commission has not approved any similar program for a regulated water or wastewater utility, and UIF has provided no persuasive evidence to support the cost recovery of large capital projects for water and wastewater utilities via its SWIM proposal. (TR 302) As UIF's concept of its proposed SWIM program has evolved, it appears that the intention of the program is to accelerate recovery of routine and unremarkable capital investment, rather than accelerate the replacement of aging infrastructure due to safety concerns.

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<sup>59</sup> Order No. PSC-2012-0490-TRF-GU, at 1-2.

<sup>60</sup> *Id.*

Other examples cited by UIF in support of its SWIM proposal involved Commission approval of a surcharge to Florida Power Corporation's customers associated with the purchase of Sebring Utilities Commission's system,<sup>61</sup> and two storm cost recovery surcharges by FPL<sup>62</sup> and Progress.<sup>63</sup> (UIF BR 26; OPC 32) However, in each of these instances, the surcharges in question were created to address cost recovery associated with unique and exigent circumstances, after being fully vetted in a Commission proceeding. As noted above, UIF invites a comparison to the Commission's precedent for the recovery of extraordinary expenditures incurred after an unusually heavy series of storms, but provided no evidence of "extraordinary circumstances" or "unusually heavy series of storms" or other unique events that were central to these Commission-approved precedents.<sup>64</sup>

Finally, in support of the Commission's authority to approve the proposed SWIM program, UIF highlighted Section 367.121(1)(d), F.S., which authorizes the Commission to require repairs and improvements if reasonably necessary to provide adequate and proper service. Based on staff's review, it appears that the Commission's only utilization of this authority was for Aloha Utilities, Inc., whose customers had been experiencing "black water" problems for years. Specifically, the Commission required the utility to make improvements to Wells Nos. 8 and 9, and then to all its wells, to implement a treatment process designed to remove at least 98 percent of the hydrogen sulfide in its raw water.<sup>65</sup> Aloha Utilities, Inc. appealed the Commission's final decision requiring these improvements, but the First District Court of Appeals affirmed the Commission's Final Order on May 6, 2003.<sup>66</sup>

## CONCLUSION

The Commission has broad ratemaking authority under Chapter 367, F.S. Notwithstanding that broad authority, staff believes that UIF has failed to meet its burden of proof to support the utility's requested SWIM program. It is well established in case and statutory law that the utility has the burden of proof to demonstrate the reasonableness and prudence of the costs for which it seeks recovery. *Florida Power Corp. v. Cresse*, 413 So. 2d 1187 (1982), at 1191. Therefore, for the reasons discussed above, staff recommends UIF's SWIM program request be denied.

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<sup>61</sup> *Action Group v. Deason*, 615 So. 2d 683 (Fla. 1993).

<sup>62</sup> Order No. PSC-06-1062-TRF-EI, issued December 26, 2006, in Docket No. 041291-EI, *In re: Petition for authority to recover prudently incurred storm restoration costs related to 2004 storm season that exceed storm reserve balance, by Florida Power & Light Co.*

<sup>63</sup> Order No. PSC-06-0772-PAA-EI, issued September 18, 2006, in Docket No. 041272-EI, *In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.*

<sup>64</sup> *Id.*

<sup>65</sup> Order No. PSC-02-0593-FOF-WU, issued April 30, 2002, in Docket No. 010503-WU, *In re: Application for increase in water rates for Seven Springs System in Pasco County by Aloha Utilities, Inc.*

<sup>66</sup> *Aloha Utilities, Inc. v. Florida Public Service Commission*, 848 So. 2d 307 (Fla. 1st DCA 2003); see also Order No. PSC-03-1157-PCO-WU, issued October 20, 2003, in Docket No. 010503-WU, *In re: Application for increase in water rates for Seven Springs System in Pasco County by Aloha Utilities, Inc.*

**Issue 42:** In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

**Recommendation:** The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and incomplete pro forma projects, which were not in effect during the interim period. No interim refund should be required because the total interim collection period revenue requirement calculated is greater than the total interim revenue requirement granted. As a result, the corporate undertaking amount of \$1,810,655 should be released. (Thurmond)

### **Position of the Parties**

**UIF:** Any refund should be calculated in accordance with Commission policy.

**OPC:** The refund should be calculated in accordance with the Commission's findings and the rates established in this case.

### **Staff Analysis:**

## **PARTIES' ARGUMENTS**

### **UIF**

In its brief, UIF cited the requirements contained in Section 367.082, F.S., for calculating refunds. (UIF BR 29) It further cited Rule 25-30.360(4),(7), and (8), F.A.C., for implementing refunds, and stated that the Corporate Undertaking of UIF and the Corporate Guarantee of Utilities, Inc. should be released upon the verification of any required refunds by the Commission staff, or, if no refund is required, upon the issuance of the Final Order. (UIF BR 29-30)

### **OPC**

In its brief, OPC stated that refunds should be calculated in accordance with the Commission's findings and the rates established in this case. (OPC BR 39)

## **ANALYSIS**

The Commission authorized UIF to collect interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement for water of \$17,217,167 represented an increase of \$918,223, or 5.63 percent. The approved interim revenue requirement for wastewater of \$20,988,143 represented an increase of \$1,051,222, or 5.27 percent.<sup>67</sup>

According to Section 367.082(4), F.S., any refund should be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not

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<sup>67</sup> Order No. PSC-2020-0322-PCO-WS, issued September 21, 2020, in Docket No. 20200139-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties, by Utilities, Inc. of Florida.*

relate to the period that interim rates are in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

To establish the proper refund amounts, staff calculated interim period revenue requirements by utilizing the same data used to establish final rates. Current rate case expense and incomplete pro forma projects were removed because these items are prospective in nature and did not occur during the interim collection period. Using the principles discussed above, the granted interim test year revenue requirements are less than the calculated interim period revenue requirement.

### **CONCLUSION**

No interim refund should be required because the total interim collection period revenue requirement calculated is greater than the total interim revenue requirement that was granted. As a result, the corporate undertaking amount of \$1,810,655 should be released.

**Issue 43:** What is the appropriate amount by which rates should be reduced after the established effective date to reflect the removal of the amortized rate case expense?

**Recommendation:** UIF's water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, respectively. This is to remove rate case expense, grossed up for RAFs, which is being amortized over a four-year period and will result in a reduction of \$101,427 for water and \$93,098 for wastewater. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period pursuant to Section 367.081(8), F.S. UIF should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility should also be required to file a proposed customer notice of the lower rates and the reason for the reduction. If UIF files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase, and the reduction in the rates due to the amortized rate case expense. (Bethea, Blocker)

### **Position of the Parties**

**UIF:** \$185,771

**OPC:** No post hearing position was provided in its brief.

### **Staff Analysis:**

## **PARTIES' ARGUMENTS**

### **UIF**

Pursuant to Section 367.081(8), F.S., rate case expense is recovered over four years unless a longer period is justified and is in the public interest. UIF asserted that there was no evidence presented to warrant a variance of the four-year amortization period. Based on the stipulation of total rate case expense in Issue 25, UIF contends rates should be reduced after four years to reflect an annual decrease in revenues of \$185,771. (UIF BR 30)

### **OPC**

No argument was provided in its brief.

## **ANALYSIS**

Section 367.081(8), F.S., requires that rates be reduced immediately following the expiration of the determined amortization period by the amount of the rate case expense previously included in rates. After weighing the evidence put forth in the record, staff believes that a four-year amortization period is appropriate. The reduction in revenues will result in the rate decrease as shown on Schedule Nos. 4-A and 4-B, which will remove rate case expense grossed-up for RAFs of \$101,427 for water and \$93,098 for wastewater.

## **CONCLUSION**

UIF's water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, respectively. This is to remove rate case expense, grossed up for RAFs, which is being amortized over a four-year period and will result in a reduction of \$101,427 for water and \$93,098 for wastewater. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period pursuant to Section 367.081(8), F.S. UIF should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility should also be required to file a proposed customer notice of the lower rates and the reason for the reduction. If UIF files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase, and the reduction in the rates due to the amortized rate case expense.

**Issue 44:** Should the Utility be required to notify, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

**Recommendation:** Yes. The Utility should be required to notify the Commission, in writing that it has adjusted its books in accordance with any Commission ordered adjustments. UIF should submit a letter within 90 days of the final order in this docket confirming that the adjustments to all applicable NARUC USOA accounts have been made to the Utility's books and records. In the event that the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days. (Thurmond)

**Position of the Parties**

**UIF:** Yes.

**OPC:** Yes.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**UIF**

In its brief, UIF stated "Consistent with Commission policy, UIF should make the Commission approved adjustments and advise the Commission accordingly within 90 days of the Final Order being effective. (UIF BR 30)

**OPC**

No argument was provided in its brief.

**ANALYSIS**

The Utility should be required to notify the Commission, in writing, that it has adjusted its books in accordance with any Commission ordered adjustments. UIF should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice should be provided within seven days prior to the deadline. Upon providing good cause, staff should be given administrative authority to grant an extension of up to 60 days.

**Issue 45:** Should this docket be closed?

**Recommendation:** No. This docket should remain open for staff's verification that the Utility has filed the revised tariff sheets, customer notices have been filed, and that the Utility has notified the Commission in writing that the adjustments for all applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively. (Trierweiler)

**Position of the Parties**

**UIF:** Yes, after confirmation that adjustments have been made.

**OPC:** No, the docket should remain open to ensure the Commission Ordered Adjustments are done appropriately.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**UIF**

UIF contended that consistent with Commission policy, once the refunds, if any, have been made, the final rate case expense schedule pursuant to Rule 25-30.436(6), F.A.C. has been filed, and the Commission Ordered Adjustments have been confirmed to have been made, this Docket should be closed. (UIF BR 30)

**OPC**

OPC contended that the docket should remain open to ensure that the Commission Ordered Adjustments are done appropriately. (OPC BR 39)

**ANALYSIS**

This docket should remain open for staff's verification that the Utility has completed the recommended refunds, the revised tariff sheets, and customer notices have been filed by UIF and that the Utility has notified the Commission in writing that the adjustments for all applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively.

**CONCLUSION**

This docket should remain open for staff's verification that the Utility has filed the revised tariff sheets, customer notices have been filed, and that the Utility has notified the Commission in writing that the adjustments for all applicable NARUC USOA primary accounts have been made. Once these actions are complete, this docket should be closed administratively.

<b>Utilities, Inc. of Florida</b>		<b>Schedule No. 1-A</b>			
<b>Schedule of Water Rate Base</b>		<b>Docket No. 20200139-WS</b>			
<b>Test Year Ended 12/31/19</b>					
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$121,858,071	(\$2,795,312)	\$119,062,759	(\$159,144)	\$118,903,615
2 Land and Land Rights	296,859	0	296,859	0	296,859
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(51,397,784)	5,249,620	(46,148,164)	10,950	(46,137,214)
5 CIAC	(41,304,592)	87,827	(41,216,765)	(23,857)	(41,240,622)
6 Accumulated Amortization of CIAC	20,893,605	(88,677)	20,804,928	23,857	20,828,785
7 Construction Work in Progress	2,628,722	(2,628,722)	0	0	0
8 Advances for Construction	(36,767)	0	(36,767)	0	(36,767)
9 Acquisition Adjustments	56,355	(56,355)	0	0	0
10 Accumulated Amortization of Acq. Adj.	192,642	(192,642)	0	0	0
11 Working Capital Allowance	<u>0</u>	<u>4,151,132</u>	<u>4,151,132</u>	<u>(2,355,199)</u>	<u>1,795,933</u>
<b>12 Rate Base</b>	<b><u>\$53,187,111</u></b>	<b><u>\$3,726,871</u></b>	<b><u>\$56,913,982</u></b>	<b><u>(\$2,503,393)</u></b>	<b><u>\$54,410,589</u></b>

<b>Utilities, Inc. of Florida</b>		<b>Schedule No. 1-B</b>			
<b>Schedule of Wastewater Rate Base</b>		<b>Docket No. 20200139-WS</b>			
<b>Test Year Ended 12/31/19</b>					
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$131,296,074	\$23,256,173	\$154,552,247	(\$1,310,743)	\$153,241,504
2 Land and Land Rights	583,041	0	583,041	0	583,041
3 Non-used and Useful Components	0	(928,928)	(928,928)	(284,620)	(1,213,548)
4 Accumulated Depreciation	(57,140,576)	2,869,610	(54,270,966)	102,035	(54,168,931)
5 CIAC	(44,997,031)	753,220	(44,243,811)	104,784	(44,139,027)
6 Accumulated Amortization of CIAC	30,720,963	(2,217,848)	28,503,115	(104,784)	28,398,331
7 CWIP	(605,083)	605,083	0	0	0
8 Advances for Construction	1,315	0	1,315	0	1,315
9 Acquisition Adjustment	1,238,784	(1,238,784)	0	0	0
10 Accumulated Amortization of Acq. Adj.	(163,693)	163,693	0	0	0
11 Working Capital Allowance	<u>0</u>	<u>5,551,167</u>	<u>5,551,167</u>	<u>(2,973,713)</u>	<u>2,577,454</u>
<b>12 Rate Base</b>	<b><u>\$60,933,794</u></b>	<b><u>\$28,813,386</u></b>	<b><u>\$89,747,180</u></b>	<b><u>(\$4,467,041)</u></b>	<b><u>\$85,280,139</u></b>

<b>Utilities, Inc. of Florida</b>		<b>Schedule No. 1-C</b>	
<b>Adjustments to Rate Base</b>		<b>Docket No. 20200139-WS</b>	
<b>Test Year Ended 12/31/19</b>			
<u>Explanation</u>	<u>Water</u>	<u>Wastewater</u>	
<u>Plant In Service</u>			
1 Pro Forma Plant Additions (I-3)	(\$150,054)	(\$1,276,038)	
2 Pro Forma Plant Retirements (I-4)	<u>(9,090)</u>	<u>(34,706)</u>	
Total	<u>(\$159,144)</u>	<u>(\$1,310,743)</u>	
<u>Non-used and Useful</u>			
Non-Used and Useful Adjustments (I-9)	\$0	<u>(\$284,620)</u>	
<u>Accumulated Depreciation</u>			
1 Pro Forma Plant Additions (I-3)	\$1,861	\$67,329	
2 Pro Forma Plant Retirements (I-4)	<u>9,090</u>	<u>34,706</u>	
Total	<u>\$10,950</u>	<u>102,035</u>	
<u>CIAC</u>			
Pro Forma Plant Retirements (I-4)	<u>(\$23,857)</u>	<u>\$104,784</u>	
<u>Accumulated Amortization of CIAC</u>			
Pro Forma Plant Retirements (I-4)	<u>\$23,857</u>	<u>(\$104,784)</u>	
<u>Working Capital</u>			
1 Pro Forma Cash Adjustment (I-16)	(\$2,355,199)	(\$3,061,123)	
2 Pro Forma Studies and Preliminary Investigations Adjustment (I-16)	0	(4,453)	
3 Miscellaneous Deferred Debits Adjustment (I-16)	<u>0</u>	<u>91,863</u>	
	<u>(\$2,355,199)</u>	<u>(\$2,973,713)</u>	

<b>Utilities, Inc. of Florida</b>							<b>Schedule No. 2</b>	
<b>Capital Structure-Simple Average</b>							<b>Docket No. 20200139-WS</b>	
<b>Test Year Ended 12/31/19</b>								
<b>Description</b>	<b>Total Capital</b>	<b>Specific Adjustments</b>	<b>Subtotal Adjusted Capital</b>	<b>Prorata Adjustments</b>	<b>Capital Reconciled to Rate Base</b>	<b>Ratio</b>	<b>Cost Rate</b>	<b>Weighted Cost</b>
<b>Per Utility</b>								
1 Long-term Debt	\$257,846,154	\$0	\$257,846,154	(\$196,846,833)	\$60,999,321	41.59%	5.78%	2.40%
2 Short-term Debt	28,461,538	0	28,461,538	(21,729,943)	6,731,595	4.59%	4.04%	0.19%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	279,391,931	0	279,391,931	(213,293,817)	66,098,114	45.07%	11.75%	5.30%
5 Customer Deposits	248,501	0	248,501	0	248,501	0.17%	2.00%	0.00%
6 Tax Credits-Zero cost	73,443	0	73,443	0	73,443	0.05%	0.00%	0.00%
7 Deferred Income Taxes	7,143,896	12,554	7,156,450	0	7,156,450	4.88%	0.00%	0.00%
8 Excess Deferred Tax Liability	5,647,645	(293,820)	5,353,825	0	5,353,825	3.65%	0.00%	0.00%
<b>9 Total Capital</b>	<b><u>\$578,813,108</u></b>	<b><u>(\$281,266)</u></b>	<b><u>\$578,531,842</u></b>	<b><u>(\$431,870,593)</u></b>	<b><u>\$146,661,249</u></b>	<b><u>100.00%</u></b>		<b><u>7.89%</u></b>
<b>Per Staff</b>								
10 Long-term Debt	\$257,846,154	\$0	\$257,846,154	(\$200,023,986)	\$57,822,168	41.39%	5.78%	2.39%
11 Short-term Debt	28,461,538	0	28,461,538	(22,079,020)	6,382,518	4.57%	4.04%	0.18%
12 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
13 Common Equity	279,391,931	0	279,391,931	(216,738,108)	62,653,823	44.85%	9.90%	4.44%
14 Customer Deposits	248,501	0	248,501	0	248,501	0.18%	2.00%	0.00%
15 Tax Credits-Zero cost	73,443	0	73,443	0	73,443	0.05%	0.00%	0.00%
16 Deferred Income Taxes	7,156,450	0	7,156,450	0	7,156,450	5.13%	0.00%	0.00%
17 Excess Deferred Tax Liability	5,353,825	0	5,353,825	0	5,353,825	3.83%	0.00%	0.00%
<b>18 Total Capital</b>	<b><u>\$578,531,842</u></b>	<b><u>\$0</u></b>	<b><u>\$578,531,842</u></b>	<b><u>(\$438,841,114)</u></b>	<b><u>\$139,690,728</u></b>	<b><u>100.00%</u></b>		<b><u>7.02%</u></b>
						<b><u>LOW</u></b>	<b><u>HIGH</u></b>	
						RETURN ON EQUITY	<u>8.90%</u>	<u>10.90%</u>
						OVERALL RATE OF RETURN	<u>6.57%</u>	<u>7.47%</u>

<b>Utilities, Inc. of Florida</b>							<b>Schedule No. 3-A</b>	
<b>Statement of Water Operations</b>							<b>Docket No. 20200139-WS</b>	
<b>Test Year Ended 12/31/19</b>								
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>	<b>Revenue Increase</b>	<b>Revenue Requirement</b>	
1 <b>Operating Revenues:</b>	<u>\$16,396,327</u>	<u>\$3,020,045</u>	<u>\$19,416,372</u>	<u>(\$2,794,456)</u>	<u>\$16,621,916</u>	<u>\$1,747,370</u> 10.51%	<u>\$18,369,286</u>	
<b>Operating Expenses</b>								
2 Operation & Maintenance	\$8,659,460	\$373,246	\$9,032,706	(\$206,949)	\$8,825,757		\$8,825,757	
3 Depreciation	2,885,066	192,476	3,077,542	(1,995)	3,075,547		3,075,547	
4 Amortization	0	50,263	50,263	46	50,309		50,309	
5 Taxes Other Than Income	1,653,481	203,117	1,856,598	(134,050)	1,722,548	78,632	1,801,179	
6 Income Taxes	<u>(528,046)</u>	<u>1,437,320</u>	<u>909,274</u>	<u>(533,881)</u>	<u>375,393</u>	<u>420,938</u>	<u>796,331</u>	
7 <b>Total Operating Expense</b>	<u>12,669,961</u>	<u>2,256,422</u>	<u>14,926,383</u>	<u>(876,829)</u>	<u>14,049,554</u>	<u>499,570</u>	<u>14,549,124</u>	
8 <b>Operating Income</b>	<u>\$3,726,366</u>	<u>\$763,623</u>	<u>\$4,489,989</u>	<u>(\$1,917,627)</u>	<u>\$2,572,362</u>	<u>\$1,247,801</u>	<u>\$3,820,163</u>	
9 <b>Rate Base</b>	<u>\$53,187,111</u>		<u>\$56,913,982</u>		<u>\$54,410,589</u>		<u>\$54,410,589</u>	
10 <b>Rate of Return</b>	<u>7.01%</u>		<u>7.89%</u>		<u>4.73%</u>		<u>7.02%</u>	

<b>Utilities, Inc. of Florida</b>							<b>Schedule No. 3-B</b>	
<b>Statement of Wastewater Operations</b>							<b>Docket No. 20200139-WS</b>	
<b>Test Year Ended 12/31/19</b>								
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>	<b>Revenue Increase</b>	<b>Revenue Requirement</b>	
1 <b>Operating Revenues:</b>	<u>\$20,840,529</u>	<u>\$5,987,039</u>	<u>\$26,827,568</u>	<u>(\$6,518,873)</u>	<u>\$20,308,695</u>	<u>\$4,715,496</u> 23.22%	<u>\$25,024,191</u>	
<b>Operating Expenses</b>								
2 Operation & Maintenance	\$10,494,286	\$575,233	\$11,069,519	(\$411,479)	\$10,658,040		\$10,658,040	
3 Depreciation	3,773,374	870,142	4,643,516	(108,192)	4,535,324		4,535,324	
4 Amortization	0	110,166	110,166	121,916	232,082		232,082	
5 Taxes Other Than Income	1,872,394	617,804	2,490,198	(339,107)	2,151,091	212,197	2,363,288	
6 Income Taxes	<u>(484,700)</u>	<u>1,918,645</u>	<u>1,433,945</u>	<u>(1,321,952)</u>	<u>111,993</u>	<u>1,135,954</u>	<u>1,247,946</u>	
7 <b>Total Operating Expense</b>	<u>15,655,354</u>	<u>4,091,990</u>	<u>19,747,344</u>	<u>(2,058,814)</u>	<u>17,688,530</u>	<u>1,348,151</u>	<u>19,036,681</u>	
8 <b>Operating Income</b>	<u>\$5,185,175</u>	<u>\$1,895,049</u>	<u>\$7,080,224</u>	<u>(\$4,460,059)</u>	<u>\$2,620,165</u>	<u>\$3,367,345</u>	<u>\$5,987,511</u>	
9 <b>Rate Base</b>	<u>\$60,933,794</u>		<u>\$89,747,180</u>		<u>\$85,280,139</u>		<u>\$85,280,139</u>	
10 <b>Rate of Return</b>	<u>8.51%</u>		<u>7.89%</u>		<u>3.07%</u>		<u>7.02%</u>	

<b>Utilities, Inc. of Florida</b>		<b>Schedule 3-C</b>	
<b>Adjustment to Operating Income</b>		<b>Docket No. 20200139-WS</b>	
<b>Test Year Ended 12/31/19</b>		<b>Page 1 of 2</b>	
<u>Explanation</u>	<u>Water</u>	<u>Wastewater</u>	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase or decrease.	(\$2,823,848)	(\$6,529,383)	
2 Test Year Revenues (I-24)	<u>17,989</u>	<u>2,813</u>	
Total	<u>(\$2,794,456)</u>	<u>(\$6,518,873)</u>	
<u>Operation and Maintenance Expense</u>			
1 Stipulated Rate Case Expense (I-25)	(\$5,930)	(\$5,443)	
2 Pro Forma WWTP Permitting Expense (I-26)	0	10,250	
3 Pro Forma I&I Inspection Expense (I-26)	0	15,278	
4 Pro Forma Capitalized Labor (I-26)	(61,245)	(353,675)	
5 Pro Forma Positions - Salaries & Wages Expense (I-26)	(15,121)	(13,879)	
6 Pro Forma Positions - Pensions & Benefits Expense (I-26)	(7,830)	(7,187)	
7 Pro Forma Positions - Telephone Expense (I-26)	(959)	(879)	
8 Pro Forma Transportation Expense - New Positions (I-26)	(2,316)	(2,126)	
9 Pro Forma Chemicals Expense - Lake Groves (I-26)	(28,914)	0	
10 Pro Forma Chemicals Expense - Summertree (I-26)	(5,000)	0	
11 Pro Forma Contractual Services - Testing Expense - Summertree (I-26)	(24,500)	0	
12 Pro Forma Contractual Services - Other Expense - Summertree (I-26)	0	(5,400)	
13 Pro Forma Contractual Services - Other Expense - Eagle Ridge (I-26)	0	7,200	
14 Non-Qualified Retirement Expense (I-27)	(28,592)	(26,245)	
15 Lobbying Expense (I-27)	(23,894)	(21,933)	
16 Holiday Party Expense (I-27)	(2,648)	(2,431)	
17 Infiltration & Inflow - Purchased Wastewater (I-27)	0	(4,901)	
18 Infiltration & Inflow - Purchased Power (I-27)	<u>0</u>	<u>(107)</u>	
Total	<u>(\$206,949)</u>	<u>(\$411,479)</u>	
<u>Depreciation Expense - Net</u>			
1 Pro Forma Plant Additions (I-3)	(\$1,861)	(\$67,329)	
2 Pro Forma Plant Retirements - Depreciation Expense (I-4)	976	1,657	
3 Pro Forma Plant Retirements - CIAC Amortization (I-4)	(1,111)	(14,061)	
4 Non-Used and Useful Adjustments (I-9)	<u>0</u>	<u>(28,459)</u>	
Total	<u>\$1,995</u>	<u>(\$108,192)</u>	
<u>Amortization-Other Expense</u>			
Stipulated Amortization Expense (I-28)	<u>\$46</u>	<u>\$121,916</u>	

<b>Utilities, Inc. of Florida</b>		<b>Schedule 3-C</b>	
<b>Adjustment to Operating Income</b>		<b>Docket No. 20200139-WS</b>	
<b>Test Year Ended 12/31/19</b>		<b>Page 2 of 2</b>	
<u>Explanation</u>	<u>Water</u>	<u>Wastewater</u>	
<u>Taxes Other Than Income</u>			
1	RAFs on revenue adjustments above.	(\$125,751)	(\$293,349)
2	Pro Forma Plant Additions (I-3)	(2,328)	(7,778)
3	Non-Used and Useful Adjustments (I-9)	0	(9,743)
4	Pro Forma Capitalized Labor (I-26)	(4,685)	(27,056)
5	Pro Forma Positions - Payroll Taxes (I-26)	<u>(1,287)</u>	<u>(1,181)</u>
	Total	<u>(\$134,050)</u>	<u>(\$339,107)</u>

<b>Utilities Inc. of Florida</b>		<b>Schedule No. 4-A</b>			
<b>Test Year Ended 12/31/19</b>		<b>Docket No. 20200139-WS</b>			
<b>Water Rates</b>					
	<b>Utility's Existing Rates</b>	<b>Commission Approved Interim Rates</b>	<b>Utility's Proposed Final Rates</b>	<b>Staff Recommended Rates</b>	<b>Four Year Rate Reduction</b>
<b><u>Residential and General Service</u></b>					
Base Facility Charge by Meter Size					
5/8" x 3/4"	\$11.28	\$11.71	\$13.23	\$12.49	\$0.07
3/4"	\$16.92	\$17.57	\$19.85	\$18.74	\$0.11
1"	\$28.20	\$29.28	\$33.08	\$31.23	\$0.18
1-1/2"	\$56.40	\$58.55	\$66.17	\$62.45	\$0.35
2"	\$90.24	\$93.68	\$105.86	\$99.92	\$0.56
3"	\$180.48	\$187.36	\$211.73	\$199.84	\$1.12
4"	\$282.00	\$292.75	\$330.83	\$312.25	\$1.75
6"	\$564.00	\$585.50	\$661.65	\$624.50	\$3.50
8"	\$902.40	\$936.80	\$1,058.64	\$999.20	\$5.60
10"	\$1,635.60	\$1,697.95	\$1,918.79	\$1,811.05	\$10.15
Charge per 1,000 gallons - Residential Service					
0-4,000 gallons	\$1.59	\$1.65	\$1.87	\$1.76	\$0.01
4,001-12,000 gallons	\$2.37	\$2.46	\$2.78	\$2.62	\$0.01
Over 12,000 gallons	\$3.96	\$4.11	\$4.65	\$4.39	\$0.02
Charge per 1,000 gallons - General Service					
	\$2.68	\$2.78	\$3.14	\$2.97	\$0.02
<b><u>Private Fire Protection Service</u></b>					
1 1/2"	\$4.70	\$4.88	\$5.51	\$5.20	\$0.03
2"	\$7.52	\$7.81	\$8.82	\$8.33	\$0.05
3"	\$15.04	\$15.61	\$17.64	\$16.65	\$0.09
4"	\$23.50	\$24.40	\$27.57	\$26.02	\$0.15
6"	\$47.00	\$48.79	\$55.14	\$52.04	\$0.29
8"	\$75.20	\$78.07	\$88.22	\$83.27	\$0.47
10"	\$136.30	\$141.50	\$159.90	\$150.92	\$0.85
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>					
3,000 Gallons	\$16.05	\$16.66	\$18.84	\$17.77	
6,000 Gallons	\$22.38	\$23.23	\$26.27	\$24.77	
8,000 Gallons	\$27.12	\$28.15	\$31.83	\$30.01	

Utilities Inc. of Florida		Schedule No. 4-B			
Test Year Ended 12/31/19		Docket No. 20200139-WS			
Wastewater Rates		Page 1 of 2			
	Utility's Existing Rates	Commission Approved Interim Rates	Utility's Proposed Final Rates	Staff Recommended Rates	Four Year Rate Reduction
<b>Residential Service (RS1)</b>					
All Meter Sizes	\$26.72	\$27.63	\$35.44	\$33.03	\$0.13
Charge per 1,000 gallons (8,000 gallon cap)	\$4.27	\$4.42	\$5.66	\$5.28	\$0.02
<b>Residential Service (RS2)</b>					
All Meter Sizes	\$53.44	\$55.26	\$70.89	\$66.06	\$0.25
Charge per 1,000 gallons (16,000 gallon cap)	\$4.27	\$4.42	\$5.66	\$5.28	\$0.02
<b>Residential Service (RS3)</b>					
Flat Rate	\$48.06	\$49.70	\$63.75	\$59.41	\$0.23
<b>Residential Service (RS4)</b>					
Flat Rate	\$96.13	\$99.40	\$127.52	\$118.82	\$0.45
<b>General Service (GS1)</b>					
Base Facility Charge by Meter Size					
5/8" x 3/4"	\$26.72	\$27.63	\$35.44	\$33.03	\$0.13
3/4"	\$40.08	\$41.45	\$53.17	\$49.55	\$0.20
1"	\$66.80	\$69.08	\$88.61	\$82.58	\$0.33
1-1/2"	\$133.60	\$138.15	\$177.22	\$165.15	\$0.65
2"	\$213.76	\$221.04	\$283.55	\$264.24	\$1.04
3"	\$427.52	\$442.08	\$567.10	\$528.48	\$2.08
4"	\$668.00	\$690.75	\$886.10	\$825.75	\$3.25
6"	\$1,336.00	\$1,381.50	\$1,772.19	\$1,651.50	\$6.50
8"	\$2,137.60	\$2,210.40	\$2,835.51	\$2,642.40	\$10.40
10"	\$3,874.40	\$4,006.35	\$5,139.36	\$4,789.35	\$18.85
Charge per 1,000 gallons	\$5.11	\$5.29	\$6.78	\$6.32	\$0.02

Utilities Inc. of Florida		Schedule No. 4-B			
Test Year Ended 12/31/19		Docket No. 20200139-WS			
Wastewater Rates		Page 2 of 2			
	Utility's Existing Rates	Commission Approved Interim Rates	Utility's Proposed Final Rates	Staff Recommended Rates	Four Year Rate Reduction
<b>General Service (GS2)</b>					
5/8" x 3/4"	\$53.44	\$55.26	\$70.89	\$66.06	\$0.25
3/4"	\$80.16	\$82.89	\$106.33	\$99.09	\$0.38
1"	\$133.60	\$138.15	\$177.22	\$165.15	\$0.63
1 1/2"	\$267.20	\$276.30	\$354.44	\$330.30	\$1.25
2"	\$427.52	\$442.08	\$567.10	\$528.48	\$2.00
3"	\$855.04	\$884.16	\$1,134.20	\$1,056.96	\$4.00
4"	\$1,336.00	\$1,381.50	\$1,772.19	\$1,651.50	\$6.25
6"	\$2,672.00	\$2,763.00	\$3,544.39	\$3,303.00	\$12.50
8"	\$4,275.20	\$4,420.80	\$5,671.02	\$5,284.80	\$20.00
10"	\$7,748.80	\$8,012.70	\$10,278.73	\$9,578.70	\$36.25
Charge per 1,000 gallons	\$5.11	\$5.29	\$6.78	\$6.32	\$0.02
<b>General Service (GS3)</b>					
Flat Rate	\$48.06	\$49.70	\$63.75	\$59.41	\$0.23
<b>General Service (GS4)</b>					
Flat rate (905 ERCs)	\$43,494.30	\$44,978.50	\$57,694.88	\$53,766.05	\$204.31
<b>Bulk Service (BS1)</b>					
All Meter Sizes (58 ERCs)	\$1,549.76	\$1,602.54	\$2,055.75	\$1,915.74	\$7.28
Charge per 1,000 gallons	\$4.27	\$4.42	\$5.66	\$5.28	\$0.02
<b>General Reuse Service (GRS1)</b>					
All Meter Sizes	\$7.92	\$7.92	\$10.51	\$9.79	\$0.04
Charge per 1,000 gallons	\$1.50	\$1.50	\$1.99	\$1.85	\$0.01
<b>Typical Residential 5/8" x 3/4" Meter Bill Comparison (RS1)</b>					
3,000 Gallons	\$39.53	\$40.89	\$52.42	\$48.87	
6,000 Gallons	\$52.34	\$54.15	\$69.40	\$64.71	
8,000 Gallons	\$60.88	\$62.99	\$80.72	\$75.27	