BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 160101-WS

REBUTTAL TESTIMONY

OF

DEBORAH D. SWAIN

on behalf of

Utilities, Inc. of Florida

Q. Please state your, name profession and address.

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

Q. Have you previously presented testimony in this case?

A. Yes. I have previously presented direct testimony on behalf of the applicant, Utilities, Inc. of Florida (UIF).

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of Office of Public Counsel witnesses Donna Ramas with regard to adjustments she is recommending that impact the revenue requirement.

Q. Are you sponsoring any additional exhibits?

A. Yes, I am sponsoring Exhibit DDS-3 which is a Summary of Adjustments, and Exhibit DDS-4 which is a Journal Entry Writing Off Accrued Federal Income Taxes, as discussed in my rebuttal testimony.

Q. Can you address the concern raised by Ms. Ramas regarding the impact of the Company's presentation of retirements associated with proforma plant additions?

A. Yes. Ms. Ramas found instances where the Company's presentation of retirements in some cases was greater than the balance in specific plant accounts resulting in negative balances in those accounts. In some cases, the amount of accumulated depreciation retired was greater that the balance in certain accumulated depreciation accounts. First, let me summarize how we went about determining the original cost of plant retired. We used an accepted method of determining the approximate original cost of plant in the absence of actual cost information for the presentation of retirements associated with proforma plant additions in the Company's MFRs. This method is used widely by utilities for the accounting of retirements associated with replacement of those assets. In the absence of specific information, the FPSC policy is to use 75% of the cost of the replacement as an approximation of the original cost of the retired asset. However, for some of those replaced assets in our filing, this resulted in retirements in excess of the actual plant balance. During discovery we became aware of these instances, and agreed that a more appropriate estimate of the original cost of the retired plant assets should be used.

Q. What is the impact of retirements in excess of the actual plant balance?

A. As Ms. Ramas indicates, there is $0 impact on rate base. However depreciation expense is understated. This is because in most cases, a retirement is recorded as a reduction to plant, and a reduction to accumulated depreciation in the same amount. No matter what the plant amount is, when accumulated depreciation is reduced equally, the net adjustment to rate base is $0. However, the calculation of depreciation expense is based upon the remaining plant balance. When the actual remaining balance is higher, depreciation expense is higher. As we adjust the plant and accumulated depreciation retirement adjustment, the remaining plant balance is greater, and depreciation expense is greater.

Q. Do you agree with the approach used by Ms. Ramas to reflect the plant retirement adjustments?

A. Overall, yes I do, although I have some specific differences that I will describe more fully below.

Q. What other adjustment to plant and rate base should be made?

A. Adjustments to plant, accumulated depreciation, and depreciation expense should be made to reflect the most up-to-date information about proforma adjustment, as presented by company witness Patrick Flynn, specifically in his exhibit PCF-51. These new proforma amounts will also impact the retirements, with limitations as explained previously.

Q. Have you reviewed Ms. Ramas' adjustments to rate case expense?

A. Yes. Ms. Ramas makes several adjustments, and I will address each separately.

First, Ms. Ramas determines that the inclusion of unamortized balance of prior rate case expense in the calculation of includable rate case expense will result in over-recovery because the Company will have collected an additional 19 months of expense by the time the final rates are in effect on August 1, 2017. However, care must be taken to ensure that the interim rates do, in fact, include the prior rate case expense amortization.

Second, Ms. Ramas asserts that the addition of unamortized balance of prior rate case expense to new rate case expense for the calculation of the annual expense allowed, is inconsistent with Section 367.081(8), Florida Statutes. However, the statute clearly states that a longer period would be allowed if justified and in the public interest. If the recovery of the unamortized balance of prior rate case expense is recalculated to expire at the same time as the new rate case expense, the amount recovered would be equivalent, and therefore the customers would not overpay. Furthermore, this treatment would simply spread the cost evenly, and normalize the rates over upcoming years. And finally, it would result in a single rate change at the end of four years, rather than multiple rate changes. This is particularly important when consolidating rates. The impact of individual system revenue reductions across the consolidated system would likely be miniscule rate changes, done multiple times. It is far more practical, less costly to implement, and therefore beneficial to the customer and in the public interest to consolidate the unamortized rate case expense and amortize them all over the next four years, making one adjustment to rates at the conclusion of that period. Making multiple rate changes as a result of the intermittent expiration of rate case expense amortization on a consolidated rate would not be in the public interest.

Last, Ms. Ramas determines that in certain of the systems, the amount of the unamortized balance of prior rate case expense was added to new rate case expense, but then prior rate case expense was not removed, thus resulting in a double-counting. She is correct, the

Company made an error, and it should be corrected.

Q. Do you agree that adjustments should be made to reduce rate case expense for the time spent to respond to deficiencies?

A. No, the utility has not included any costs associated with preparing or submitting responses to deficiencies in rate case expense, so no adjustment is needed. The Company did not include any of its internal time related to responding to deficiencies in rate case expense and took care to exclude any portion of invoices associated with deficiencies for its consultants and attorney from inclusion in rate case expense.

Q. Do you agree that adjustments should be made to reduce rate case expense for the time spent to file or re-file annual reports?

A. No, the utility has not included any costs associated with preparing or filing annual reports in rate case expense, so no adjustment is needed.

Q. Do you agree that adjustments should be made to reduce rate case expense for the time spent to revise or supplement responses to discovery requests?

A. No, the utility did not perform any re-work in order to submit additional information, so no adjustment to rate case expense is needed. The responses were adequate as made; however, it was at OPC’s request that clarification was provided. The vast majority of responses to discovery were prepared by the Company, and those expenses were not included in rate case expense. The consultant's time spent responding to requests was included in rate case expense, however the work performed was not duplicative, revision, nor re-work. Any time spent to prepare information not already prepared for submittal certainly should be included.

Q. Do you have any other adjustments to rate case expense?

A. Yes, I have included the most up-to-date estimate of rate case expense as indicated in Jared Deason's Exhibit JD-4.

Q. Do you agree with Ms. Ramas' adjustments to ADIT associated with proforma plant?

A. To an extent, I do. Ms. Ramas points out that the Company is entitled to take bonus depreciation of up to 50% on certain plant additions. Although we calculated additional ADIT due to proforma additions, we did not include any amount attributable to bonus depreciation. We agree that bonus depreciation should be included, and will result in an additional credit to ADIT for systems with proforma additions to qualified plant. However, since the Company's proforma plant additions are not the same as those included by Ms. Ramas. The adjustments to ADIT should be based upon our updated proforma plant additions.

Q. Do you agree with Ms. Ramas' opinion regarding the type of plant eligible for bonus depreciation?

A. Yes, I do. My understanding is that water utility property and reuse property qualify for bonus depreciation.

Q. What is the impact of this adjustment?

A. ADIT with a credit balance is a zero cost component on the capital structure. The ADIT due to bonus depreciation on updated proforma plant would increase this zero cost component, and reduce the overall rate of return.

Q. Do you agree with Ms. Ramas' adjustment to proposed cost rates for Lake Placid customer deposits and and Longwood equity?

A. I agree with the adjustment she is proposing to correct an error in the Company's filing for the cost rate of customer deposits in Lake Placid, which should reflect 2% . However, the correct equity rate for Longwood is 11.16%, which is the amount in the Company's filing. This is based on the leverage formula in effect pursuant to Order No. PSC-16-0254-PAA-WS. The rate of 11.16% is the maximum allowed for utilities with an equity ratio of less than 40%. There appears to be some discrepancy in the response to Staff Interrogatory No.

110, however, the rate is correct as filed.

Q. Did you review Ms. Ramas' adjustment to remove a health insurance reserve entry?

A. Yes, Ms. Ramas incorrectly concludes that an adjustment to record a health insurance reserve on the Company's books at the end of the year is non-recurring. It is customary practice for companies to record accruals, reserve adjustments and corrections at the end of the fiscal year. I do not agree with Ms. Ramas’ determination that this adjustment is not appropriate. This particular entry was made because the Company reviewed the history of the health insurance billing during the year, then estimated the amount that had not yet been billed, and recorded it as a reserve adjustment.

Q. Do you agree with Ms. Ramas' adjustment to remove a depreciation expense entry reflected on Schedule B-12 for each system?

A. Yes, this "Fixed Asset Clean up adjustment" appears to apply to a prior period and as such should be removed.

Q. Do you agree with Ms. Ramas adjustment related to the incorrect allocation of transportation expenses?

A. Although technically correct, the adjustment is immaterial.

Q. Please describe any adjustments necessary to the proforma 7 system additions, based on your review of Ms. Ramas' testimony.

A. Ms. Ramas first reduced the cost of the GIS system to $350,000 based upon Mr. Flynn's Prefiled Direct Testimony. However, as provided by Mr. Flynn in Exhibit Amended PCF-51, the estimate of the cost of the GIS system has been updated, and the new cost should be used.

Q. Do you agree with the corrections to errors Ms. Ramas found in the cost of the GIS applied to Labrador and Pennbrooke?

A. Yes, there were errors in the allocation that requires correction. Again, the updated cost should be used, and allocated to all utilities based upon number of ERCs.

Q. Ms. Ramas found that the depreciable life for the GIS system is reflected inconsistently among the systems. Is there a correction needed?

A. Yes, Ms. Ramas is correct - there were some inconsistencies among the systems regarding the depreciable life of the proforma GIS system plant. The correct life is six (6) years, not fifteen (15) as used in certain systems. This impacts accumulated depreciation, depreciation expense.

Q. Ms. Ramas expresses concern about possible upcoming changes in federal income tax rates. Do you agree that safeguards need to be in place in case there is a change in income tax rates?

A. I do not agree. The potential for a possible change in income tax rates is nothing new, particularly when there is a change in the federal administration. If a federal tax rate change is made, the Company is one of many impacted by such a change. Furthermore, singling out this one component for such safeguarding is truly cherry-picking, as the utility encounters continuous changes in costs. I caution that if any safeguard is placed, or action taken to provide a rate change if the income tax rate decreases, such safeguard should also recognize the need for a potential rate change when the federal income tax rate rises, along with other increases, such as health care with may be affected by a change in administration.

Q. Please address the adjustments made by Ms. Ramas specifically for Eagle Ridge.

A. First, Ms. Ramas adjusts materials and supplies since the test year amount exceeds the benchmark as shown on B-8. However, as Mr. Flynn explains in his rebuttal testimony, this amount is appropriate, and an adjustment is not warranted.

Next, Ms. Ramas found an error in the chemicals account in the MFRs. We agree that Schedule B-3 picked up an erroneous expense amount for adjustment, which should have been a reduction to result in a total test year amount of $37,241 as shown on Company's

Schedule of Chemicals.

Finally, Ms. Ramas makes an adjustment to working capital to remove an entry of $82,809 recorded by the Company in December 2012 to debit Accrued Federal Income Tax, claiming that the amount is unchanged since that time, and the company failed to provide support to justify its inclusion. This amount was removed in a correcting entry after the test year, and should be removed from working capital. As I explain later, as a result of reviewing this adjustment, I found that the Company had made a similar adjustment to all of the systems.

Q. Please address the adjustments made by Ms. Ramas specifically for Labrador.

A. Ms. Ramas found a charge for a water system analysis that had been allocated to water and wastewater. She recommended first that it be charged fully to water, and that it be deferred and amortized over five years. As this cost in non-recurring, I agree that it should be amortized over five years, and charged entirely to water. The unamortized portion (full amount minus one-half year of amortization) should be added to working capital.

Ms. Ramas also found charges to legal expense related to the prior rate case, and adjusted them out of test year expense. Although this amount is nominal, the correction she makes is technically correct.

Q. Please address the adjustments made by Ms. Ramas specifically for Lake Placid.

A. Ms. Ramas indicates that there are certain plant accounts that were fully depreciated at the start of the test year. She draws this conclusion because the accumulated depreciation balance exceeds the plant balance from the start of the test year. Her recommendation is to remove the test year depreciation. In this case I concur. However she also recommends writing off the assets and the accumulated depreciation. I do not believe this is appropriate. Although the asset is fully depreciated, it is an asset of the Company, and should remain on the books. There is no accounting basis for writing off an asset when it reaches the end of its life if it is still in use.

Q. Please address the adjustments made by Ms. Ramas specifically for Longwood.

A. First, Ms. Ramas reverses the entries associated with the diversion of wastewater to the Wekiva plant, and the associated retirement of the Shadow Hills wastewater treatment plant in Longwood, based on Mr. Woodcock's assertion that the project had not been sufficiently supported. However, as this project is supported by Mr. Flynn in his Amended Exhibit PCF-27, I maintain it should be included. Ms. Ramas then recommends that if allowed by the Commission, the retirement of the accumulated depreciation should be limited to the balance in the account, and the resulting net loss be amortized over an appropriate period of time. I agree with that approach, and recommend that the net loss be amortized over 10 years, and that the unamortized balance minus one-half year of amortization be included in working capital.

Next, Ms. Ramas recommends that the retirement associated with the Church Avenue sewer main relocation project be limited to the balance in the plant account. I agree with this limitation, and this adjustment will impact plant, accumulated depreciation and depreciation expense.

Finally, Ms. Ramas removes the proforma increase in purchased power cost associated with a tariff change from Duke Energy, stating the Company did not adequately support the adjustment. As it has been supported in Mr. Flynn's rebuttal testimony and Exhibit PCF-48, I do not agree with any adjustment to remove the proforma expense.

Q. Please address the adjustments made by Ms. Ramas specifically for Mid-County.

A. The first adjustment Ms. Ramas makes is to remove the proforma addition to salaries and benefits associated with a new maintenance technician for two reasons. She asserts that Company had not demonstrated it had increased the number of personnel, and that it had not demonstrated the need for this additional individual. However, since it has been supported in Mr. Flynn's rebuttal testimony I do not agree that an adjustment to should be made to remove the proforma expenses. Ms. Ramas also makes an adjustment to possible cost savings associated with the proforma methanol pumps replacement and add in-line nutrient analyzers. The Company indicated that methanol is expected to decrease as much as 10% as a result of the proforma plant. The full 10% was adjusted out based upon the Company's statement "as much as 10%". She also makes adjustments to remove out of period expenses associated with a WWTP permit, and with a sludge hauling accrual. We do not agree with her adjustments.

Q. Please address the adjustments to proforma projects made by Ms. Ramas specifically for Mid-County.

A. As will all of the proforma projects, the updated amounts provided by Mr. Flynn should be included, including the removal of projects that have been postponed, for example, the blower project.

Q. Please address the adjustments made by Ms. Ramas specifically for Lake Utility Services (LUSI).

A. The first adjustment Ms. Ramas makes is to remove the proforma addition to salaries and benefits associated with a new maintenance technician for two reason. She asserts that the Company had not demonstrated it had increased the number of personnel, and that it had not demonstrated the need for this additional individual. However, since it has been supported in Mr. Flynn, an adjustment should not be made to remove the proforma expenses. Next, Ms. Ramas removes the proforma increase in purchased power cost associated with a tariff change from SECO, stating the Company did not adequately support the adjustment. As it has been updated in Mr. Flynn's rebuttal testimony and Exhibit PCF-49, a revised adjustment should be made to increase water purchased power by $17,840, and reduce wastewater purchased power by $2,174, which is $3,163 more in water and a reduction of $9,831 in wastewater from the original filing..

The next adjustments addressed by Ms. Ramas pertain to CIAC, both to the non-used and useful adjustment to CIAC made by the Company, and to the specific account balances shown as "COA" (Commission Ordered Adjustments). Responding to the COA adjustments first, these entries were made pursuant to the Audit Finding No. 3 in the "Auditors Report" for Docket No. 100426-WS dated March 17, 2011, specifically listed in the table on numbered page 15. Next, addressing the issue of the Company's non-used and useful (NUU) CIAC adjustment, in many cases CIAC is collected from customers who are not yet connected, and is therefore NUU. The only system in which the Company made a NUU adjustment to plant is LUSI wastewater treatment. If additional NUU adjustments are made to plant in other systems, care must be taken to also make a NUU adjustment to CIAC for any CIAC collected from customers not included in the calculation of used and useful plant, since it is prepaid.

Ms. Ramas makes an adjustment to reduce sludge hauling expense to recognize potential savings associated with the Lake Groves Sludge Dewatering Equipment project. Interestingly, she reduced the expense $3,500 per month, $42,000 per year, based upon the Company's response Citizen's Interrogatory No. 8:

> Reduction in sludge hauling expense of $3,500/month assuming the pilot test shows the efficacy of the equipment as designed. Initial indications are that the solar unit may only be effective at half the design loading rate resulting in a projected savings of about $1,750/month. If the project is not successful and not added to rate base, the O&M impact would be about a 10% increased due to the increase in sludge production from customer growth increasing flow to the plant.

However Ms. Ramas used the full $3,500 per month, disregarding the Company's clear statement that the initial indications were that the equipment was effective at half of the design loading rate, resulting in projected savings of half, or $1,750 per month. As Mr. Flynn testifies, the testing indicates a reliable savings expectation, and adjustment of $1,750 would be appropriate.

Q. Please address the adjustments made by Ms. Ramas specifically for Pennbrooke.

A. Ms. Ramas reduces water and wastewater property tax expense based upon an audit adjustment. As Mr. Deason testifies, this adjustment is immaterial.

Q. Please address the adjustments made by Ms. Ramas specifically for Sandalhaven.

A. First, Ms. Ramas identifies several expenses which are impacted by the retirement of the wastewater treatment plant. Mr. Flynn provides an explanation for the appropriate amount in each of the expense categories identified by Ms. Ramas. Although the wastewater treatment plant is retired, as Mr. Flynn explains, a certain amount of the sludge hauling expense is actually associated with cleaning lift stations, and should remain. Ms. Ramas claims that the Company's requested purchased sewer expense includes 14 months of invoices. This is inaccurate, as explained by Mr. Flynn. The purchased sewer expense is an estimate based upon the flows anticipated after retirement of the wastewater treatment plant.

Q. Should salvage value be included in the retirement entry, as made by Ms. Ramas?

A. Yes, salvage should reduce the loss on retirement, as is Commission practice. However, in the case of Sandalhaven, Mr. Flynn explains that the cost of removal is net of salvage, and is considered in the adjustment.

Ms. Ramas makes an adjustment to working capital to remove accrued taxes the Company included, based on the Company's determination that these taxes were as a result of payment of taxes on Post-2000 Tap Fees. Although these accrued taxes are not associated with Post-2000 Tap Fees (the Company's revised response to OPC ROG No. 131(b) was incorrect, and misunderstood the question), the balance of the Federal Tax amount was subsequently written off in a correcting entry. Therefore, the Company agrees that the working capital should be adjusted to remove the balance in the accrued federal income tax account, but not the state. The state amount is legitimately a prepaid state income tax due to timing differences. As I explain later, as a result of reviewing this adjustment, I found that the Company had made a similar adjustment to all of the systems.

Q. Please address any concerns you have about Ms. Ramas treatment of negative accumulated depreciation as a result of the wastewater treatment plant retirement.

A. As Ms. Ramas points out, in Order No. PSC-13 16-0013-PAA-SU, the Commission recommended amortizing the loss on retirement over a ten year period. I do not disagree, but I would make certain modifications to Ms. Ramas' adjustments. First I would make a similar adjustment to the remaining accumulated amortization of CIAC. Second, I would also defer and amortize the net balance of the "loss", to include in working capital minus one-half year amortization. This was not done in the Order I mentioned because the working capital was calculated as one-eighth O&M. The impact of these adjustments are in my Exhibit DDS-3.

Q. Please address any concerns you have about the non-used and useful adjustment Ms. Ramas made to Sandalhaven.

A. Based on the testimony of Mr. Woodcock, Ms. Ramas made a significant adjustment to the Sandalhaven Rate Base, removing a net of $3,013,376. The result of all of the adjustments made by Ms. Ramas is to reduce the rate base from $3,944,850 originally filed by the company, to $293,549, less than 10% of that requested. My particular concern is that the revenue impact is even further exacerbated by Ms. Ramas' calculation of cost of capital with the adjustments. Since the capital structure is allocated, with the exception of system-specific components, the result is that she is claiming that nearly two-thirds of the financial support for the rate base is from ADIT. This is nonsensical, and the result is that the recommended overall rate of return is 3.01%. This is particularly highlighted in this case because of the magnitude and impact of the rate base adjustments. It is unreasonable to assert that the non-used rate base was fully funded by the high cost components, and that the used and useful assets are financed by the low cost components. Although this mirrors the result for all cases with adjustments to rate base, this particular extreme case vividly depicts that it is not always reasonable or appropriate to allocate only certain capital components. It should be noted that my comments regarding the correct way Ms. Ramas should make adjustments based on Mr. Woodcock's testimony, should not be taken as an endorsement of Mr. Woodcock's determination of used & useful. The utility believes that, based on Mr. Seidman"s testimony, the plant at Sandalhaven is 100% used and useful.

Q. **Please address the adjustments made by Ms. Ramas specifically for Sanlando.**

A. As with the other systems previously mentioned, all of the proforma expenses for new employees, and related to the purchased power tariff change should be included to the extent supported by Mr. Flynn.

Ms. Ramas removed rental expenses recorded on the company's books in January 2015 for equipment rented in 2014. I agree that the expenses associated with the prior year should be removed. Ms. Ramos also adjusted out the cost of grit removal and removal of a steel tank. This was also identified in Audit Finding 6. However, as an extraordinary expense, it is more appropriate to defer it and amortize it over five years. A test year expense of one-fifth, or $2,600 should be added back to amortization expense, and the balance of $10,399 (full amount minus one-year amortization) should be added to working capital as a deferred debit.

Ms. Ramas removes the proforma plant addition for the Myrtle Hill plant since it will be paid for by customers by CIAC. However, until such time as CIAC is recovered, the cost will have been incurred by the Company, and as such should be included. Mr. Flynn explains this further in his testimony.

Q. Please address the adjustments made by Ms. Ramas specifically for UIF - Orange County.

A. Ms. Ramas recommends limiting the retirement associated with the Crescent Heights Watermain Replacement project to $199,193, which is the balance in the watermain plant account at the end of the test year after other adjustments made by the Company. I agree that the retirement should be limited. Ms. Ramas also makes adjustments to increase ADIT for bonus depreciation on the water utility plant proform additions. I agree that an adjustment should be made to ADIT to reflect bonus depreciation on proforma plant additions.

Q. Please address the adjustments made by Ms. Ramas specifically for UIF - Pasco County (Water).

A. First, Ms. Ramas made adjustments for the decommissioning of the Summertree wells and certain other plant to be consistent with the Company's limited proceeding, and Order No. PSC-16-0505-PAA-WS, issued on October 31, 2016. In that Order, the Commission provided the amounts to be retired, and the amortization period and amount for the recoverable costs. This included the remaining net book value, plus an estimated cost to retire of $200,000 minus estimated salvage of $5,000. I agree that the entries associated with the decommissioning should be consistent with that Order. However, based on Mr. Flynn's Amended Exhibit PCF-34, the revised estimated cost of the decommissioning, net of salvage of $176,826 should be included. Additionally, the balance of the retirement cost, minus one-half year of amortization should be included in working capital. Further adjustments were made by Ms. Ramas to reflect the O&M expenses reduced as a result of the abandonment, and increase in purchased water, as well as the related adjustments to depreciation expense based on the retirement correction. The adjustments should be made, subject to any revisions provided by Mr. Flynn.

As with the other systems, adjustments Ms. Ramas made to reflect proforma projects rejected by Mr. Woodcock are not appropriate, and the amount to be included is the revised estimated supported by Mr. Flynn. Ms. Ramos points out that if the proforma project is allowed, the practice of using 75% of the replacement cost as an approximation of the amount to retire would cause a large negative balance in the associated accumulated depreciation. I agree that this would be the consequence, and recommend that due to the age of the pipeline, and the likely nominal amount on the books, that $0 be retired.

Q. Please address the adjustments made by Ms. Ramas specifically for UIF - Pasco County (Wastewater).

A. Ms. Ramas points to Audit Finding Number 3 which identifies accounting errors. Consistent with the testimony of Mr. Deason, I agree that the adjustments detailed in Audit Finding 3 should be made.

Q. Please address the adjustments made by Ms. Ramas specifically for UIF - Pinellas County.

A. As with the other systems, Ms. Ramos makes an adjustment to proforma plant additions consistent with Mr. Woodcock's testimony. This adjustment should be removed and any updated cost provided by Mr. Flynn should be included. Ms. Ramos also points out that the retirement associated with the project would result in a negative plant balance if the 75% of the proforma addition were used to estimate the retired asset cost. I agree with Ms. Ramas that the retirement should reflect the age of the asset. Ms. Ramas' conclusion that the utility would remove fully-depreciated assets from the books is incorrect, however I agree that the original cost on the books is so low, that any retirement would be nominal. For that reason, a retirement of $0 would be acceptable.

Q. Please address the working capital correction made by Ms. Ramas for UIF - Pinellas County.

A. A formula error in the allocation of working capital among the UIF Counties resulted in an allocation of $16,289 instead of $12,365. A reduction of $3,924 to Working Capital for Pinellas County is appropriate.

Q. Please address the adjustments made by Ms. Ramas specifically for UIF - Marion County.

A. Ms. Ramas has identified two plant accounts that have apparently been fully depreciated, and recommends that they should be written off. This is not a proper accounting treatment for fully depreciated assets. It is irrelevant that they are fully depreciated. They are still assets of the utility. I do agree with Ms. Ramas that the utility should cease depreciation on an asset account that is fully depreciated. Further, the amount of depreciation expense reflected in the test year should be removed to the extent is causes the utility to over-depreciate the asset account. Ms. Ramas also removes the entry to annualize depreciation expense for service lines installed during the test year, and explains that it should be removed as that of fully-depreciated assets. However, this asset is new, and not fully depreciated, so I do not agree an adjustment should be made.

Q. Please address the adjustments made by Ms. Ramas specifically for UIF - Seminole County.

A. Ms. Ramas makes an adjustment to remove bulk water purchases incurred by the utility pending the interconnection of Crystal Lake to Ravenna Park. The Company will incur additional operating and maintenance costs associated with the additional demand on Ravenna Park, and recommends that the purchased water cost incurred on a temporary basis is a valid approximation of the operating costs to be incurred in the absence of a more detailed analysis. Furthermore, although it will not be purchased on a daily basis, water may still be purchased if needed on an emergency basis.

Q. Do you agree with Ms. Ramas adjustment to the retirement of plant associated with the main replacement program.

A. Yes, I do. In her analysis Ms. Ramas recommends limiting the amount of the retirement to the balance in the plant account for mains as of December 31, 2000 since additions after that time have been other replacement projects, and the amount associated with this particular replacement project would certainly be no more than the account balance at the date she indicates. Ms. Ramas also makes a similar adjustment to the Northwestern Force Main Replacement, limiting the retirement to the test year end balance in account 360.2, $28,207.

Ms. Ramas also points out that certain accumulated depreciation accounts have a negative balance, and again points to Audit Finding Number 3. Consistent with Mr. Deason's testimony, I agree that the adjustment to correct accounting errors identified in Audit Finding Number 3 should be made.

Q. Do you have other corrections to the MFRs you have found as a result of your review, discovery, or any other reason?

A. Yes, and I have listed them below.

LUSI - On Schedule A-19 for each system, we have removed the ADIT associated with taxes paid on Tap Fees collected after the year 2000. However, on LUSI, we inadvertently adjusted the incorrect ADIT amount. The correct amount should have been an increase in the 13 month average balance of ADIT by $2,284,366, rather than a decrease of $459,837. This increases the zero cost line item on the capital structure.

Audit Adjustments - Mr. Deason has provided testimony regarding audit adjustment detailed in the Commission's Official Audit Report. Those adjustments with which he agrees should be made to the filing.

Working Capital - As a result of the issues raised about working capital by Ms. Ramas, we discovered that we excluded certain "Other Deferred Debits" from the calculation of working capital in our original filing. These amounts are listed on the Schedule A-18 for each system, but in some systems, the amounts were not included in the Schedule A-17 reflecting the Company's working capital calculations. Certainly all eligible assets and liabilities should be included in the determination of working capital. A list is included in Exhibit DDS-3 based upon the Schedule A-18s as filed. Additionally, Ms. Ramas found that debit balance Accrued Income Tax Payable should be removed from working capital in Sandalhaven and Eagle Ridge. As a result of that recommendation, we reviewed the Accrued Income Tax accounts, and found that the Federal Income Tax portion in all systems was incorrectly on the books of the individual system, and was written off after the test year. Therefore, a correction is needed in all systems, deleting both debit and credit balances as applicable for each system. I have attached a copy of the accounting entry as my Exhibit DDS-4.

Q. Does that conclude your rebuttal testimony?

A. Yes, it does.

Q.

A.

Q.

A.

Utilities Inc. of Florida
Summary of Adjustments
Docket No. 160101-WS
Exhibit DDS-3

	Water	Wastewater	Total
Cypress Lakes			
Proforma Plant Additions			
Plant, Accumulated Depreciation, Depreciation Expense		FALLOUT CALCULATION	
Per Exhibit PCF-51			
Working Capital Adustments			
Federal Tax Receivable / Payable should be removed - subsequently written off			35,343
Depreciation Expense			
B-12 allocation to all systems from prior period (87,296)	(175)	(178)	(353)
Rate Case Expense			
Prior Balance included twice	(15,188)	(14,419)	(29,607)
Adjustment to most updated rate case expense	TBD		
Cost of Capital (excl ADIT)			
Proforma Plant Additions - reconciliation of capital structure to rate base		FALLOUT CALCULATION	
ADIT - additions to ADIT on D1/D2			
Bonus Depreciation on Proforma Additions		FALLOUT CALCULATION	
Audit Adjustments			
Findings 1, 2, 3, 4 , 7, 9, 10		FALLOUT CALCULATION	

Utilities Inc. of Florida
Summary of Adjustments
Docket No. 160101-WS
Exhibit DDS-3

	Water	Wastewater	Total
Eagle Ridge			
Proforma Plant Additions			
Plant, Accumulated Depreciation, Depreciation Expense		FALLOUT CALCULATION	
Per Exhibit PCF-51			
Working Capital Adustments			
Miscellaneous Deferred Debits - should be included			8,233
Federal Tax Receivable / Payable should be removed - subsequently written off			(82,809)
Depreciation Expense			
B-12 allocation to all systems from prior period (87,296)		(3,143)	(3,143)
Rate Case Expense			
Prior Balance included twice		(11,043)	(11,043)
Adjustment to most updated rate case expense		TBD	
Operating and Maintenance Expense			
Correct Chemical Expense		(7,266)	(7,266)
Cost of Capital (excl ADIT)			
Proforma Plant Additions - reconciliation of capital structure to rate base		FALLOUT CALCULATION	
ADIT - additions to ADIT on D1/D2			
Bonus Depreciation on Proforma Additions		N/A	
Audit Adjustments			
Findings 1, 2, 3, 4 , 7, 9, 10		FALLOUT CALCULATION	

Utilities Inc. of Florida
Summary of Adjustments
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	Water	Wastewater	Total
Labrador			
Proforma Plant Additions			
Plant, Accumulated Depreciation, Depreciation Expense		FALLOUT CALCULATION	
Per Exhibit PCF-51, including full cost of GIS			
Working Capital Adustments			
Water Analysis Defer & Amortize			9,000
Federal Tax Receivable / Payable should be removed - subsequently written off			15,131
Depreciation Expense			
B-12 allocation to all systems from prior period (87,296)	(948)	(941)	(1,889)
Operating and Maintenance Expense			
Legal Fees Associated with prior rate case	(505)	(501)	(1,006)
Defer & Amortize Water Analysis			
O&M expense	(5,020)	(4,980)	(10,000)
Amortization expense	2,000		2,000
Working capital - deferred debit		ABOVE	
Rate Case Expense			
Prior Balance included twice	(16,714)	(16,581)	(33,295)
Adjustment to most updated rate case expense		TBD	
Cost of Capital (excl ADIT)			
Proforma Plant Additions - reconciliation of capital structure to rate base		FALLOUT CALCULATION	
ADIT - additions to ADIT on D1/D2			
Bonus Depreciation on Proforma Additions	TBD		
Audit Adjustments			
Findings 1, 2, 3, 4 , 7, 9, 10		FALLOUT CALCULATION	

Utilities Inc. of Florida
Summary of Adjustments
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	Water	Wastewater	Total
Lake Placid			
Proforma Plant Additions			
Plant, Accumulated Depreciation, Depreciation Expense		FALLOUT CALCULATION	
Per Exhibit PCF-51, including full cost of GIS			
Working Capital Adustments			
Miscellaneous Deferred Debits - should be included			58
Federal Tax Receivable / Payable should be removed - subsequently written off			(761)
Depreciation Expense			
B-12 allocation to all systems from prior period (87,296)			-
Fully Depreciated Assets	(525)	(956)	(1,481)
Rate Case Expense			
Prior Balance included twice	(2,586)	(2,606)	(5,192)
Adjustment to most updated rate case expense		TBD	
Cost of Capital (excl ADIT)			
Proforma Plant Additions - reconciliation of capital structure to adjusted rate base		FALLOUT CALCULATION	
Cost Rate Correction - 2% interest rate on customer deposits		FALLOUT CALCULATION	
ADIT - additions to ADIT on D1/D2			
Bonus Depreciation on Proforma Additions	TBD		
Audit Adjustments			
Findings 1, 2, 3, 4 , 7, 9, 10		FALLOUT CALCULATION	

Utilities Inc. of Florida
Summary of Adjustments
Docket No. 160101-WS
Exhibit DDS-3

	Water	Wastewater	Total
Longwood			
Plant Retirements associated with Proforma plant additions			
Church Ave main retirement limited to TYE plant acct balance			
360.2 (debit)		103,630	103,630
AD 360.2 (credit)		103,630	103,630
AD 360.2 (credit)		(1,727)	(1,727)
Depr exp 360 (debit)		3,454	3,454
Proforma Plant Additions			
Plant, Accumulated Depreciation, Depreciation Expense		FALLOUT CALCULATION	
Per Exhibit PCF-51, including full cost of GIS			
Defer & Amortize Decommisioning of WWTP			
Write-off remaining balances in retired AD accounts:			
AD - 354.4 Structures & Improvements		1,537,433	1,537,433
AD - 380.4 Treatment & Disposal Equipment		28,904	28,904
AD - 381.4 Plant Sewers		26,803	26,803
AD - 382.4 Outfall Sewer Lines		895	895
AD - 389.4 Other Plant & Misc. Equipment		5,563	5,563
Loss total		1,599,598	1,599,598
Working Capital (total loss minus 1/2 year amortization			1,519,618
Amortization of Loss Expense - 10 years		159,960	159,960
Working Capital Adustments			
Federal Tax Receivable / Payable should be removed - subsequently written off			43,703
Loss on decommissioning		ABOVE	
Depreciation Expense			
B-12 allocation to all systems from prior period (87,296)		(2,108)	(2,108)
Rate Case Expense			
Adjustment to most updated rate case expense		TBD	
Cost of Capital (excl ADIT)			
Proforma Plant Additions - reconciliation of capital structure to adjusted rate base		FALLOUT CALCULATION	
ADIT - additions to ADIT on D1/D2			
Bonus Depreciation on Proforma Additions		N/A	
Audit Adjustments			
Findings 1, 2, 3, 4 , 7, 9, 10		FALLOUT CALCULATION	

Utilities Inc. of Florida
Summary of Adjustments
Docket No. 160101-WS
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	Water	Wastewater	Total
Lake Utility Services			
Proforma Plant Additions			
Plant, Accumulated Depreciation, Depreciation Expense		FALLOUT CALCULATION	
Per Exhibit PCF-51, including full cost of GIS			
Nonused & Useful CIAC			
Prepaid CIAC (CIAC associated with unconnected customers0		TBD	
Working Capital Adustments			
Federal Tax Receivable / Payable should be removed - subsequently written off			602,382
Depreciation Expense			
B-12 allocation to all systems from prior period (87,296)	(14,597)	(4,515)	(19,112)
Rate Case Expense			
Prior Balance included twice	(16,714)	(16,581)	(33,295)
Adjustment to most updated rate case expense		TBD	
Operating and Maintenance Expense			
Sludge Hauling Savings		(21,000)	(21,000)
Purchased Power (SECO tariff)	3,631	(9,831)	
Cost of Capital (excl ADIT)			
Proforma Plant Additions - reconciliation of capital structure to rate base		FALLOUT CALCULATION	
ADIT - additions to ADIT on D1/D2			
Remove ADIT-Post 2000 Tap Fees			2,284,356
Restore ADIT-NOLs			459,837
Bonus Depreciation on Proforma Additions		TBD	
Audit Adjustments			
Findings 1, 2, 3, 4 , 7, 9, 10		FALLOUT CALCULATION	

Utilities Inc. of Florida
Summary of Adjustments
Docket No. 160101-WS
Exhibit DDS-3

	Water	Wastewater	Total
Mid-County			
Proforma Plant Additions			
Plant, Accumulated Depreciation, Depreciation Expense		FALLOUT CALCULATION	
Per Exhibit PCF-51			
Working Capital Adustments			
Miscellaneous Deferred Debits - should be included			9,533
Federal Tax Receivable / Payable should be removed - subsequently written off			75,556
Depreciation Expense			
B-12 allocation to all systems from prior period (87,296)		(6,990)	(6,990)
Rate Case Expense			
Adjustment to most updated rate case expense		TBD	
Cost of Capital (excl ADIT)			
Proforma Plant Additions - reconciliation of capital structure to adjusted rate base		FALLOUT CALCULATION	
ADIT - additions to ADIT on D1/D2			
Bonus Depreciation on Proforma Additions		N/A	
Audit Adjustments			
Findings 1, 2, 3, 4 , 7, 9, 10		FALLOUT CALCULATION	

Utilities Inc. of Florida
Summary of Adjustments
Docket No. 160101-WS

Exhibit DDS-3	Water	Wastewater	Total
Pennbrooke			
Proforma Plant Additions			
Plant, Accumulated Depreciation, Depreciation Expense		FALLOUT CALCULATION	
Per Exhibit PCF-51, incuding correct allocation of GIS system			
Working Capital Adustments			
Miscellaneous Deferred Debits - should be included			126,949
Federal Tax Receivable / Payable should be removed - subsequently written off			(25,448)
Depreciation Expense			
B-12 allocation to all systems from prior period (87,296)	(1,850)	(1,542)	(3,392)
Rate Case Expense			
~~Prior Balance included twice~~	(6,812)	(5,676)	(12,488)
Adjustment to most updated rate case expense		TBD	
Cost of Capital (excl ADIT)			
Proforma Plant Additions - reconciliation of capital structure to adjusted rate base		FALLOUT CALCULATION	
ADIT - additions to ADIT on D1/D2			
Bonus Depreciation on Proforma Additions		TBD	
Audit Adjustments			
Findings 1, 2, 3, 4 , 7, 9, 10		FALLOUT CALCULATION	

Utilities Inc. of Florida
Summary of Adjustments
Docket No. 160101-WS
Exhibit DDS-3

	Water	Wastewater	Total
Sandalhaven			
Proforma Plant Additions			
Plant, Accumulated Depreciation, Depreciation Expense		FALLOUT CALCULATION	
Per Exhibit PCF-51, incuding correct allocation of GIS system			
Defer & Amortize Decommision of WWTP			
Write-off remaining balances in retired AD and AA accounts:			
AD - 354.4 Structure & Improvement		(253,409)	(253,409)
AD - 355.4 Power Generation Equipment Treatment Plant		(83)	(83)
AD - 375.6 Reuse Transmission & Distribution System		(2,903)	(2,903)
AD - 380.4 Treatment & Disposal Equipment		88,267	88,267
AD - 380.5 Treatment & Disposal Equipment Reuse Treatment Plant		(27,901)	(27,901)
AD - 381.4 Plant Sewers		1,804	1,804
AA - Structure - Treatment Plant		(260,310)	(260,310)
AA - Lagoons		72	72
AA - Treatment Equipment		19,201	19,201
AA - Sewer Cap Res Fee		(51,338)	(51,338)
Loss total		486,600	486,600
Working Capital (total loss minus 1/2 year amortization			462,270
Amortization of Loss - 10 years		48,660	48,660
Working Capital Adustments			
Miscellaneous Deferred Debits - should be included			51,332
Federal Tax Receivable / Payable should be removed - subsequently written off			(389,275)
Depreciation Expense			
B-12 allocation to all systems from prior period (87,296)		(1,528)	(1,528)
Rate Case Expense			
Prior Balance included twice		(37,384)	(37,384)
Adjustment to most updated rate case expense		TBD	
Cost of Capital (excl ADIT)			
Proforma Plant Additions - reconciliation of capital structure to adjusted rate base		FALLOUT CALCULATION	
ADIT - additions to ADIT on D1/D2			
Bonus Depreciation on Proforma Additions		N/A	
Audit Adjustments			
Findings 1, 2, 3, 4 , 7, 9, 10		FALLOUT CALCULATION	

Utilities Inc. of Florida
Summary of Adjustments
Docket No. 160101-WS
Exhibit DDS-3

	Water	Wastewater	Total
Sanlando			
Proforma Plant Additions			
Plant, Accumulated Depreciation, Depreciation Expense		FALLOUT CALCULATION	
Per Exhibit PCF-51, incuding correct allocation of GIS system			
Working Capital Adustments			
Miscellaneous Deferred Debits - should be included			45,833
Federal Tax Receivable / Payable should be removed - subsequently written off			218,520
Steel Tank Cost & Removal Defer & Amortize			11,699
Depreciation Expense			
B-12 allocation to all systems from prior period (87,296)	(17,226)	(13,858)	(31,084)
Rate Case Expense			
Prior Balance included twice	(41,083)	(33,147)	(74,230)
Adjustment to most updated rate case expense	TBD		
Operating and Maintenance Expense			
Remove prior period rental expense	(3,100)	(2,493)	(5,593)
Defer and amortize cost of removal of steel tank over 5 years			
O&M expense		(12,999)	(12,999)
Amortization expense		2,600	2,600
Working capital - def'd debit		ABOVE	
Cost of Capital (excl ADIT)			
Proforma Plant Additions - reconciliation of capital structure to adjusted rate base		FALLOUT CALCULATION	
ADIT - additions to ADIT on D1/D2			
Bonus Depreciation on Proforma Additions		TBD	
Audit Adjustments			
Findings 1, 2, 3, 4 , 7, 9, 10		FALLOUT CALCULATION	

Utilities Inc. of Florida
Summary of Adjustments
Docket No. 160101-WS
Exhibit DDS-3

	Water	Wastewater	Total
Tierra Verde			
Proforma Plant Additions			
Plant, Accumulated Depreciation, Depreciation Expense		FALLOUT CALCULATION	
Per Exhibit PCF-51, incuding correct allocation of GIS system			
Working Capital Adustments			
Miscellaneous Deferred Debits - should be included			
Federal Tax Receivable / Payable should be removed - subsequently written off			39,342
Depreciation Expense			
B-12 allocation to all systems from prior period (87,296)		(2,605)	(2,605)
			-
Rate Case Expense			
Prior Balance included twice			-
Adjustment to most updated rate case expense		TBD	
Cost of Capital (excl ADIT)			
Proforma Plant Additions - reconciliation of capital structure to adjusted rate base		FALLOUT CALCULATION	
ADIT - additions to ADIT on D1/D2			
Bonus Depreciation on Proforma Additions		N/A	
Audit Adjustments			
Findings 1, 2, 3, 4 , 7, 9, 10		FALLOUT CALCULATION	

Utilities Inc. of Florida
Summary of Adjustments
Docket No. 160101-WS
Exhibit DDS-3

	Water	Wastewater	Total
UIF - Counties			
Plant Retirements associated with Proforma plant additions			
Orange - Crescent Heights Water Main retirement limited to $199,193			
331.4 (debit)	1,159,327		1,159,327
AD 331.4 (credit)	1,159,327		1,159,327
AD 331.4 (credit)	13,481		13,481
Depr exp 331 (debit)	26,961		26,961
Pasco - Water system main retirement limited to $0			
331.4 (debit)	1,125,000		1,125,000
AD 331.4 (credit)	1,125,000		1,125,000
AD 331.4 (credit)	13,081		13,081
Depr exp 331 (debit)	26,163		26,163
Pinellas - Water system main retirement limited to $0			
331.4 (debit)	750,000		750,000
AD 331.4 (credit)	750,000		750,000
AD 331.4 (credit)	8,721		8,721
Depr exp 331 (debit)	17,442		17,442
Seminole - Water system main retirement limited to $886,000 (12/31/2000 balance)			
331.4 (debit)	5,527,913		5,527,913
AD 331.4 (credit)	5,527,913		5,527,913
AD 331.4 (credit)	64,278		64,278
Depr exp 331 (debit)	128,556		128,556
Seminole - Northwestern Force Main Replacement limited to $28,207			
360.2 (debit)		46,793	46,793
AD 360.2 (credit)		46,793	46,793
AD 360.2 (credit)		780	780
Depr exp 360 (debit)		1,560	1,560
Plant Retirements - Decommissioning - Pasco			
Correct retirement to conform with limited proceeding			
Plant Accounts correction	1,071,092		1,071,092
AD Correction	1,511,577		1,511,577
CIAC Correction	(3,633)		(3,633)
AA Correction	(73,154)		(73,154)
Loss on Decommissioning	363,697		363,697
Working Capital (cost minus 1/2 year, 10 year amortization)			354,856
Amortization Expense	36,370		36,370
Cost of retirement net of salvage updated to $176,826			
Working Capital (cost minus 1/2 year, 10 year amortization)			167,985
Amortization Expense	17,683		17,683
Proforma Plant Additions			
Plant, Accumulated Depreciation, Depreciation Expense		FALLOUT CALCULATION	
Per Exhibit PCF-51, incuding correct allocation of GIS system			
Working Capital Adustments			
All - Federal Tax Receivable / Payable should be removed - subsequently written off			(29,957)
Pinellas - Allocation Correction			(3,924)
Depreciation Expense			
B-12 allocation to all systems from prior period (87,296)	(8,542)	(3,477)	(12,019)
Marion - Fully Depreciated Assets	(2,874)		(2,874)
Rate Case Expense			
Prior Balance included twice			-
Adjustment to most updated rate case expense		TBD	
Cost of Capital (excl ADIT)			
Proforma Plant Additions - reconciliation of capital structure to adjusted rate base		FALLOUT CALCULATION	
ADIT - additions to ADIT on D1/D2			
Bonus Depreciation on Proforma Additions		TBD	
Audit Adjustments			
Findings 1, 2, 3, 4 , 7, 9, 10		FALLOUT CALCULATION	

Utilities Inc. of Florida
Journal Entry Writing Off Accrued Federal Income Taxes
Docket No. 160101-WS
Exhibit DDS-4

R550911

Utilities Inc
GL Detail Extraction

Co	Business U	Obj Acct	Amount	G/L Date	Region	Explanation Alpha Name	Explanatioı	Asset ID	Document	Batch Num
241	241	4659	39,342.00	12/31/2016	Florida	SE3 - 2016	SE 3 - 2016		356410	262409
242	242	4659	(761.00)	12/31/2016	Florida	SE3 - 2016	SE 3 - 2016		356410	262409
246	246	4659	43,703.00	12/31/2016	Florida	SE3 - 2016	SE 3 - 2016		356410	262409
248	248	4659	35,343.00	12/31/2016	Florida	SE3 - 2016	SE 3 - 2016		356410	262409
249	249	4659	(82,809.00)	12/31/2016	Florida	SE3 - 2016	SE 3 - 2016		356410	262409
250	250	4659	75,556.00	12/31/2016	Florida	SE3 - 2016	SE 3 - 2016		356410	262409
251	251	4659	602,382.00	12/31/2016	Florida	SE3 - 2016	SE 3 - 2016		356410	262409
252	252	4659	(29,957.35)	12/31/2016	Florida	SE3 - 2016	SE 3 - 2016		356410	262409
255	255	4659	218,520.15	12/31/2016	Florida	SE3 - 2016	SE 3 - 2016		356410	262409
256	256	4659	(389,275.00)	12/31/2016	Florida	SE3 - 2016	SE 3 - 2016		356410	262409
259	259	4659	15,131.00	12/31/2016	Florida	SE3 - 2016	SE 3 - 2016		356410	262409
260	260	4659	(25,448.00)	12/31/2016	Florida	SE3 - 2016	SE 3 - 2016		356410	262409