

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

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In the Matter of:

DOCKET NO. 20170141-SU

APPLICATION FOR INCREASE IN  
WASTEWATER RATES IN MONROE  
COUNTY BY K W RESORT UTILITIES  
CORP.

1

VOLUME 6  
PAGES 880 through 974

11 PROCEEDINGS: HEARING  
12 COMMISSIONERS  
13 PARTICIPATING: COMMISSIONER DONALD J. POLMANN  
COMMISSIONER GARY F. CLARK  
COMMISSIONER ANDREW G. FAY

14 DATE: May 17th, 2018

15 TIME: Commenced: 9:30 a.m.  
Concluded: 11:00 a.m.

16 PLACE: Tortuga Ballroom  
17 DoubleTree by Hilton Grand Resort  
Key West  
18 3990 S. Roosevelt Boulevard  
Key West, Florida

19 REPORTED BY: DEBRA R. KRICK  
20 Court Reporter

21 APPEARANCES: (As heretofore noted.)

22  
23 PREMIER REPORTING  
114 W. 5TH AVENUE  
TALLAHASSEE, FLORIDA  
24 (850) 894-0828

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## EXHIBITS

2 NUMBER:

ID

ADMITTED

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136 Chlorine Contact Chamber Expense 965

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

2                          (Transcript follows in sequence from

3                          Volume 5.)

4                          COMMISSIONER POLMANN: Okay, we are on the  
5                          record. So we are picking up with rebuttal Witness  
6                          Johnson, and Mr. Smith, you are up.

7                          MR. SMITH: Thank you.

8                          Whereupon,

9                          CHRISTOPHER JOHNSON

10                was recalled as a witness, having been previously duly  
11                sworn to speak the truth, the whole truth, and nothing  
12                but the truth, was examined and testified as follows:

13                         EXAMINATION

14                BY MR. SMITH:

15                Q      Good morning, Mr. Johnson.

16                A      Good morning.

17                Q      Have you prepared prefiled rebuttal testimony  
18                in this matter?

19                A      Yes, I have.

20                Q      Do you have any corrections or changes to that  
21                testimony?

22                A      No, I do not.

23                Q      Did you also prefile exhibits with your  
24                rebuttal testimony?

25                A      Yes, I did. I prefiled Exhibits CAJ-25

1 through CAJ-41.

2 MR. SMITH: At this time, I would move  
3 Mr. Christopher Johnson's testimony into the record  
4 as though read.

5 COMMISSIONER POLMANN: We will enter the  
6 prefiled rebuttal testimony of Mr. Johnson as  
7 though read.

8 (Whereupon, prefiled testimony was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase  
in wastewater rates in Monroe  
County by K W Resort Utilities Corp.

Docket No. 20170141-SU

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REBUTTAL TESTIMONY  
OF  
CHRISTOPHER A. JOHNSON  
on behalf of  
K W Resort Utilities Corp.

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

2 A. My name is Christopher A. Johnson. I am President of K W Resort Utilities Corp. My  
3 business address is 6630 Front Street, Key West, Florida 33040.

4 Q. Have you presented direct testimony in this case.

5 A. Yes I have.

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

7 A. The purpose of my rebuttal testimony is to present information to refute some of arguments  
8 presented by Intervenor witnesses.

9 Q. Are you sponsoring any exhibits?

10 A. Yes, I am sponsoring the following exhibits: CAJ-25, the Wharton Smith Force main bid;  
11 CAJ-26, correspondence with Wharton Smith regarding Lift Station L2A bids; CAJ-27, the  
12 Lift Station panel proposal; CAJ-28, Treatment Plant Rehabilitation Work Directive 2018-  
13 02; CAJ-29, Evoqua’s quotation for davits and a clarifier drive; CAJ-30, quotes for pad  
14 construction and the invoice for the generator; CAJ-31, the invoice for the portable generator;  
15 CAJ-32, the design of KWRU’s new modular office; CAJ-33, bids for demolition of the  
16 existing office trailer; CAJ-34, the installation contract for the new modular office; CAJ-35,  
17 KWRU’s Operating Permit; CAJ-36, a letter from Information Technology Solutions  
18 outlining the need for system redundancy in the Keys; CAJ-37, payroll reports supporting  
19 officer compensation changes; CAJ-38, documents underlying anticipated and incurred  
20 communications costs and correspondence on same; CAJ-39, invoices and quotes for costs  
21 related to KWRU’s service truck with crane; CAJ-40, documentation and analysis of power  
22 costs; and CAJ-41, ERC calculations.

23 Q. Were these Exhibits prepared by you and your staff?

24 A. Yes they were, except for the documents which were obtained from third party bidders on the  
25 projects referenced.

1   **Q.   Witness Andrew Woodcock claims the L2A Lift Station Replacement was not**  
2   **competitively bid. Please address that assertion.**

3   A.   The L2A Lift Station is identical to the Force main Lift Station from a design perspective, and  
4   the two lift stations are located less than 300 feet from each other. In 2014, KWRU was  
5   bidding replacement of the Force main lift station, and received a bid of \$187,680 from  
6   Wharton Smith. That bid is attached as Exhibit CAJ-25. KWRU received a substantially  
7   lower bid from local contractor B&L Beneway, who was awarded the bid. In October 2017  
8   KWRU solicited bids for the L2A replacement, with an identical scope to the Force main  
9   replacement. KWRU approached Wharton Smith for a bid but Wharton Smith division  
10   manager Gregory Williams declined to bid the project, citing their lack of competitiveness  
11   with local contractor B&L Beneway on the identical Force main project three years earlier.  
12   To make sure my recollection was correct, I e-mailed Gregory Williams on March 27 of this  
13   year to clarify the reason Wharton Smith declined to bid. That correspondence is included as  
14   Exhibit CAJ-26. Mr. Williams stated that as he recalled, “we decided not to submit a bid due  
15   to the high cost of our remobilization considering we had already left the area. Consequently,  
16   we assumed that our number would not be competitive with any of the local contractors that  
17   decided to bid; KWRU could most likely get the same job for less money”.  
18   So KWRU bid the job to both contractors, and received the bid from B&L Beneway Inc. and  
19   the statement from Wharton Smith that they felt bidding was no use as their bid would not be  
20   competitive.

21   **Q.   Do you believe the bid submitted by B&L Beneway Inc. is reasonable?**

22   A.   I do. In 2014, identical work on the Force main lift station was bid by Wharton Smith at  
23   \$187,680. We received a bid in 2017 – three years later and after Hurricane Irma – from B&L  
24   Beneway of \$140,000, on a not to exceed basis. Comparing the two bids (which have identical  
25   scopes of work), B&L Beneway was 34% lower than Wharton Smith, which appears to be

1 attributable to more than just mobilization costs. The price of labor and materials generally  
2 has increased since 2014, and low margin bids are difficult to come by as a result of the glut  
3 of contractor work created by Hurricane Irma. This project is to be completed turnkey, as  
4 KWRU will not be hiring any of the subcontractors needed to complete the project. This  
5 general contracting component was added to this project over the previous project, and will  
6 require the contractor to hire and coordinate all subcontractor labor necessary to complete the  
7 project. The bid from B&L Beneway is reasonable in today's market. Further, the PSC  
8 reviewed the Force main Lift Station work that was completed in 2014 during the prior rate  
9 case, PSC-16-0123-PAA-SU, and the cost to replace the lift station was determined  
10 reasonable.

11 **Q. Can you explain the reason why the total cost of replacing Lift Station L2A is \$6,393  
12 higher than the agreement with B&L Beneway?**

13 A. The additional amount is the cost, as quoted by HydroPumps, Inc. on October 23, 2017, to  
14 purchase a replacement electrical panel for the lift station. The agreement with B&L Beneway  
15 provides for reinstallation of the existing panel, and so no cost for a new panel is included  
16 within the agreement. However, the existing panel was blown over in Hurricane Irma and the  
17 electrical components were exposed to salt water. These components are certain to fail  
18 prematurely. The replacement panel was excluded from the agreement with B&L Beneway  
19 as KWRU did not deem it advisable to tie the operation of the existing pump station to the  
20 replacement project, which will be completed at some point in the future and may be subject  
21 to unforeseen delays. Lift Station L2A must continue to operate reliably in order for sewerage  
22 to flow through the Gravity-Force main system on South Stock Island. The proposal for the  
23 new panel is included at Exhibit CAJ-27.

24 **Q. Witness Andrew Woodcock found \$1,071,814 reasonable for the chlorine contact  
25 chamber replacement, including \$935,000 in construction, \$107,489 in engineering and**

1       **inspection services, and \$29,325 for housing of contractors. Is \$1,071,814 still the**  
2       **anticipated cost for this project?**

3       A. There are additional expenses which have arisen since the submission of the \$1,071,814  
4       figure I presented in my pre-filed testimony. Firstly, the housing expenses have increased  
5       from an anticipated \$29,325 to \$61,271. Housing costs are higher than previously anticipated  
6       due to the project start up coinciding with the most expensive rental weeks during peak tourist  
7       season. This was not anticipated to occur as the anticipated work schedule was pushed back  
8       several months due to Hurricane Irma. The rental market is very tight as a result of the  
9       number of units still offline after Hurricane Irma, and there were few options that suited the  
10      contractor's number of workers and the term of occupancy. This still represents significant  
11      cost savings (\$38,729) over the initial proposal where the contractor was to provide housing.  
12      Additionally, a cost of \$6,200 has arisen as a result of Work Directive 2018-02, which is  
13      included in Exhibit CAJ-28. This additional cost is for a third party to perform low-voltage  
14      holiday testing and NACE level III inspection services on the coating systems for the  
15      chambers. This testing will provide assurance that the coatings are properly applied and will  
16      function as intended. That brings the total cost of the project to \$1,109,960, consisting of:  
17      \$935,000.00 base bid, plus engineering costs of \$107,489, plus housing costs of \$61,271, plus  
18      \$6,200 work directive. The \$1,071,814 figure did not include allowance for any change orders  
19      or other similar costs. I don't anticipate any additional change orders or work directives for  
20      this project.

21      **Q. Do you agree with Witness Woodcock that the plant rehabilitation will cost \$975,000?**

22      A. No. There are items outside the Evoqua scope that are not accounted for. The first additional  
23      item is the work to take the treatment plants off line and pump them down so that the  
24      rehabilitation can begin. KWRU has experience doing this and will utilize in-house labor to  
25      carry out the pump down work. This is another advantage of being fully staffed, as this will

1 substantially lower the cost of this project.

2 However, from prior experience, KWRU only has the ability to pump the plants down to  
3 approximately four feet from the bottom of the tanks. The remaining approximately four feet  
4 of sludge must be hauled off by a subcontractor with a pump truck. At a depth of four feet,  
5 the volume of sludge which will need to be hauled from the digester, the aeration, anoxic,  
6 and reaeration chambers is 71,880 gallons. At 30 cents per gallon, which is the historical  
7 charge for sludge hauling, the cost is \$21,564 per tank. As two tanks need to be rehabilitated,  
8 this expense is expected to be \$43,128. This work will take about 14 days total, and there is  
9 a large savings based on KWRU using in-house labor for the initial pump down. KWRU is  
10 also minimizing risk by utilizing its Lead Plant Operator to supervise the take downs to ensure  
11 all water is treated in compliance with KWRU's operational permit.

12 The second item is the haul-off of the steel catwalks, vertical members, horizontal members,  
13 troughs, and piping supports. KWRU estimates that four 20 yard roll-off dumpsters will be  
14 needed to haul this debris. At a quoted cost of \$670 per dumpster, including administrative  
15 fees, this cost is projected to be \$2,680. Because the Utility is fully staffed the maintenance  
16 team can take this work on. This would not be possible if the Utility were staffed at 10 or 11  
17 employees. By doing this work in house the Utility will not have to pay market rate to  
18 accomplish this work. Presently, there is a similar project in Marathon, Florida at the City's  
19 Area 5 wastewater treatment plant. This project is underway and the cost to drain and clean  
20 two of the 115,000 gallon tanks is \$35,000.00, as awarded to Reynold's Construction. The  
21 cost to drain and clean the 145,000 gallon surge tank is \$10,000.00 as priced by Reynold's  
22 Construction. This cost doesn't include pump trucks as these were provided by the City and  
23 only assumes one 20 yard dumpster will be necessary for disposal. Since KWRU's tanks  
24 are larger and the amount of rags present is likely to be much higher due to less stringent  
25 screening of the influent prior to installation of SWECO static screens in 2017. The estimated

1 cost of labor to the utility of engaging a third party provider for this work for KWRU's East  
2 and West tanks is at least \$50,000. KWRU's performance of a large portion of the work in-  
3 house is anticipated to eliminate that cost.

4 After entering into an Agreement with Evoqua, KWRU's maintenance staff discovered that  
5 the clarifier drive that was previously thought to be serviceable was in need of replacement.  
6 Similarly, maintenance staff found that various davits were no longer serviceable and in need  
7 of replacement. With the maintenance group fully staffed the Utility now has more trained  
8 eyes on the equipment. These items would have been included the scope of work had they  
9 been identified prior to the Evoqua contract being signed. Because of this, the Utility direct  
10 purchased these few items. Per Exhibit CAJ-29, Evoqua Quotation 13960, the cost for these  
11 items will be \$14,951.10, including tax and shipping.

12 As such, the total amount of the project is \$1,165,522.85, consisting of the Evoqua bid  
13 (\$975,000), engineering costs (\$129,763.75) liquid hauling (\$43,128), debris and steel  
14 disposal (\$2,680), and the davits and gear clarifier drive (\$14,951.10). The MFRs have been  
15 updated to reflect these costs.

16 **Q. Witness Woodcock stated that there is no supporting documentation for the cost of  
17 installation of the back-up generator, and the costs proposed should be disallowed. Do  
18 you agree?**

19 A. I disagree. KWRU could not finalize plans for the foundation design – and thus obtain bids –  
20 until the dimensions of the generator were known. The generator which was purchased for  
21 \$189,874, an 8000 kW MTU Onsite Energy Generator Set, is much larger than the unit being  
22 replaced. To minimize cost, KWRU initially determined to continue utilizing the existing  
23 foundation set on piles, but this foundation will not accommodate the new generator. With  
24 the specifications of the purchased generator known, KWRU's engineers designed a larger  
25 pad by adding concrete and steel to the existing structure to accommodate the larger footprint.

1       The foundation has been sent to bid. To date, bids in the amount of \$176,407 and \$172,000  
2       have been received from Wharton Smith, Inc., and Coral Construction, Inc., respectively.  
3       These bids, as well as the generator invoice, are included within Exhibit CAJ-30. A third  
4       contractor, Botsford Builders, Inc., declined to bid based on the volume of projects which the  
5       company has taken on after Hurricane Irma. This is emblematic of the difficulty of finding  
6       qualified responsive bidders, with so many rehabilitation projects being undertaken in the  
7       Keys. Additionally, the original project estimate did not include a new transfer switch and  
8       the corresponding electrical work. The original electrical component was estimated at  
9       \$21,000, and in the Wharton Smith bid the electrical component (as sub-contracted to  
10      Nearshore electric) came in at \$54,022.50. KWRU estimated the foundation work at \$20,000,  
11      but this was based on a much smaller generator and corresponding smaller pad. The Utility  
12      value engineered the project (including, replacing stairs with ladders, removing catwalks and  
13      catwalk bracing, and spatially reorienting the generator) and this lowered the Wharton Smith  
14      Inc. bid from \$198,956 to \$176,407. Utilizing the Wharton Smith bid of \$176,407, the project  
15      is estimated at a total cost of \$390,552 comprised of the generator (\$189,874.98) the Wharton  
16      Smith foundation bid (\$176,407), and engineering costs (\$24,270). Although Coral  
17      Construction was the lowest bidder by \$4,407 the project has been awarded to Wharton  
18      Smith. The reason for this is due to the fact that Wharton Smith can begin immediately  
19      cutting down completion time as well as minimizing the number of construction crews on  
20      what is already a very small and very tight job site. The selection of Wharton Smith for the  
21      work will ultimately result in cost savings as Wharton Smith will be able to complete the  
22      project a minimum of 3 weeks sooner than other contractors. The reason for their  
23      competitive advantage is because Wharton Smith is already mobilized on site and they are  
24      ready to begin this work. To illustrate how valuable time is to the Utility, a standby generator  
25      is being rented from Pantropic Power to provide power during the construction of the

1 generator pad. Every week the Utility spends \$2,894 to rent the generator. Let's assume  
2 that another contractor was highly motivated and signed a contract, mobilized quickly,  
3 ordered materials and began work as quickly as possible, say three weeks. Even in this  
4 unlikely scenario the Utility would save three weeks of generator rental in the amount of  
5 \$8,683 while the difference between Wharton Smith and the low bid was \$4,407 resulting in  
6 a savings of \$4,276. Three weeks is very fast hypothetical mobilization, so the potential for  
7 even greater savings is likely.

8 **Q. Witness Woodcock did not include the costs of the new portable generator in rate base,**  
9 **stating the cost should not be included until KWRU has made the decision on whether**  
10 **to purchase a new or used generator and demonstrates the prudence of the decision and**  
11 **the reasonableness of the cost. Has KWRU selected a portable generator?**

12 A. Yes. KWRU has selected a Generac Magnum MDG75DF4 Mobile Generator Set. The offer  
13 and invoice are included within Exhibit CAJ-31. The total cost of the portable generator is  
14 \$57,915.63, and the MFRs have been adjusted accordingly.

15 Q. **Why was purchasing a new, rather than used generator, a prudent decision?**

16 A. Quite simply, this generator provides the best value-for-money to the utility. This generator  
17 will meet the reliability requirements of KWRU, presents a lower projected cost of  
18 maintenance than the used generators considered, and includes a 2 year or 2,000 hour  
19 warranty. Used machinery carries an inherent risk of failure, even if prudently inspected (as  
20 recently illustrated by KWRU's newly-purchased service truck with crane, as I will discuss  
21 later.) Given the costs of the other generators, the reliability variables, and the strong  
22 inducement of the warranty which covers the selected generator, this was a prudent purchase  
23 and the costs are reasonable.

24 Q. **Does KWRU require a portable generator on site until the new mobile generator set**  
25 **arrives?**

1     A. Yes. KWRU is currently renting a tow-behind generator from Sunbelt Rentals for this  
2         purpose. Because the length of rental was unknown after Hurricane Irma, a 6 month estimate  
3         was made. However, the lead time for KWRU's new backup generator is 9 to 10 weeks from  
4         purchase order and release for manufacturing, plus four to five days in transit time. Given  
5         this, KWRU expects to take delivery of the Generac Magnum in mid-July. As such, the rental  
6         generator amount that I provided in my pre-filed direct testimony must be adjusted from six  
7         months rental in an amount of \$11,642, to eleven months rental in an amount of \$21,343.63.

8     Q. **Mr. Woodcock, in his testimony, discusses the need for preventative maintenance items,  
9                 and utilizes the vacuum tank and the plant rehabilitation as examples. Generally, he  
10          contends that overall costs are increased because KWRU is reactive, rather than  
11          proactive, with its maintenance. Would you address this contention?**

12    A. KWRU's location is one of the harshest in the country for operating and maintaining a  
13         wastewater treatment plant, which is primarily composed of steel unit processes on concrete  
14         foundations. The vacuum tank is buried underground, below sea level, and there is no way to  
15         keep it from corroding. The basins which are the heart of the treatment trains are located mere  
16         feet from the water, and are constantly exposed to salt air. Furthermore, the influent can be  
17         highly salient. Many areas serviced by KWRU were created by dredging and filling what  
18         were previously salt ponds, and the entirety of Stock Island is only a few feet above sea level.  
19         The collections system pumps saltwater into the treatment plant as a result of infiltration and  
20         intrusion.

21         That being said, there certainly is more that KWRU can do to ensure maintenance is  
22         undertaken proactively. This begins with full staffing. When operating with a full staff,  
23         preventative projects can be assigned and undertaken, whereas there is a constant scramble  
24         to meet the day-to-day operational needs of the plant when the plant is running short staffed.  
25         Add to this high turnover as a result of overworked employees and more attractive benefit

1 packages at comparable utilities, and individuals with experience in inspecting and  
2 maintaining the equipment – with the available time to do so – are not available. Witness  
3 Woodcock is correct that asset management techniques do not require *additional* labor, but  
4 they do require *adequate* labor. If Witness Schultz's testimony is accepted and staffing must  
5 be reduced by four employees to reserve four vacancies, adequate preventative maintenance  
6 cannot occur. KWRU is now fully staffed with fourteen employees, and is capable of  
7 implementing a more proactive maintenance program, to increase efficiency and extend the  
8 life of its assets. At its current staffing level, KWRU can implement systemized programs for  
9 maintenance beyond its current efforts. This cannot occur when employees are constantly  
10 matriculating to other utilities who offer the same or more pay, more days off, less scheduled  
11 on call duty, more on call pay, and more lucrative pension plans.

12 **Q. Witness Woodcock also discusses capital planning. He states that in order to prudently  
13 manage its operations, KWRU should be looking forward to the next components of the  
14 wastewater system which will require expansion or replacement and proactively plan  
15 for the work required. Do you agree?**

16 A. I agree. Identifying projects on a five year basis will enable KWRU to complete projects in a  
17 more timely and efficient manner. However, adequate capital planning requires a sufficient  
18 amount of working capital to complete these projects. Based on the size of KWRU, several  
19 million dollars is required in each one of these planning periods. History bears this out. Over  
20 the last four years, KWRU has spent in excess of seven million dollars in capital planning.  
21 Yet Witness Schultz believes that working capital is too high. KWRU requires sufficient  
22 working capital to operate, yet customer deposits and a portion of the rate case expense is  
23 included within working capital. On a forward looking basis, the operation of a utility with a  
24 replacement cost of over \$40 million requires at least 7 to 8% in capital for repairs,  
25 rehabilitation, and operations and maintenance. Since the last rate case, KWRU has struggled

1 to operate and has not been able to pay its operating expenses in the ordinary course of  
2 business with the sewer income. This resulted in operational shortfalls which left the utility  
3 scrambling to make payroll, pay PSC gross receipts tax, and remit payment under its  
4 contracts. Insufficient monies to pay operating expenses were in KWRU's BB&T Operations  
5 Account in July and August 2016, January, February, March, July, August, and October 2017,  
6 and March 2018. Simply put, if KWRU is to adequately plan and execute its capital projects,  
7 capital calls should not be required on a routine basis to complete these projects and certainly  
8 shouldn't be necessary in order for the utility to meet its day to day operating expenses.

9 **Q. You discussed staffing levels above. Witness Schultz has testified that KWRU's staffing  
10 should be reduced by four employees. Do you agree?**

11 A. I vehemently disagree. Mr. Schultz seems to have no understanding of what it takes to operate  
12 a wastewater utility. Mr. Shultz is not a licensed wastewater operator or engineer, nor does  
13 he have any experience in operating an AWT DEP permitted wastewater treatment plant. I  
14 do not claim to be a CPA, but it appears to me Mr. Shultz, with no experience in operating a  
15 wastewater treatment facility purports to be a wastewater treatment plant operator and  
16 engineer.

17 If Mr. Schultz is correct and vacancies should be accounted for, KWRU would request  
18 eighteen employees. KWRU intends to be fully staffed at all times moving forward. It seems  
19 Mr. Schultz examined a period prior to the new .350 MGD treatment train being online, and  
20 identified that the utility could be operated with nine or ten employees. This is not feasible  
21 since the new plant has come online.

22 Looking more closely at Witness Schultz's analysis, if the utility has 4 vacancies (out of 14  
23 total positions) this would leave 10 employees total. Practically speaking, it can be assumed  
24 that the unique positions of accounting, billing and customer service, as well as management  
25 positions, would not be eliminated. Using Mr. Schultz's logic, it would follow that five total

1 positions for plant and collection system operations staff is reasonable to operate and maintain  
2 the treatment plant, vacuum station, reuse distribution system, and both (forcemain and  
3 gravity) collection systems. Of this five man crew the plant Operator must be logged in on  
4 treatment plant by DEP Permit 7 days a week and another member of the crew must be  
5 working on the plants and affiliated unit processes performing the daily work that must be  
6 done to keep the plant functioning. This leaves a crew of three employees (assuming all  
7 employees reported to work on the given day) to perform and document the daily  
8 maintenance that keeps the plant and system running, respond to emergencies, coordinate  
9 with other utilities, perform inspection work, handle disconnects/reconnects, carry out  
10 premises visits, procure parts and materials, perform maintenance on plant equipment and  
11 trouble shoot plant equipment, perform maintenance on lift stations, trouble shoot lift stations,  
12 perform maintenance on the vacuum system, and troubleshoot the vacuum system.

13 A three person crew – even assuming all personnel are immune from sickness and never take  
14 a personal/vacation day – is not adequate to perform these tasks.

15 Conversely, Mr. Woodcock spent the better part of a day on-site with us, inspecting the  
16 treatment plant and observing treatment plant and collection system operations. I agree with  
17 Mr. Woodcock that the necessary prerequisite to maintaining an adequate maintenance  
18 program and ensuring smooth and proper operation requires a staffing level of fourteen  
19 employees.

20 Having a staff of 14 gives the Utility the benefit of more flexibility and operational capability.  
21 When staffed at 14 employees the Utility is able to tackle tasks using in house staff that would  
22 otherwise require outside contractors. This is happening now, and future project work has  
23 been planned. One recent example of this include the Utility's in-house staff painting the  
24 PVC piping at the treatment plant; Mr. Woodcock observed this first hand when he visited  
25 the plant. This painting work was bid by a local contractor Mike's Painting and Repair Inc.

1 and this bid was \$50,000. Utility staff has continued the work from the last quarter of 2017  
2 into 2018 and it is now looking like the painting will be done by the end of Second Quarter  
3 2018. Not only does this save the Utility money over hiring contractors but it addresses the  
4 need in a more immediate fashion. There have been cases where there are budgetary  
5 restrictions to beginning a project in a given time frame or other logistical problems that  
6 impede or derail projects. A second example of in house staff undertaking and being able to  
7 commit to projects is in regard to the Evoqua Rehab project. The Utility's in house staff will  
8 take down the two original DAVCO treatment plants, a task that the Utility's Engineer  
9 estimated to cost at a minimum \$50,000 if it was put out to bid. If the Utility was staffed at  
10 less than 14 it would be difficult and risky to commit to carrying out this kind of project work.  
11 Utilizing in house staff for projects happens on a smaller scale as well and on a much more  
12 frequent basis.

13 **Q. You also touched on working capital. Witness Schultz claims that having almost \$1**  
14 **million in working capital is inappropriate and that these funds should be utilized either**  
15 **in interest bearing accounts, to pay off debt, or for business purposes. Can you respond**  
16 **to that?**

17 A. I disagree with his analysis. KWRU's operational costs are over \$200,000 a month, which  
18 requires significant capital on hand. Further, As a result of Hurricane Irma, KWRU received  
19 no rate payments for nearly two months and experienced decreased flows (which place their  
20 own type of stress on the plant), while expenses increased. KWRU has infrastructure in  
21 service which has been operational since the late 1960s, and rehabilitation and replacement  
22 is ongoing from time to time. In the past five years, these projects have exceeded seven  
23 million in costs. This is almost two million per year. To not have a minimum of \$1 million in  
24 working capital would be imprudent and can cause shortfalls. Moreover, as there is debt  
25 secured by the company, it is prudent to ensure KWRU has sufficient cash on hand to pay its

1       liabilities, expenses, and finance its capital projects. Examination of the past five years with  
2       regard to working capital proves Mr. Schultz wrong – current working capital is not  
3       sufficient, much less excessive.

4       If KWRU paid down debt, it would increase the equity position in the company which, to my  
5       understanding, would increase gross revenue and result in the same or near the same revenue  
6       requirements. Current interest rates are somewhere in the neighborhood of 0.2%. That's  
7       \$2,000 annual return on \$1 million. I don't see that as a prudent investment, when the utility  
8       is struggling to meet its obligations in the ordinary course of business.

9       Finally, as to the last rate case, the PSC observed the capital account was not being utilized  
10      because capital project monies were earmarked for a \$5.3 million treatment plant expansion,  
11      which was delayed by a challenge to KWRU's operating permit from an environmental  
12      group. The evidence is irrefutable – the capital account has continually been utilized for large  
13      capital projects and to offset operations expenses.

14     **Q. Moving to KWRU's new modular office building, Mr. Schultz testifies the office is 1,200  
15       square feet. Is this accurate?**

16     A. No. Attached at Exhibit CAJ-32 is the floor plan for the office. It is 1,577 square feet, and the  
17       total estimated cost is \$288,000. This equals a maximum cost of approximately \$182.63 per  
18       square foot.

19     **Q. Will the office be installed by March 31, 2018?**

20     A. No. Due to design revisions and delays from different modular manufacturers, the design was  
21       only recently completed. It must now be approved by the State of Florida and constructed  
22       off-site prior to its installation.

23     **Q. When will the new office be installed?**

24     A. I anticipate the new office will be installed in December, 2018.

25     **Q. Was the office competitively bid?**

1     A. Yes. As testified to by Robert Pabian, of Pabian Outdoor-Southeast, Inc., he is a modular  
2         office vendor who works with several manufacturers to obtain the best price. He is  
3         functioning as a broker by obtaining quotations from multiple manufacturers to obtain the  
4         best potential pricing. Additionally, KWRU has to date received two bids for the demolition  
5         of the old office, in the amount of \$14,000 and \$9,650 respectively. These bids are provided  
6         within Exhibit CAJ-33. KWRU is still waiting on a third bid from Wade Bobcat Service. As  
7         for the concrete slab, bids cannot be obtained until the modular plans are approved. The  
8         information KWRU has received from Pabian Outdoor-Southeast, Inc. is that the plans should  
9         be approved in the near future. These finalized plans will be sent to Bella Construction, E&E  
10         Concrete, Charley Toppino & Sons, Inc., and Pabian Outdoor-Southeast, Inc. for competitive  
11         bids.

12     **Q. Witness Schultz testified that the cost per square foot of the new office is excessive. Can  
13         you respond?**

14     A. First, Mr. Schultz is not a contractor, nor has he ever been involved with a construction project  
15         in the lower Keys. In my capacity operating Johnson Constructors, LLC, a state-licensed  
16         general contractor, I have pulled permits, and bid and paid for materials and labor for  
17         construction projects in the Keys. Mr. Schultz's statements – directly comparing Keys  
18         construction costs to costs in the mainland parts of Florida and in New York City –  
19         demonstrate a clear lack of understanding of construction costs in the Florida Keys. Materials  
20         and labor costs are significantly higher than in his comparator markets, due to high cost of  
21         living, lack of skilled workers, and the need to ship items approximately 150 miles down a  
22         single road. \$182 per square foot is on the low end for any construction which can be  
23         completed in the lower Keys. Even if the cost were \$240 per square foot, that would be well  
24         within the range of industry standards.

25     **Q. Witness Schultz proposes an adjustment removing all costs for the modular office,**

1           **stating KWRU should seek competitive bids, and consider whether it is more beneficial**  
2           **to construct a new building or purchase and install a modular building. Has this been**  
3           **done?**

4     A. Yes. As stated above, Pabian Outdoor-Southeast, Inc. acts as a broker obtaining the best price  
5           for the unit among modular constructors. It is farcical to think that a site-built office would  
6           approach the price per square foot which can be achieved with modular construction, as a  
7           result of the factors I discuss above. Robert Pabian will testify to this.

8     Q. **Witness Schultz could not find PP Keys 2016, LLC, the company which was contracted**  
9           **to provide the modular office, within Florida records. Why is that?**

10    A. The initial installation agreement was with PP Keys 2016, LLC. This was not the correct  
11          entity. The correct entity is Pabian Outdoor-Southeast, Inc. This scrivener's error has been  
12          corrected in the agreement included as Exhibit CAJ-34.

13    Q. **Witness Schultz states that a back-up phone service is unnecessary and unsupported.**  
14          **Why is a back-up phone service necessary?**

15    A. Pursuant to KWRU's DEP operating permit, Section V(a), included as Exhibit CAJ-35, the  
16          Permit Required WWTP Operator staffing level was held to one shift (instead of being  
17          increased to 2 shifts – 16 hours per day) because of KWRU's implementation of a  
18          Supervisory Control and Data Acquisition System (SCADA). SCADA can only operate  
19          with a reliable internet connection, and for that we rely on a telecommunications provider.  
20          No phone system in the Keys is 100% reliable, as provided by Information Technology  
21          Solutions, LLC in the letter attached as Exhibit CAJ-36. Information Technology Solutions,  
22          LLC has clients in the Keys including law firms, surgery centers, and other internet-critical  
23          operations, and in his experience failures occur frequently in the Keys due to aging  
24          infrastructure. His professional opinion is that "having a secondary internet service is key to  
25          having redundancy for critical safety operation of machinery that requires internet

1 connectivity for offsite monitoring.” KWRU has been experiencing significant internet  
2 outages on at least a weekly basis. Until a 100% reliable solution is available, KWRU must  
3 have redundant systems. The potential interruptions to service and the potential for  
4 catastrophic environmental damage (treatment tanks are located just feet from surface waters)  
5 as a result of internet outages are too grave to forego redundancy. If KWRU’s vacuum system  
6 is left in a low vacuum condition due to an unacknowledged alarm, there is a significant risk  
7 of system-wide failure resulting in non-service to approximately half of KWRU’s customers  
8 and a potential for sewer backups and spills. Unaddressed lift station alarms similarly may  
9 result in backups and spills. These scenarios would result in expensive clean up and  
10 mitigation costs, and fines from the Department of Environmental Protection. An  
11 unacknowledged alarm at the treatment plant may result in the discharge of effluent which is  
12 treated below required standards, with potentially irreparable harm to the marine  
13 environment. Similarly, alarms related to motors, blowers, or pumps, could result in  
14 explosion or fire, creating catastrophic impacts to the Utility physical plant and or nearby  
15 property.

16 **Q. Witness Schultz testified that the increase in officer’s compensation from 2014 to 2016  
17 was significant, and the 2017 increase is twice what is the normal increase in cases he  
18 has reviewed and participated in. Please address that statement.**

19 A. The reason for the large increase is that Greg Wright was promoted to Vice President in  
20 January 2015, which caused his compensation to be categorized as officer, and not employee,  
21 compensation. In 2014, prior to Mr. Wright’s promotion, there was only one officer position.  
22 This doubling accounts for the significant increase. As to the 3% raise from 2016 to 2017,  
23 the raises given to officers were less than those given to staff. These raises were approved by  
24 the KWRU Board of Directors. Exhibit CAJ-37 shows payroll reports prior to and after Mr.  
25 Wright was promoted to Vice President.

1     **Q.**    **Witness Schultz testified that KWRU “overlooks the fact that other companies are able**  
2       **to hire and retain employees without a traditional pension plan” and that KWRU’s**  
3       **request for a traditional pension plan is unsupported. Do you agree?**

4     A.    I disagree. All the utilities in the Keys – KWRU’s competitors for reliable personnel – of  
5       which I am aware offer traditional pension plans. KWRU requires a labor force with utility  
6       worker skillsets, and these utilities are competing fiercely for these employees. Due to weaker  
7       benefits, KWRU often finds itself on the losing end in the competition for good labor. Exit  
8       interviews have shown that KWRU’s prior pension plan was a significant factor in employee  
9       retention issues. Mr. Schultz has no basis for the assertion that the companies with which  
10      KWRU competes for labor are able to retain employees without traditional pension plans.  
11      They have traditional pension plans, and in order to be competitive, KWRU needs to be able  
12      to provide similar packages.

13     A significant disadvantage of KWRU’s prior plan, a 401k, was that it allowed employees to  
14      take 100% of the funds paid in by KWRU at the time the employee left employment –  
15      immediate vesting. The new, traditional pension plan builds in a vesting schedule that  
16      encourages employees to remain with the company in order to vest. This will help with the  
17      turnover KWRU has experienced, and the inordinate new employee training load that  
18      valuable, long-time employees experience, increasing efficiency and responsiveness.

19     **Q.**    **Witness Schultz states that the bad debt expense resulting from the loan to an employee**  
20       **should not be considered as a recurring expense. Can you address this?**

21     A.    The bad debt expense is due to an employee defaulting on a loan agreement which covered  
22      his moving expense. KWRU always attempts to fill positions with applicants who do not  
23      require relocation assistance, but some positions are difficult to fill and accommodations need  
24      to be made. While KWRU will try to avoid similar moving expense outlays in the future,  
25      similar expenses will likely be incurred in KWRU’s attempt to compete for skilled personnel.

1       The employee in question is a Class B State of Florida Licensed Wastewater Treatment Plant  
2       Operator, the most difficult position to fill from the shallow Keys labor pool. KWRU made  
3       offers to multiple operators to fill this position – offers which were refused – before agreeing  
4       to relocation assistance for this employee. Mr. Schultz contends that this cost should not be  
5       considered recurring because KWRU did not attempt to collect the debt. What Mr. Schultz  
6       fails to understand is that the cost of pursuing recovery would be more than the judgment  
7       obtained, and that does not include costs of collection on an obtained judgment. KWRU  
8       weighed the outstanding debt against the costs to obtain (and then collect) judgment, and  
9       made a business determination not to “throw good money after bad.” If KWRU had engaged  
10      counsel to obtain a judgment, Witness Schultz would likely attack that expense as  
11      unsupported in light of the small amount in controversy.

12      **Q. Do you agree with Witness Schultz's adjustments to Salaries & Wages?**

13      A. No, I do not. Although Witness Schultz provided a lengthy discussion concluding that the  
14      existence of vacant positions during the test year is a predictor of future vacancies, this is not  
15      supported. Currently, fourteen employees are on staff, and KWRU anticipates higher  
16      retention and better market competitiveness due to its traditional pension plan.

17      **Q. Did Witness Schultz make any other adjustments to salaries?**

18      A. Yes, he removed the adjustment that the utility made to payroll for anticipated extraordinary  
19      events. It was during the preparation of the MFRs that KWRU was impacted by Hurricane  
20      Irma. Although KWRU incurred expenses in the recovery – and continues to incur expenses  
21      – we were very fortunate we did not suffer a direct hit. The utility analyzed the potential  
22      additional impact of an "extraordinary event", and determined that we could have reasonably  
23      needed staff to work 3 hours per day overtime for a period of six weeks. This is time that  
24      would have been incurred preparing for a direct hit, and the restoration work after the impact.

25      **Q. Is this the same as the Hurricane costs that are being presented in the MFRs?**

1 A. No, this is different. The hurricane costs represent the actual cost (adjusted estimated costs)  
2 of Hurricane Irma, amortized over four years which represents the anticipated time until  
3 another similar event. The extraordinary event cost represents an additional cost in the event  
4 of a direct hit, specifically for overtime. KWRU initially proposed that it be amortized over  
5 five years, but after further review, the utility requests that the additional overtime request be  
6 amortized over four years, anticipating that the cycle between similar events would be four  
7 years, not five.

**Q. Do you agree with Witness Schultz' observations about Officers' Compensation?**

9 A. No, I do not. Although he did not propose an adjustment, Witness Schultz expressed concern  
10 that salaries for officers had increased so dramatically when comparing the cost to 2014.  
11 However, the cost increased because an employee was promoted, and his salary is now  
12 included in officer salaries instead of employee salaries.

I want to also take a moment to address his statement, "The significance of the [officers' salary] increase is only magnified by the fact that the KWRU has indicated that compensation is an issue in retaining employees yet the increase in compensation is focused on officers and not the operating employees that need to be retained." I find this remarkable considering that Witness Schultz has argued against KWRU's advertising expense, loan to an employee that was written off, the increase in benefits, the employee bonuses, and in particular the "gold-plated" pension plan. All of these have been efforts to attract and retain staff - which has been both necessary and successful as KWRU is now fully staffed and has been fully staffed for all of 2018.

22 O. Are there any further adjustments to Salaries and Wages?

23 A. Yes. The salaries and wages should be updated to show current conditions. Additionally,  
24 known salary increases anticipated within a short period of time should be included. KWRU  
25 has made an adjustment to salaries and wages consistent with current staffing levels and

1 known anticipated raises. KWRU also made the appropriate adjustment to corresponding  
2 payroll related costs, such as pension and benefits, payroll taxes and workman's  
3 compensation.

4 **Q. Do you have any disagreements with Witness Schultz's revisions to hurricane expense?**

5 A. Yes. As discussed above, the cost of renting the portable/tow behind generator will be at a  
6 total cost of \$21,344.41, due to the lead time for the new generator. Also, the cost of renting  
7 the main standby generator from Pantropic Power will be \$147,418.83. The generator pad  
8 estimated completion date is August, 2018. The rental period must be extended to the time  
9 when the new generator is installed, tested, and in working order. The rental period has been  
10 adjusted to eleven total months. The \$147,418.83 is comprised of the following: Electrical  
11 work by Nearshore Electric (\$5,500); delivery charge and rental fee for month one of  
12 generator rental (\$13,950.96); Monthly rental in the amount of \$12,612.68 for remaining ten  
13 months of rental (\$126,126.80); and monthly insurance in the amount of \$167.37 for eleven  
14 months (\$1,841.07).

15 **Q. Witness Schultz states that KWRU has not adequately supported the increase in  
16 materials and supplies. Do you agree with his statement?**

17 A. No, I do not. Mr. Schultz fails to understand how a fully staffed utility can take on additional  
18 labor. For example, with regard to the plant rehabilitation project, KWRU plans to use in  
19 house labor to perform and supervise a substantial portion of the work required to take down  
20 the treatment plants prior to Evoqua commencing the rehabilitation work. This is specialized  
21 work that requires a knowledge of wastewater treatment and specialized safety training and  
22 equipment to work in confined spaces. If fully staffed, the Utility can do this kind of project  
23 work, but adequate materials and supplies are necessary to complete the work. In the test  
24 year the Utility was understaffed and new employees were hired. It takes several months of  
25 training for new hires to learn the systems, equipment, and protocols before employees can

1 make a positive impact on the maintenance of the assets. During this training period senior  
2 employees take on a mentor role with regard to new hires, which further reduces efficiency.  
3 During the test year the Utility had very high turnover and a dearth of wastewater specific  
4 experience. In fact, only two operations group employees who were employed at the  
5 beginning of the test year remained employed at the conclusion of the test year. (Joe Schober  
6 and Pierre Amboise). Unfortunately Mr. Schober was new to the wastewater industry at the  
7 time and Mr. Amboise was not hired to be a trainer as English isn't his first or even second  
8 language. The Utility will have a significant increase in materials and supplies with a fully  
9 staffed maintenance group and this should be beneficial to the operational efficiency of the  
10 Utility and it should also help reduce the number of projects that require outside  
11 subcontractors, at a cost savings to the Utility.

12 **Q. Witness Schultz indicates that KWRU has requested \$12,647 for the cost of the new  
13 telephone system. Has that number been updated?**

14 A. Yes, it has. There will be expenses beyond the \$12,647 that Mr. Shultz discusses in his  
15 testimony. Please see Exhibit CAJ-38. AT&T was to provide the Utility with a voice and  
16 data fiber circuit. Presently, AT&T has failed to provide this circuit, and AT&T errantly  
17 provided a data only circuit. The new office will be installed before the end of 2018,  
18 therefore the Utility has made the decision to install the fiber circuit in the new office once it  
19 arrives, rather than installing the fiber circuit in the temporary trailer/office and then  
20 reinstalling in the new, permanent office. The cost of this 50Mbps voice and data circuit  
21 annually will be \$11,040 according to Carlos Ruiz, Account Executive Business Solutions  
22 AT&T Southeast. Additionally the purchase of phones that operate over fiber will cost  
23 \$3,989 with installation and programming. Technical Support costs \$1,339.95. In addition  
24 to this, the Utility also has a dedicated alarm system on the vacuum system that requires a  
25 telephone line. The alarm system's Allen Bradley CPU is connected to an Auto Dialer that

1 will dial on call personnel in the event of an alarm condition. The telephone line required for  
2 this is the most basic phone service AT&T provides, known as a POTS Line (Plain Old  
3 Telephone Service) and the cost of this service is approximately \$960.00 per year, according  
4 to Casey Elrod, AT&T Sales Consultant, Small Business Solutions. The Utility will also  
5 require voice/data/computer infrastructure in the new office. The communications  
6 infrastructure in the new office will require 24 CAT5E 100 foot cable runs that will support  
7 network, workstations, telephone, alarm, and TV for the security system cameras. The install  
8 is estimated to require 52 hours of labor for a total hardware and labor cost of \$7,020.35. The  
9 cost of all of the above communications expenses total \$25,886.67.

10 **Q. Do you agree that the membership dues paid to the Rotary Club of Key West and to  
11 the Florida Rural Water Association are "image building" organizations, as Witness  
12 Schultz characterizes them, and should be excluded from rates?**

13 A. No. The Florida Rural Water Association is a water and wastewater industry professional  
14 organization that provides valuable resources to its member companies, many at no charge.  
15 It characterizes itself as follows:

16                   The Florida Rural Water Association (FRWA) was formed for the  
17                   benefit of small water and wastewater systems throughout Florida. We  
18                   are a nonprofit, non-regulatory professional association. Our primary  
19                   purpose is to assist water and wastewater systems with every phase of  
20                   the water and wastewater operations.

21                   Rotary is a worldwide service organization that provides support to the Clubs' local  
22                   communities, as well as communities around the world through its 1 million plus members.  
23                   It is a community service organization, not an image-building or a business networking  
24                   organization. Members are attracted to the opportunity to engage in community service, and  
25                   civic-minded companies encourage key employees to engage in these types of service

1       activities, often through memberships. It is worthwhile to point out that other members of  
2       the Rotary Club of Key West include local public agencies, including FKAA, Keys Energy,  
3       Monroe County, City of Key West, Monroe County School Board, US Navy, Monroe  
4       County Sheriff, and Mosquito Control.

5       The dues paid to these two organizations should be included as they are beneficial to the  
6       company and to the community it serves.

7       **Q. Do you agree with Witness Schultz' recommendation to exclude the cost of a  
8       retirement party?**

9       A. No, I do not agree. First, though, I need to correct the characterization of this expense,  
10      which was incorrectly described by KW. It was a the cost of ceremony dedicating the  
11      new Wastewater Treatment Plant to long-time employee Mark Burkemper to recognize  
12      him for his valuable contribution to wastewater treatment in the Keys. This event served  
13      to demonstrate appreciation for an individual's contribution and to showcase the new  
14      WWTP. This was not a lavish affair, and the \$709 cost included food, a tent and chairs.  
15      This is the exact same type of dedication ceremony as those held by other public utilities  
16      which are paid for by the rate payers.

17       **Q. Do you agree with Witness Schultz' recommendation that the cost of a Christmas  
18       party should be disallowed?**

19       A. No. First of all, his characterization needs to be corrected. This expenditure was not for a  
20      Christmas party, rather it was for Christmas bonuses to employees. This is a legitimate  
21      employee cost, and the \$50 per person paid is reasonable. Witness Schultz has  
22      consistently disregarded the efforts that KWRU has made to attract and maintain  
23      employees by recommending that the cost of such efforts be disallowed.

24       **Q. Do you agree with Witness Schultz' proposed reduction to Employee Training of  
25       \$4,171?**

1     A. I do not. More employees require more training and more training expense. Historic training  
2         expense is not indicative of future expense, as for those years KWRU was understaffed. When  
3         a utility is understaffed, it is much more difficult to schedule and complete training, as the  
4         short staff must dedicate a higher portion of their time to plant operations and maintenance.  
5         This problem is exacerbated because understaffing results in less proactive maintenance,  
6         increasing the frequency of problems and emergencies, and making it difficult to commit to  
7         employees to a half or full day of training when it is uncertain the employees would be  
8         available if an emergency develops. If a trainer schedules a training and drives to Key West,  
9         and employees must be pulled from the training to address operations issues, KWRU is  
10        required to pay for the training regardless. On multiple occasions over the last five years,  
11        KWRU has delayed training on several occasions to allow for an open position to be filled,  
12        so that the entirety of a subset of workers can receive the same training. Since KWRU does  
13        not have the luxury of a large staff to have different work groups/crews according to their  
14        training, KWRU must train all maintenance employees similarly so that the employees are  
15        “jacks of all (related) trades”. On more than one occasion, KWRU delayed training to  
16        accommodate the filling of a position, and another employee would leave or give their notice  
17        of leaving, further delaying training. More training is anticipated based on KWRU’s current  
18        full staffing level.

19     **Q. Do you agree with Witness Schultz’ statement that advertising expense should be  
20           decreased, as a result of KWRU “not planning on extreme turnover in future years?”**

21     A. No, I do not. While KWRU expects increased retention and decreased turnover, Witness  
22         Schultz’ testimony is inconsistent. He states that given KWRU’s history, the vacancy issue  
23         will continue. However, he also reduces advertising expense. If Mr. Schultz’s prediction of  
24         continued vacancy is rendered correct, I’m not sure how this can be reconciled.

25     **Q. Do you agree with Witness Schultz’s statement that the ratepayers should only pay**

1           **\$44,777 for the service truck with crane.**

2       A. I would agree with Mr. Schultz if the service truck was in operable condition, however this  
3           is not the case, therefore I do not agree. The Utility purchased a used utility service truck and  
4           the Utility exercised due diligence prior to purchasing the truck. The Utility hired an  
5           independent Ford mechanic to perform an inspection on the truck prior to purchase. No  
6           inspection can guarantee to find all problems and defects 100% and in this case the inspection  
7           didn't identify a problem with the engine. Presently, the engine is locked up and this renders  
8           the vehicle inoperable. The engine must be replaced. The Utility is replacing the engine and  
9           the parts and labor combined to remove the old engine and install the new engine totals  
10          \$19,927.77. The Utility took the truck to Coopers Body Shop and the owner stated that there  
11          are very few local diesel mechanics that can do a job this big. The owner recommended  
12          Quality Auto and Diesel as their mechanic specializes in repair to the Ford Power Stroke  
13          Engines. The cost of the parts will not vary greatly from shop to shop but the labor expense  
14          can vary from mechanic to mechanic. The amount of labor expense is \$4,270 and there is a  
15          cost to tow the truck to various shops. The Utility has not come across a mechanic that is  
16          more highly recommended than the Quality Auto Diesel mechanic, and therefore doesn't see  
17          the purpose in paying a towing company to move the truck to alternative shops given the total  
18          amount of labor expense is \$4,270. There are also two invoices to tow the truck to the  
19          mechanics shop which total \$400.00. Please see Exhibit CAJ-39 for documents underlying  
20          these expenses. The service truck with crane adjustment should be \$65,104.77, which is the  
21          actual cost to put the truck into service, including the unforeseen engine replacement.

22      Q. **Will the purchase of the service truck with crane eliminate the need for equipment  
23           rental?**

24      A. No. While the service truck will allow us to accomplish most of the day-to-day projects in-  
25           house, the truck is simply not large enough to reach mixers or other items which are located

1           atop the unit processes. Replacement of filter media will require a crane or larger crane truck,  
2           and on some occasions the utility will need to rent jackhammers, compressors, or similar  
3           small tools to accomplish tasks in house. Being fully staffed, I anticipate more of these types  
4           of jobs will be able to be performed by KWRU staff.

5   **Q. Does the MFR amount for Power capture all of the power expense?**

6   A. No it does not. Please see Exhibit CAJ-40. Power for 2018 is projected to cost \$20,008 each  
7       month due to Keys Energy Services raising their rates in 2018. Using 2017 Average kW  
8       Hours and applying the new 2018 rates I arrive at an annual Power Expense of \$240,096.

9   **Q. Do you agree with Witness Wilson with regard to his statement that there is an increase  
10      of 10.55 Million gallons per year ?**

11   A. No. Witness Wilson claims that a few properties are generating a whole lot more flow than  
12       they really are. The problem with Mr. Wilson's claim is that he is double counting flows.  
13       Mr. Wilson presents the SPCA and Gerald Adams as new customers. However, SPCA and  
14       Gerald Adams are both current customers and have been since 2012 and 2001,  
15       respectively. SPCA is relocating to a new building and as the Utility understands it, the old  
16       SPCA will be knocked down. Gerald Adams Elementary School is currently serving students  
17       in the existing building and what used to be the school play yard is now a construction site  
18       for the new school. When the new school is constructed the old school will be  
19       demolished. Therefore with regard to these two properties the flows, or at least a good  
20       portion of these flows, have been already been accounted for since 2001.

21       Gerald Adams has been a customer since 2012 and the new school building project is a  
22       replacement for the existing school on the same site, therefore to call them a "new" customer  
23       is incorrect. Just like the SPCA, Gerald Adams flows have already been accounted for. The  
24       Utility also understands that the new school building will be smaller than the existing  
25       building, which will have a net effect of actually reducing the amount of water treated from

1       this property. So, if this is the case Mr. Wilson should be subtracting flow rather than  
2       projecting additional.

3       Aside from double counting flows and creating additional flows when in reality flows are less  
4       Mr. Wilson also has problems with his calculations. Please see Exhibit CAJ-41. As to Sunset  
5       Marina, Oceans Edge and Stock Island Marina Village, it is very difficult to derive the basis  
6       of Mr. Wilson's assertions, as his numbers do not reflect actual flows or flows based on  
7       KWRU's Equivalent Residential Connections from its annual report. It appears Mr. Wilson  
8       is using 250 GPD or 167 GPD to carry out his calculations, which is either based on the  
9       Department of Health 10d-6 chart or from the Monroe County Wastewater Study, neither of  
10      which reflect the actual flows of the equivalency of one residential connection. KW Resort  
11      Utilities Corp. reports to the PSC every year how many gallons per day, defined as an  
12      Equivalent Residential Connection (ERC). For 2017, an Equivalent Residential Connection  
13      was derived as 126.1 gallons per day. This number has been lower in prior years. This number  
14      represents the actual number of residential gallons sold by the Utility in 2017 divided by the  
15      average number of residential customers, divided by 365 days. As Mr. Wilson did not provide  
16      documentation to support his calculations or the basic underlying information upon which he  
17      relied, it is impossible to determine what values he utilized. However it is clear that his  
18      calculations of future flows are incorrect. His calculation of future flows was incorrect in the  
19      prior rate case, as well.

20      Finally, Mr. Wilson is also incorrect with respect to the City of Key West Transportation  
21      Maintenance Facility, which he claims came on line "in the last months" (which based on his  
22      testimony date I would grant him latitude into late 2017 or early 2018). The City of Key  
23      West Transportation Maintenance Facility was online during the entire test year and therefore  
24      the flows have already been captured.

25      Mr. Wilson's testimony is grossly factually inadequate. The testimony counts flows which

1 already exist, double counts flows, and uses numbers that cannot be recreated, as they are not  
2 reflective of the service area.

3 **Q. Do you agree with Mr. Woodcock's statement that the rehabilitation project should be  
4 reduced by \$114,075?**

5 A. No I do not. Mr. Woodcock has based the reduction on a single project and it should be  
6 pointed out that Evoqua was the low bidder in that project, as well. The larger issue here is  
7 that Mr. Woodcock is trumping the opinion of the Utility's Professional Engineer and there  
8 are some issues Mr. Woodcock may not have fully considered. First, the detailed shop  
9 drawings or detailed dimensional drawings that are required to construct the parts of the  
10 treatment plant that are being replaced would be proprietary to Evoqua as they have complete  
11 access to all of the proprietary and intellectual property of the original manufacturer of the  
12 plants (DAVCO) by acquisition. To put the project out for bid would require the Utility  
13 Engineers to produce much more accurate drawings than are currently available. A complete  
14 bid package would need to be put together. Project Management would be necessary. This  
15 would involve inviting contractors to bid, pre-bid meeting/s, field visit/s, managing requests  
16 for information, accepting bids, qualifying bids, bid analysis and award recommendation,  
17 contract and award. This effort would take significant effort by engineers, CAD technicians,  
18 project manager, and legal. The Utility doesn't have an in-house CAD./Engineering Group  
19 or legal and therefore the Utility would pay market rate for these services. Mr. Woodcock  
20 agrees that the treatment units have numerous interconnected components that must function  
21 as a whole. He also states that with proper field investigation, specifications, and  
22 construction submittal review, an experienced contractor can provide these services. It  
23 seems what Mr. Woodcock is suggesting is to utilize contractors other than Evoqua will  
24 require some extra care from a contractor who has experience with this exact kind of work.  
25 If the Utility were to contract with a company with experience it is often difficult to qualify

1       the exact personnel on the job and while the company is experienced, the individuals on the  
2       job may or may not be. Without very clear dimensional drawings the Utility is exposed to a  
3       degree of risk with regard to a contractor who may not have the experience level to connect  
4       the dots when the drawings are not explicit enough. This can lead to work not meeting  
5       standard, change orders, or legal problems, none of which benefit the Utility or its ratepayers.  
6       I suppose it is possible that with the proper dimensional drawings and specifications and a  
7       qualified contractor with the right experience in retrofit and rehabilitation work on site, the  
8       project could be completed in a manner similar to Evoqua. But the savings Mr. Woodcock  
9       cites based on one “comparable” project is \$114,075. The cost to hire the consultants to  
10      facilitate the bid process should be weighed against the \$114,075. The consultants will need  
11      to conduct the proper detailed field investigations, identify the missing detailed drawings,  
12      create the proper dimensional drawings, prepare air tight specifications, carry out careful  
13      construction submittal review, prepare bid documents, administer and oversee the bid  
14      process. After carrying out all of this work how much savings would there be? I would think  
15      there would be little to none and the risk of hiring a contractor who is not experienced enough  
16      to, as Mr. Woodcock states, “connect the dots” is a very real risk. The Utility’s Professional  
17      Engineer, Edward R. Castle, P.E. recommended the Evoqua sole source option and the Utility  
18      Board and Management accepted the recommendation. The Evoqua sole source option  
19      almost completely mitigates the risk of having a contractor who can’t “connect the dots” as  
20      this is what Evoqua does 365 days per year and the same Evoqua Superintendent, who  
21      installed the original plants, Mr. Earl Griner, is on the project. It is possible for two  
22      competent and qualified professional engineers to have slightly different opinions on such  
23      matters. The Utility’s Professional Engineer, Mr. Castle, has an intimate working knowledge  
24      of the Utility’s treatment plant as he has operated the plant with his Class A License. He is  
25      also familiar with large wastewater projects, having done more than any other Engineer in

1           the Keys, giving him an acute awareness of the unique challenges these wastewater projects  
2           present and more importantly he is mindful of the pitfalls to avoid.

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

4     A.     Yes, it does.

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1 BY MR. SMITH:

2 Q **Have you prepared a summary of your testimony?**

3 A Yes, I have.

4 Q **Can you read it at this time?**

5 A Yes.

6 My name is Christopher Johnson. I am the  
7 President of KW Resort Utilities Corp, and I have  
8 provided rebuttal testimony on behalf of the utility.

9 My rebuttal testimony is to present  
10 information to respond to intervenor witnesses and to  
11 provide updated costs based on invoicing to date of the  
12 projects identified in the direct testimony. I will  
13 outline some of those now.

14 The utility's chlorine contact chamber and  
15 filter units that were damaged in Hurricane Irma, the  
16 utility has incurred two additional costs that are  
17 necessary to complete the work. There is an additional  
18 \$6,200 expense given by Work Directive 02 to have a  
19 level III NACE inspector perform testing to ensure the  
20 coating system on the tanks is to specifications and  
21 will function as intended.

22 There is also an additional cost of housing  
23 for work crews. This is an additional \$31,946.

24 The two additional costs bring the total  
25 project costs to \$1,109,906. This represents a 3.4

1 increase to the overall project cost.

2                   Witness Woodcock stated the utility provided  
3 no documentation for installation costs of the main  
4 generator. In my rebuttal testimony, I provide three  
5 competitive bids for the work to install the generator.

6                   Once the utility selected a generator, the  
7 existing generator's piling foundation were used,  
8 effectively added on to, to minimize foundation expense  
9 for the new generator unit. The foundation was designed  
10 and value engineered by using the exact dimensions of  
11 the purchased unit. Wharton Smith was selected at  
12 \$176,407 to perform demolition, foundation work,  
13 electrical, mechanical and startup.

14                  Witness Woodcock also stated the capital  
15 rehabilitation of the existing East and West wastewater  
16 plants should cost 975,000, and that sole sourcing was  
17 not prudent.

18                  Sole sourcing saved the utility money.  
19 According to our engineer's estimate to take data and  
20 measurement, create the dimensional drawings, create the  
21 bid documents, respond to and log RFIs, attend prebid  
22 meetings and site visits, qualified contractors and  
23 perform bid evaluation, et cetera, this would have added  
24 20 percent to the overall project cost.

25                  Witness Woodcock also didn't account for items

1 outside of the Evoqua scope that will be necessary to  
2 complete the project.

3 The Evoqua scope of work requires others to  
4 carry out the pump-down of the plants and to dispose of  
5 debris, steel and other plant appurtenances that are cut  
6 out or removed during the course of work.

7 This work will be done by in-house utility  
8 staff. And when I reference this work, I am talking  
9 about the pumping down of the wastewater plants and  
10 cleaning them. Outside licensed septic haulers,  
11 however, will be needed to haul the sludge from the  
12 bottom of the tanks into the septage truck to the  
13 facility in Miami that is mandatory under the utility's  
14 state of Florida DEP operating permit, and this hauling  
15 cost will be \$43,128.

16 The debris removal cost will require four 20  
17 yard dumpsters at a cost of \$2,680. The utility's  
18 engineer cost estimates to hire outside labor to do this  
19 work that the utility's in-house staff will carry out is  
20 estimated to be in excess of \$50,000 based on the same  
21 type of work that was carried out recently in the City  
22 of Marathon, Area 5's wastewater project. There is also  
23 some additional expense for a clarifier drive and davits  
24 that required replacement.

25 This equipment, the davits and the clarifier

1 drive, were a direct purchase by the utility and was  
2 \$14,951.10, and this was purchased from Evoqua. The  
3 total project cost with these additional items comes to  
4 \$1,165,522.

5 Witness Woodcock also stated that the cost of  
6 a portable generator should not be included in the rate  
7 base until the utility selects a generator. A generator  
8 has been selected. A new Generac Magnum Mobile  
9 Generator was purchased at a total cost of \$57,915.63,  
10 and between my direct and rebuttal testimony, this  
11 purchase was made. So at this time, the utility has  
12 selected and purchased the mobile generator.

13 COMMISSIONER POLMANN: Mr. Johnson, you have  
14 about one minute.

15 THE WITNESS: Yes, sir.

16 Witness Schultz states that there were nine  
17 positions filled as of November 2017. To this end,  
18 the utility supplied payroll records during the  
19 course of these proceedings. And according to the  
20 October 31st payroll, that report evidences 13  
21 employees receiving a paycheck, and a 14th employee  
22 was hired at the time who was relocating to  
23 Florida.

24 On October 312th, the employee who was waiting  
25 to relocate to Florida found out that his unit was

damaged, and as a result of this, he was unable to  
make it to Florida and work for the utility.

3                   Therefore, into November the utility had an  
4                   employee of each of the 14 positions. Hurricane  
5                   Irma was devastating to residents and businesses  
6                   alike. KW Resort Utilities was no different. We  
7                   did lose three employees, but we are now fully  
8                   staffed at 14. The period that Mr. Schultz looked  
9                   at was not representative of a normal period.

10 COMMISSIONER POLMANN: Mr. Smith, you should  
11 proceed.

12 MR. SMITH: I would tender the witness at this  
13 time for cross.

14 COMMISSIONER POLMANN: Thank you.

15 Mr. Sayler, are you up first?

16 MR. SAYLER: Yes, sir.

17 COMMISSIONER POLMANN: Please proceed.

18 Thank you.

## EXAMINATION

20 BY MR. SAYLER:

21 Q Good morning, Mr. Johnson. How are you?

22 A Good morning. I am good.

23 Q In your rebuttal testimony, you provide  
24 support for having redundancy of telecommunications, is  
25 that correct -- or internet access?

1           A     Yes, I do.

2           Q     Now, is it two voice lines or two internet  
3     lines? I don't understand. What are you -- what do you  
4     need?

5           A     We are requesting a fiber circuit, and on that  
6     fiber circuit, we will not only have internet  
7     connectivity, but we will also have voice.

8           Q     All right. And that is through AT&T?

9           A     That is through AT&T.

10          Q     But then you are also asking for redundancy  
11     through Comcast, is that correct?

12          A     We currently have Comcast.

13          Q     You currently have Comcast?

14          A     We are not asking for that. We currently have  
15     that.

16          Q     Now is that for internet or internet and  
17     voice?

18          A     Yes. Currently, we are using Comcast service  
19     for interest and voice.

20          Q     So you will discontinue the voice after you go  
21     to AT&T?

22          A     Yes. If we have voice operating on AT&T,  
23     there is no need to have the voice part of it.

24          Q     All right. And how reliable has Comcast been  
25     recently?

1           A     Not too reliable. After the hurricane,  
2     Comcast was down for the better part of a month, and  
3     then off and on there has been outages since.

4           Q     All right. How was the reliability before the  
5     hurricane, spotty as well?

6           A     Spotty as well.

7           Q     Okay. And that would be for both phone and  
8     internet?

9           A     Yes.

10          Q     Okay. And if you will turn to Exhibit CAJ-36  
11         of your rebuttal testimony, and that is the letter from  
12         Information Technology Solutions, LLC, when you get  
13         there.

14          A     Yes, sir.

15          Q     All right. On this, it says it was  
16         received -- or dated May 17th, 2017. Do you see that?

17          A     Yes, I do.

18          Q     And it is from Information Technology  
19         Solutions, and that is a local, I think, installer of  
20         fiber or telecom communications systems and services  
21         here in Key West, who are they?

22          A     They are an IT consulting company based in Key  
23         West, and this is the principal of the company and owner  
24         of the company Herbert Ramirez.

25          Q     Was this document that you have attached to

1       **your testimony addressed to you or to KWRU?**

2           A     It was addressed to me.

3           Q     **Where on there does it show it's addressed to**  
4       **you?**

5           A     On the document, it says, to whom it -- to  
6       whom it concern.

7           Q     **All right. So it's not personalized?**

8           A     It's not personalized.

9           Q     **So it looks like a generic solicitation**  
10      **letter, correct?**

11          A     This is our IT consultant who does work on our  
12       computer systems. This was given to me personally. He  
13       said, I recommend doing this. I am going to write you a  
14       letter explaining why, and then he followed up with this  
15       exact letter.

16          Q     **So he personalized it to Mr. Johnson as to**  
17      **whom it may concern, correct?**

18          A     (Witness nods head in the affirmative.)

19          Q     **All right. So why didn't you include this**  
20      **letter dated May 17th with your direct testimony?**

21          A     I don't know the answer to that, other than I  
22       can tell you when I prepared my direct testimony, we  
23       were moving offices. In that time, we moved from our  
24       storm damaged office, to a temporary office, to a second  
25       temporary office. It was a little hectic.

1           Q     **So you forgot about this letter?**

2           A     I didn't put it in my direct testimony.

3           Q     **And how did you locate this letter for  
4 attaching it to your rebuttal testimony?**

5           A     I actually think it was in paper format, if I  
6 remember correctly. So I found the paper format at some  
7 point. Again, moving offices, boxes, packing up,  
8 unpacking; not to mention the volume of requests for  
9 this rate case causes me to have a lot more files in my  
10 office than I normally would, making it even that much  
11 more confusing and chaotic.

12          Q     **You would agree that the intervenors and staff  
13 were not sending you discovery before you filed your  
14 rate case, correct?**

15          A     No, correct.

16          Q     **Okay. Would you turn to CAJ-38?**

17          A     Yes.

18          Q     **It's identified as AT&T Cost Documents and  
19 Communications. Do you see that?**

20          A     Yes, I do. What page?

21          Q     **Just look at page one of 40.**

22          A     Okay.

23          Q     **If you look at page one, you would agree it  
24 says, Information Technology Solutions, LLC, correct?**

25          A     Correct.

1           Q     And they are the same person who sent you the  
2 generic letter back in is it May of '17?

3           A     Yeah, Mr. Ramirez. Yes.

4           Q     Okay. And if you turn to the next page, it's  
5 also from Information Technology Solutions, LLC, is that  
6 correct?

7           A     That's correct.

8           Q     Is this an invoice, or an estimate? What is  
9 it?

10          A     Page one of 40 is to install 100-foot cable  
11 runs and basically set up the communications backbone  
12 that will reside in the new office.

13          Q     Okay. And this -- let's see. And this is for  
14 the fiber -- AT&T fiber that you want for the new  
15 modular office once that new modular office is put  
16 in-service, correct?

17          A     Correct. This would provide voice, data, the  
18 entire backbone for that office.

19          Q     And you are hoping to have the new office  
20 installed by December of 2018, is that correct?

21          A     I am, or sooner, as Mr. Pabian indicated  
22 yesterday.

23          Q     Okay. And then after that's installed is when  
24 you want -- you are going to do the AT&T fiber; correct?

25          A     The fiber would go in at some point before the

1 building is completely finished because the fiber may  
2 reside under floors and walls, et cetera. So putting  
3 that in kind of ahead of time, getting it wired in is  
4 how that will proceed.

5 Q So the goal is to have it in service about the  
6 same time, correct?

7 A Yes, before the office is occupied, it should  
8 have a working communication and data system as part of  
9 that.

10 Q All right. And this document, I see it says  
11 totals of 7,000 and 5,500 on those two pages; correct?

12 A Correct.

13 Q All right. And this is information that you  
14 are relying upon to support the expense of the AT&T  
15 fiber in your testimony, correct?

16 A Correct.

17 Q All right. And these are dated April 7th of  
18 2018, is that correct?

19 A Correct.

20 Q And that was generated a few days before you  
21 prefilled your testimony, is that correct?

22 A I don't know the exact date I prefilled.

23 Q Subject to check, it was April 11th?

24 A Yes.

25 Q All right. And underneath, where it says,

1       **date, April 7th, 2018, you would agree it says this**  
2       **price expires April 21st; correct?**

3           A     That is what it says.

4           Q     All right. So all this information that you  
5       **are relying upon to support this cost is no longer good**  
6       **cost information because it's expired, correct? If you**  
7       **don't know, that's fine.**

8           A     The proposal says it's expired. I believe  
9       that Mr. Ramirez would honor these costs at this point  
10      in time.

11          Q     **But you don't know?**

12          A     I have not discussed it with him.

13          Q     **Thank you.**

14           **Would you turn to page five and six of your**  
15       **rebuttal, please?**

16          A     Yes.

17          Q     All right. Here, on these pages, you discuss  
18       **the additional cost for the wastewater treatment**  
19       **rehabilitation work that was not included in your**  
20       **original filing, is that correct?**

21          A     Do you want me to paraphrase my response? Is  
22       that what you want me to do?

23          Q     Well, these are for additional costs for  
24       draining the tank, hauling away steel catwalks, vertical  
25       members, horizontal members and other items, correct?

1           A     There is a number of items that are discussed,  
2     yes.

3           Q     **Okay. But these are costs that were not**  
4     **included with the contract with Evoqua to perform that**  
5     **rehab work, correct?**

6           A     Specifically the cleaning of the tanks is in  
7     the Evoqua contract as an item outside of the Evoqua  
8     scope. Therefore, the work needs to be done by, quote,  
9     unquote, others.

10           And as I stated in my opening summary  
11     statement, the intention is for the utility in-house  
12     staff to actually perform the labor; but since the  
13     utility does not have a septage truck and we are not  
14     licensed to haul septage, we do have to rent outside  
15     contractors who have these licensed septage hauling  
16     trucks to haul our sludge up to the appropriate facility  
17     in Miami.

18           Q     **All right. Septage meaning sludge?**

19           A     Sludge.

20           Q     **The stuff at the bottom of the tank?**

21           A     Correct.

22           Q     **The really clean --**

23           A     The nice stuff.

24           Q     **Yeah, all right.**

25           **What about the hauling away of the steel**

1       **catwalks, vertical members, horizontal members, is that**  
2       **a change order to that rehab project, or is that**  
3       **something else that was to be done by utility personnel?**

4           A       That is an identical circumstance. It is an  
5       item in the Evoqua scope that is an exclusion to be done  
6       by others. The utility would provide the four  
7       dumpsters.

8           Q       Okay. And so in your contract with Evoqua,  
9       you knew that these were additional expense items when  
10      you filed your direct testimony, correct?

11          A       When I filed the direct testimony, yes, I did.

12          Q       All right.

13          A       That was in the contract.

14          Q       But you did not include an estimate for the  
15      pumping out of the tanks, correct?

16          A       I did not include that with the cost.

17          Q       Nor for hauling away steel, vertical members,  
18      horizontal members and other items?

19          A       That was not included was well.

20          Q       And you have prior experience rehabbing  
21      wastewater treatment tanks, correct?

22          A       I have been around the utility while plants  
23      were being rehabbed, yes.

24          Q       And so when you converted to AWT in 2010, that  
25      was also the time you did a partial rehab; correct?

1           A     Yes.

2           Q     All right. So you knew that you would have  
3     to, once it was pumped out a certain amount, you would  
4     need to get some sludge hauling to take care of that  
5     remaining four feet of sludge in the tanks, correct?

6           A     A similar process was utilized at that time.

7           Q     And even though that was a known and  
8     measurable cost, you didn't include it in your direct  
9     testimony, correct -- or known and estimatable cost?

10          A     Well, at the time I filed, having a staff to  
11     perform the work was in question. As I testified a few  
12     minutes ago, right after the hurricane, we lost three  
13     members of our staff. It was a taxing time for a lot of  
14     people because of their personal circumstances. Luckily  
15     we only lost three, and we are able to do this work, but  
16     I did not file a line item for this work when I filed my  
17     direct testimony.

18          Q     Okay. Now, the other day when we were having  
19     our discussion in direct, I believe you testified you  
20     were a general contractor in the past; is that correct?

21          A     I said that I am a partner in a general  
22     contractor firm, in the past, yes.

23          Q     Okay. So you were not personally licensed as  
24     a general contractor?

25          A     I am not the qualifier, yes.

1           Q     **What does that mean?**

2           A     The qualifier is the person that gains the  
3 licensure.

4           Q     **All right. And who was the qualifier?**

5           A     James K. Johnson.

6           Q     **Who is that?**

7           A     That is my father.

8           Q     **Okay. And so you and your father, you have  
9 built projects in the Keys for years, correct?**

10          A     Correct.

11          Q     **But you haven't built anything since 2013,  
12 2014?**

13          A     It's been a while, yes.

14          Q     **All right. So -- but you are pretty much  
15 familiar with what the general contractor does, what  
16 they are responsible for, they bid out the project, they  
17 hire the subs, they do the work for the owner and they  
18 are ultimately responsible, correct?**

19          A     We've had general contractors working for the  
20 utility, so I am familiar with general contractors.

21          Q     **All right. So if a general contractor forgot  
22 to include a reasonable and knowable or estimatable cost  
23 that a contractor building is something, what do you  
24 think would happen? Do you think you would have a very  
25 happy client if there is new costs added to that**

1       **contract?**

2           A     It's really difficult for me to answer that  
3     question. I don't know what would happen.

4           Q     **All right. Would the contractor have to eat  
5     some or all of those costs?**

6                   MR. SMITH: I am going to object to the  
7     relevance of this line of questioning.

8                   MR. SAYLER: I am getting there.

9                   MR. SMITH: This is speculative. What does  
10    the happiness of a contractor in a proceeding that  
11    has nothing do with this contractor in this  
12    proceeding?

13                  COMMISSIONER POLMANN: Mr. Sayler, if you are  
14    trying to establish predicate, could you do so more  
15    directly, or try a different tact?

16                  MR. SAYLER: Certainly.

17    BY MR. SAYLER:

18                  Q     **So unlike the situation when dealing with a  
19    private contractor, if the utility bidding out a project  
20    forgets something, the customers are the ones ultimately  
21    responsible for that additional cost, correct?**

22                  A     Again, I am not sure how the problem gets  
23    resolved. There is a variety of ways things like this  
24    can get resolved. Change orders can be created. Other  
25    things like you suggest could happen. There is just no

1 way to know.

2 Q Okay. And as the President of this utility,  
3 you have had some experience providing oversight for the  
4 various different projects you have had in the last --  
5 since 2009, correct?

6 A I have not been the general contractor of the  
7 expansion, for example, Wharton Smith was, they were the  
8 general contractor. However, as the President of the  
9 utility, I did have interactions, attend progress  
10 meetings and this kind of activity, yes. If that's your  
11 question, I am involved to that capacity.

12 Q Okay. Would you turn to page 23 of your  
13 direct -- or rebuttal testimony, lines eight through 11?

14 A Yes.

15 Q Okay. Line eight, your testimony says: The  
16 utility will have a significant increase in materials  
17 and supplies with a fully staffed maintenance group, and  
18 this should be beneficial to the operation and  
19 efficiency of the utility, and it should also help  
20 reduce the number of projects that require outside  
21 subcontractors at a cost savings to the utility. Do you  
22 see that?

23 A Yes, I do.

24 Q Please explain or provide some support for the  
25 required materials and supplies you were speaking about.

1           A     Yes. What I am referencing here is when the  
2       utility has a full complement of maintenance staff,  
3       there are other projects the utility can take on that  
4       would otherwise be done by third parties.

5                   A couple examples recently that come to mind  
6       are the utility's piping, which is comprised of PVC  
7       material mostly. PVC is susceptible to UV, and thus  
8       needs to be painted. The utility had a lot of PVC  
9       piping on the property that wasn't painted, or the paint  
10      was coming off and it needed to be repainted. The  
11      utility solicited a bid for \$50,000 from a local  
12      painting contractor to do that work. The local  
13      contractor didn't have wastewater industry specific  
14      training. The utility felt the in-house staff could do  
15      that same work and at a large cost savings to the  
16      utility.

17                  And this is also similar to, as we discussed a  
18       minute ago, the taking down of the plants. Taking the  
19       wastewater plants off-line, our engineer tells us, based  
20       on the Area 5 Marathon project, would be an outside  
21       labor cost of \$50,000 or more based on our plant size  
22       compared to theirs, and the fact that we are going to  
23       have more debris due to our screening process.

24                  Again, this labor cost of \$50,000 is going to  
25       be much less if we use our in-house staff. So just

1 another example of how having an in-house staff can take  
2 care of projects that others would do, and we can also  
3 take care of the projects on our timeline, as we can get  
4 to them, as they present themselves. Sometimes without  
5 the budgetary apparatus in place, projects don't get  
6 done exactly when they should, and this will give us the  
7 ability to do that with this level of staffing.

8 Q Okay. So you expect some cost savings,  
9 correct?

10 A Yes.

11 Q And where are those expected cost savings  
12 reflected in your filing?

13 A That I don't know.

14 Q Would you turn to page 12 of your testimony,  
15 line 21?

16 A Yes.

17 Q Here, you are talking about the new 350,000  
18 gallon per day treatment train, and then you testify,  
19 quote, on line 20: "This is not feasible since the new  
20 plant has come along," end quote. Do you see that?

21 A Yes.

22 Q Okay. Is the new plant you are referring to  
23 in context that third wastewater treatment tank, that  
24 new one, or is it a replacement of an old one?

25 A The treatment plant that I am referencing in

1     this text is the plant expansion project that was put on  
2     line in March of 2017 --

3               **Q      Okay.**

4               A      -- which was the same one -- the same project  
5     that was the subject of the last rate case.

6               **Q      All right. Is that new plant going to be more**  
7     **efficient than your old plants?**

8               A      It will probably be more efficient, yes.

9               **Q      And that's because it has newer technology and**  
10     **newer systems?**

11              A      Slightly newer technology. I don't know that  
12     the difference will be that great, but new equipment  
13     should be more efficient than old equipment. I will  
14     state that clearly.

15              **Q      Okay. And when you rehab the older tanks, you**  
16     **expect them to have some additional efficiency?**

17              A      Not really, and the reason is the rehab of the  
18     existing East and West plants is primarily steel and  
19     structural work, so we are not putting in whole new  
20     blower systems. We are not putting in whole new pumping  
21     systems. The mechanical things like, that that's where  
22     you are going to get your efficiencies, and the Evoqua  
23     scope doesn't replace those kind of things.

24              **Q      Did you do a cost benefit analysis of whether**  
25     **or not to replace those items to get additional**

1       **efficiencies for the benefit of customers?**

2           A     We do have a plan to replace the blowers on  
3     the East and West treatment trains in the future;  
4     however, that is not a capital project budgeted for and  
5     planned for this year.

6           Q     Okay. Please turn to page nine, lines 12  
7     through 14 of your testimony -- rebuttal testimony.  
8     Here, you talk about how you selected a Generac Magnum  
9     Mobile Generator. I believe you referenced that in your  
10    summary, is that correct?

11          A     I responded in my rebuttal to Mr. Woodcock as  
12    we hadn't purchased one at the time, and in between my  
13    two submissions, between my direct and my rebuttal, we  
14    had purchased one. I was just pointing out that the  
15    purchase had been made.

16          Q     Okay. And the new generator is a little over  
17    \$57,000, correct?

18          A     That is correct.

19          Q     And you are requesting an additional 21,000  
20    for a backup generator, correct -- in expenses, 21,000  
21    in expenses for a backup generator? If you look at page  
22    10 of your rebuttal, line seven. Excuse me, let me  
23    rephrase that question.

24                    You are requesting a change from six months  
25    rental to 11 months rental, from 11,000 to 21,000,

1      **correct?**

2            A      That is correct. Yes.

3            Q      **All right. And that's because your new backup**  
4      **generator cannot be delivered prior to July?**

5            A      I am not sure about the delivery date, but it  
6      is extending from the six months to the 11 months. And  
7      that date was chosen based on the manufacturer's  
8      manufacture date and delivery date, which they provided  
9      to us.

10          Q      **All right. And the -- in your direct**  
11         **testimony, you include about \$83,000 for the backup**  
12         **generator, do you recall that? On your --**

13          A      I know it was more.

14          Q      **Okay.**

15          A      It was a higher cost generator than this one  
16      that we shopped and bought eventually. I can give you  
17      that it was a higher cost generator.

18          Q      **Okay. And what was the basis for that**  
19         **original estimate, and why did it go down so much?**

20          A      The original generator was priced out right  
21      after the hurricane. We shopped, we engaged lots of  
22      suppliers. At that particular point in time after the  
23      hurricane hit, you could not get a generator person to  
24      call you back. In fact, the voice mail was full. And  
25      these are people that I have dealt with over the years,

1       that I know personally and have a relationship with.

2                   We did our best to price out a unit that would  
3       serve our needs, and we did so. In the ensuing time, we  
4       continued to shop, and we ended up getting a better deal  
5       for a unit that we feel suits the utility's needs  
6       perfectly, provides the warranty that the utility needs  
7       and will service all of our equipment.

8           Q     All right. On -- would you turn to page 13 of  
9       your rebuttal, where you agree with Mr. Woodcock, page  
10      13, line 17?

11       A     Okay.

12       Q     All right. Here you -- I agree with Mr.  
13       Woodcock that -- excuse me, I have got the wrong line  
14       number, but your testimony says: I agree with Mr.  
15       Woodcock that the necessary prerequisite for maintaining  
16       adequate maintenance program and ensuring smooth and  
17       proper operations requires a staffing level of 14  
18       employees. If I recall correctly, that's what you  
19       testified to, correct?

20       A     Yes, I see that.

21       Q     All right. Can you point where in Mr.  
22       Schultz's testimony he stated -- excuse me, Mr.  
23       Woodcock's testimony where he state that KWRU needed 14  
24       employees to accomplish this?

25       A     When I am reading this, I am reading this as

1 commentary from the site visit that Mr. Woodcock had to  
2 KW Resort Utilities.

3 Q All right. Isn't it true that Mr. Woodcock  
4 did not opine on the number of employees that you would  
5 need to accomplish this?

6 A I don't know if he mentioned the number of  
7 employees, but there was a discussion about number of  
8 employees.

9 Q All right. Okay. If you look at page 11 of  
10 your testimony, lines 4 and 5, you state that if Mr.  
11 Schultz's testimony is accepted and staffing must be --  
12 if his testimony is accepted and staffing must be  
13 reduced by four employees -- do you see where you talk  
14 about a four-employee reduction?

15 A Yes, I do.

16 Q All right. And then you turn to the next  
17 page, page 12, line nine through 10 of your rebuttal,  
18 quote, it says: Witness Schultz has testified that  
19 KWRU's staffing should be reduced by four employees. Do  
20 you see that?

21 A I do.

22 Q Isn't it true that Mr. Schultz did not say you  
23 must lay off four employees?

24 A In his testimony yesterday, I think we were a  
25 little confused at first, but I think we now understand

1       that he is actually recommending 11 employees.

2           Q     Okay.

3           A     But his way of presenting it was confusing.

4           Q     All right. Staying on page 12, line 18.

5                   Line 18, you testify: If Mr. Schultz is  
6       correct, vacancies should be accounted for, KWRU would  
7       request 18 employees. KWRU intends to be fully staffed  
8       at all times moving forward.

9                   In your statement, KWRU intends to be fully  
10      staffed at all times moving forward, I would like to  
11      focus on two things. You used the word intends in your  
12      testimony. Do you see that?

13           A     Yes, I do.

14           Q     All right. Has KWRU ever intentionally been  
15      understaffed in the past?

16           A     I wouldn't say that intentionally.

17           Q     But you would agree it has been understaffed  
18      in the past, correct?

19           A     There have been times where there has been  
20      open positions, correct.

21           Q     All right. On the same page, lines 12 and 13,  
22      page 12, quote: "Mr. Schultz is not a licensed  
23      wastewater operator or engineer, nor does he have any  
24      experience in operating an AWT DEP permitted wastewater  
25      treatment plant." Do you see that?

1           A     Yes, I do.

2           Q     **Is it your opinion that only someone who is a**  
3     **wastewater treatment plant operator and engineer can**  
4     **evaluate the reasonableness of costs associated with**  
5     **operating a waste water treatment plant?**

6           A     When it comes to assessing the number of  
7     employees it would take to operate a facility, I believe  
8     it takes more than an analysis of books. So in that  
9     regard, yes, it takes more than just books. I will give  
10    an example.

11               Mr. Schultz says the utility should run with  
12    11 people. Let's look at the utility staff. Out of 11  
13    people, you have two officers. You have an accountant.  
14    You have a billing person and you have an admin person.  
15    So that leaves six people now to be in the field. Two  
16    of those people are on the plant, one the licensed  
17    operator, one maintaining that equipment. What does  
18    that leave? A couple people.

19               If you have a problem in the collections  
20    system, with three people, you are going to go out and  
21    solve a problem that you need two flaggers, maybe three  
22    flaggers, somebody to dig a hole and somebody to make a  
23    repair, this just can't happen. This is a not an  
24    adequate number of people.

25               Having an understanding of the business beyond

1 accounting. Accounting is important, but having a full  
2 understanding, that is the point I was making.

3 Q All right. But you would degree, yes or no,  
4 that you are response is limited to the number of  
5 staffing, number of employees, correct?

6 A My response was to the reduction of staffing  
7 that Mr. Schultz proposed.

8 Q So you would agree that a non-engineer, a  
9 non-wastewater treatment plant operator, can evaluate  
10 the reasonableness of costs and other things associated  
11 with a wastewater utility, correct?

12 A There are other things an accountant can  
13 certainly evaluate. Yes, I would agree with that.

14 Q And you have retained an accountant to help  
15 you with those things?

16 A We do have accountants, yes.

17 Q All right. Now, you have a degree in  
18 engineering, correct?

19 A Correct.

20 Q And did you obtain your professional  
21 engineering license?

22 A No, I did not. I have EI degree in Illinois,  
23 the state of Illinois, so I am Licensed Engineer Intern  
24 with the State.

25 Q Okay. And what engineering discipline did you

1       **have?**

2           A     I studied electrical engineering.

3           Q     **EE?**

4           A     Double E, yes.

5           Q     **All right. So do you need to have wastewater**  
6     **treatment operating experience to evaluate the employee**  
7     **compensation levels?**

8           A     You do not specifically.

9           Q     **What about pension plans?**

10          A     You do not specifically, no.

11          Q     **And I have got a couple more questions then I**  
12     **am moving on.**

13                 **So having a degree in law or marketing, you**  
14     **can still be able to evaluate the reasonableness of**  
15     **costs for a wastewater treatment plant?**

16          A     It depends on the individual.

17          Q     **In your rebuttal testimony, you testified how**  
18     **the company bought a used service truck with a crane.**  
19     **Do you recall that? It's on page 27 of your testimony.**

20          A     I do recall that, yes.

21          Q     **All right. Just two general questions.**

22                 **You mentioned how the engine locked up. How**  
23     **long after purchasing it did the engine lock up?**

24          A     We have some exhibits of when we did the  
25     towing in here. I could find the exact dates if you

1 would like.

2 Q I don't need the exact dates.

3                   Was something that was a preexisting condition  
4 or was that somebody forgot to put the oil plug in? I  
5 mean, what was --

6 A No.

7 Q -- the cause that the engine locked up?

8 A It wasn't the result of some sort of  
9 maintenance that didn't happen. In fact, the utility  
10 paid a Ford inspector to inspect the Ford truck. So we  
11 did our due diligence in purchasing it, that doesn't  
12 mean if you send an expert to look at a piece of  
13 equipment that that piece of equipment is guaranteed to  
14 work. Things happen.

15 Q Did the inspector give you any kind of  
16 warranty?

17 A No. This was an as-is used truck purchase.

18 Q Okay. So once this service truck with the  
19 crane is back in service, you won't need to rent crane  
20 trucks in the future, correct?

21 A This truck is back in service. It does not  
22 mitigate the need for full-size cranes.

23 Now, let me explain this crane truck is. This  
24 crane truck is a standard utility body truck, which is  
25 probably the truck that everyone is visualizing in their

1 mind, with the bins on the side, a bed in the back --

2 Q **350 engine block?**

3 A It's got a 10-foot to 12-foot type reach,  
4 depending on load. You are not going to use this  
5 machine to get up on the plant. In fact, within the  
6 last three weeks, we had to rent a ball to pull out --  
7 which is a forklift machine -- to pull out a backwash  
8 pump from our south chlorine contact chamber.

9 So this truck can't do every project, or every  
10 job for the utility. It certainly will do a lot more  
11 than -- will enhance our capability more than we had in  
12 the past.

13 Q **Thank you.**

14 **Turning to page 17 of your rebuttal -- and you**  
15 **were here yesterday when Mr. Pabian testified?**

16 A I was here, yes.

17 Q **On page 17 of your rebuttal, you claim it was**  
18 **a, quote, "scrivener's error" in the contract of**  
19 **Mr. Pabian and that's why PP Keys, LLC, was listed,**  
20 **correct?**

21 A Correct.

22 Q **All right. And CAJ-34 attached to your**  
23 **rebuttal is that revised and updated contract with**  
24 **Pabian Outdoor-Southeast, correct?**

25 A This one in my rebuttal is not the corrected

1 one. This is the original.

2 Q Why haven't you attached the corrected one to  
3 your rebuttal?

4 A I am not sure.

5 Q You were here when Mr. Pabian testified that  
6 the contract was revised about three weeks after it was  
7 executed, correct?

8 A Correct.

9 Q All right. And you would agree that it was  
10 revised about three weeks after it was executed?

11 A I really don't remember the exact date of when  
12 it was revised. I just remember --

13 Q You don't doubt his testimony, do you?

14 A I am sorry?

15 Q You do not doubt Mr. Pabian's recollection, do  
16 you?

17 A Oh, no, I don't doubt his recollection. No.

18 Q Okay. And you would agree that three weeks  
19 after October 19th was a couple weeks before you filed  
20 your direct testimony in this case; is that correct?

21 A Can you give me the date the direct was filed?

22 Q I want to say it was --

23 MR. SMITH: For the record, it was

24 November 21st.

25 BY MR. SAYLER:

1           Q     **November 21st.**

2           A     Okay, yes.

3           Q     **Okay. And you would agree that you initialed**  
4     **that revision to that contract, correct?**

5           A     The revised contract?

6           Q     **Yes.**

7           A     I did initial it, yes.

8           Q     **All right. And did you initial that revised**  
9     **contract after consulting with your legal department?**

10          A     Yes, I did.

11          Q     **Would any fees associated with -- legal fees**  
12     **associated with reviewing that contract, is that part of**  
13     **this rate case, is it rate case expense or is it part of**  
14     **your general contractual legal services; do you know?**

15          A     Exactly where that line item went, I don't  
16     know.

17          Q     **So you don't know how it's booked or charged?**

18          A     I don't know how we booked it.

19          Q     **Okay. Fair enough.**

20                 **And you would agree that, according to your**  
21     **testimony today, you learned that the correct name**  
22     **should have been Pabian Southeast --**

23          A     Outdoor-Southeast, Inc.

24          Q     **Right, sometime in November of last year,**  
25     **correct.**

1           A     Whenever it was that signed it, yes, and  
2 shortly there before that time.

3           Q     Okay. And you would agree that in all of your  
4 discovery responses related that contract, you kept  
5 referring to it as PP Keys, LLC, correct?

6           A     In my testimony here?

7           Q     In responses to discovery to Public Counsel,  
8 to Monroe County, to the staff, questions about that  
9 contract always referenced PP Keys, LLC.

10          A     I continued using that even when I was aware  
11 of the name change, and I said that just for clarity.  
12 The question was asked did PP Keys do this? I said,  
13 keeping with that name, yes, they did this.

14          Q     Okay. So at the time you filed your rebuttal  
15 testimony, you knew that the March 31st date was no  
16 longer valid, correct, the delivery date for the  
17 modular?

18          A     Yes.

19          Q     And you did not seek to have that date  
20 revised, correct?

21          A     I did not. I was aware of Hurricane Harvey,  
22 Hurricane Irma, Hurricane Maria, that this was an  
23 unprecedented time. And I think you heard yesterday,  
24 it's not a free market anymore to buy a modular. There  
25 is allocations. There is restrictions in place that's

1 made this market unusual.

2 I think you heard Mr. Pabian say he's been  
3 doing this since the late '80s. This is a whole new  
4 world because of this. I think it's common sense to  
5 understand that, given what happened, a manufacturer  
6 that specialized in 180-mile-an-hour wind rated  
7 structures is going to have a backlog given the amount  
8 of structures that were damaged and destroyed; not just  
9 here, but Marco Island, Houston, all over.

10 Q My question wasn't that. Did you -- you knew  
11 it wasn't good anymore and you still didn't change it?

12 A We didn't ask -- no, we didn't.

13 Q Thank you.

14 Now, yesterday, when Mr. Pabian testified, he  
15 said that the design was sent out for bid. Do you  
16 recall him testifying to that?

17 A Yes, I remember him saying that.

18 Q Do you recall what date he sent that out for  
19 bid? Do you recall -- I don't think he said what date  
20 it was.

21 A If he did say, I don't recall the exact date.  
22 I am sorry.

23 Q All right. On your -- during your deposition,  
24 you testified that Pabian had not sent to it out to bid,  
25 do you recall that?

1           A     Do you have my deposition that I could see?

2           Q     I do, but I don't necessarily need it.

3                   Well, let me ask you this: Do you recall  
4 indicating that you would have sign-off approval on  
5 anything on a contract before it was executed, correct?

6           A     Yes. My understanding was, once the design  
7 was sort of finalized and we knew what design we were  
8 going to use, he would bring it to us, we would review  
9 that design and make sure that it meets our needs.

10          Q     And have you gotten that quote from Mr. Pabian  
11 yet?

12          A     No, we haven't seen the finalized design yet.

13          Q     All right.

14          A     He says it's coming very soon.

15          Q     All right. So -- and when you do receive that  
16 quote, you do plan to review it carefully to make sure  
17 that it complies with your requirements and is  
18 cost-effective, correct?

19          A     Yes, absolutely. Yes.

20          Q     And do you recall Mr. Pabian saying that he  
21 had already executed a contract with Champion for the  
22 delivery of your modular?

23          A     I do remember him saying that.

24          Q     Did you review and approve that contract  
25 before it was executed?

1           A     Not at this time, no.

2           Q     So you did not review it. Did anyone review  
3     it? Do you know if others have reviewed it?

4           A     Not that I am aware of. I don't know.

5           Q     Do you know if legal reviewed it?

6           A     No, I don't know.

7           Q     So isn't it true that Mr. Pabian has now bound  
8     KW to the cost of whatever he delivers to you, and you  
9     don't have the ability to challenge that any longer?

10          A     I haven't seen whatever he signed with whoever  
11     he signed it with, so I can't comment on what he is  
12     bound to or not. I can just say that my understanding  
13     was he would bring that engineering design to us when it  
14     was finalized, show us the final product and make sure  
15     we are happy with it.

16          Q     And then you would have sign-off on it?

17          A     Then we would say yes or no. Yes.

18          Q     All right. So how do you know that Pabian  
19     Outdoor-Southeast is the best, or even a reasonable  
20     price without obtaining bids from brokers?

21          A     We know what the not-to-exceed price is, and  
22     based on that, and what other people are paying for  
23     modular homes in the Lower Keys, we are pretty confident  
24     that we are getting a good deal.

25          Q     All right. So isn't it true you were simply

1 accepting his claims that he will provide you the best  
2 price and you don't have any way to independently verify  
3 that, correct?

4 A We constrained him to a maximum cost, so he is  
5 bound by that.

6 Q But you still don't have an independent way to  
7 verify that what he is providing to you is the best cost  
8 possible? Yes or no?

9 A I don't know how to answer that actually.

10 Q So you don't know?

11 A I don't know --

12 Q Okay.

13 A -- how to verify.

14 Q In your rebuttal to Mr. Schultz's -- backing  
15 up a little bit to questions about employees and  
16 employee reductions.

17 In your rebuttal to Mr. Schultz's testimony,  
18 did you take into account that he was actually  
19 recommending adjustments for vacant positions that the  
20 company historically has had?

21 A Yes, I knew that he was considering the  
22 vacancies.

23 Q All right. Let's turn to page 19 of your  
24 rebuttal.

25 On page 19, starting at line 21, you talk

1       **about a bad debt expense, and you are rebutting where**  
2       **Mr. Schultz provided testimony about bad debt expense.**  
3       **Do you see that?**

4           A      I do.

5           Q      All right. If you turn to the next page, you  
6       talk about how, in your opinion, you don't think it's a  
7       good idea to submit bad debt expense claims to an  
8       attorney. That would be throwing good money after bad.  
9       **Do you see that on line nine?**

10          A      Yes, I do.

11          Q      **Are you testifying it's throwing good money**  
12       **after bad to hire attorneys?**

13          A      I guess I am.

14          Q      **I object.**

15               MR. WRIGHT: Overruled.

16               MS. HALL: Bart, you should be objecting more  
17       than they are.

18               MR. SMITH: Candidly, I think I feel sometimes  
19       needs that.

20       BY MR. SAYLER:

21          Q      All right. And this bad debt expense is  
22       related to the employee who defaulted on a loan  
23       agreement which covered his moving expense; correct?

24          A      That is correct.

25          Q      How often do you provide loan agreements to

1   **employees relocating to work with the company? Is it a**  
2   **common occurrence?**

3           A     Not very often. Three times, maybe, that I  
4     can recall off the top of my head. It's not often.  
5     It's certainly not the preferred way to hire an  
6     employee. Coming to the Keys from an outside place a  
7     lot of times doesn't work out. People are used to big  
8     houses, shopping malls --

9           **Q     Air conditioning.**

10          A     Air -- whatever they are used to, and the cost  
11        of living in the Keys is very high. We are limited by  
12       our school systems and our hospitals. There is all  
13       these reasons why people don't come. It is not a  
14       preferred way to hire an employee by any means, but  
15       there are certain times when it is difficult for an  
16       employee to leave a place with either a mortgage or rent  
17       in place, come to Key West with the high housing cost,  
18       first, last and security, give me seven grand. That's a  
19       lot of money. And then they have to pay for all the  
20       expenses to move their things here, pay for bulk  
21       storage, pay for storage lockers, because they had the  
22       bigger house wherever they came from.

23               It is difficult, and we don't like to do this,  
24       but in this case, would he needed an operator. Hiring  
25       operators is very difficult in the Keys. There is just

1       a shallow labor pool here. We offered the job to  
2       several other people, we were turned down. We had an  
3       imminent retirement of our lead operator, and we made  
4       this decision, and it turned out to not work out,  
5       unfortunately.

6           **Q       Okay. So based upon your testimony, you said**  
7       **you have done it three times in the past to provide a**  
8       **loan to the employee to relocate to the Keys?**

9           A       I am not sure if it was all loans, but there  
10      was some sort of assistance for relocation.

11          **Q       Okay. And other than this employee, did**  
12       **anybody else who got a loan default on that loan?**

13          A       Not that I can recall.

14          **Q       And page 20, where you talk about having to**  
15       **submit that bad debt to an attorney, would that be your**  
16       **contractual attorney, the Smith Hawks law firm, or would**  
17       **you send it to some other attorney that does debt**  
18       **collection? Hypothetically speaking, who would you send**  
19       **that to?**

20          A       We would, of course, probably work through our  
21      local attorney. This isn't an area maybe they  
22      specialize in, and they would probably refer us to an  
23      outside group, that being the case. This being a single  
24      collection for a small amount, we would have to  
25      establish a relationship, account, et cetera, and the

1       thought was, and still remains today, the cost of going  
2       after this judgment would be more than we would recover.

3           **Q       What about submitting this loss to a debt**  
4       **collector and allow them to seek repayment for at least**  
5       **some of your debt?**

6           A       There wasn't much hope that we would get much  
7       collected on this.

8           **Q       All right. You understand that it costs you**  
9       **nothing to submit your debt to a deb collector?**

10              MR. SMITH: Objection, assumes facts not in  
11       evidence.

12              COMMISSIONER POLMANN: Sustained.

13              Please move on, Mr. Sayler.

14       BY MR. SAYLER:

15           **Q       When it comes to other debt, or bad debt that**  
16       **the utility has, whether it's a customer not paying,**  
17       **what is your typical way of collecting those debts if**  
18       **you don't submit it to a debt collector?**

19           A       The debts remain on the books until the  
20       property is sold. We then, on the estoppel request, put  
21       the outstanding liability, and we are paid when the  
22       property changes hands.

23           **Q       All right. Is that true if it's a rental and**  
24       **it just goes from one renter to another?**

25           A       The owner would then pay for the outstanding

1       liability out of the security deposit that they  
2       maintained.

3           **Q       Okay. Even though the utility agreement is in**  
4       **the name of the renter, correct?**

5           **A       Well, the original contract, the quote,**  
6       **unquote, developer's agreement is with the owner.**

7           **Q       So if I, hypothetically speaking, I owned one**  
8       **rental property, and that renter needs to have service**  
9       **with your company, I, the owner, have to sign a**  
10      **developer agreement?**

11          **A       When you first hook up, and then you have a**  
12       **wastewater service agreement as the tenant.**

13          **Q       All right. On page 10 of your rebuttal, you**  
14       **talk about having 14 employees -- or excuse me, just let**  
15       **me ask you a general question.**

16           **Yesterday -- or was it yesterday? I can't**  
17       **remember. Tuesday, whenever I cross-examined you the**  
18       **first time, we established that you budgeted for 13.5**  
19       **employees, but you currently have 14, correct?**

20          **A       Correct. We have 14.**

21          **Q       And your payroll request in rebuttal assumes**  
22       **that you are going to have all 14 employees every day**  
23       **for the entire year, correct?**

24          **A       That's correct.**

25          **Q       So no vacancies at all?**

1           A     No vacancies.

2           Q     Now, throughout your cross-examination, you  
3       have testified that having a full complement of  
4       employees gives you more flexibility, correct, to handle  
5       things in-house?

6           A     Yeah. I think I said it gives us more  
7       operational capability with a staff of 14.

8           Q     All right. And if you didn't have any  
9       employees, you would need to contract that out, correct?

10          A     Certainly, there are some projects that we  
11       would be not able to take on with a lesser staff. It  
12       also goes to reactive versus predictive, maintenance, a  
13       lot of these issues come into play, overworking  
14       employees, the whole issue of employee turnover, it's  
15       all interrelated.

16          Q     All right. But you would agree that you have  
17       taken all outside contractor costs out of your rate  
18       case, correct?

19          A     No. There are always needs for outside  
20       contractors. We, as the utility, maintain 14 total  
21       employees, two officers, three administrative positions.  
22       We can't possibly have experts in every area of what it  
23       takes to -- we don't have licensed electricians. We  
24       don't have programmers that can program PLCs. There is  
25       plenty of specialties that we don't have in-house. We

1       are always going to have a need for these outside  
2       contractors.

3           **Q       So you are talking about craft labor,**  
4       **electricians, plumbers, things that your employees don't**  
5       **have skill for -- the training for?**

6           A       We have in-house ability to do plumbing and  
7       electrical to an extent. With electrical, National  
8       Electric Code, NEC, you want to be compliant with that.  
9       You want to have a licensed electrician doing certain  
10      work. We don't have a licensed electrician who is a  
11      qualifier working for us. We have people with knowledge  
12      of electric.

13              Same with plumbing. We have people that work  
14      for plumbing companies and have plumbing knowledge. Are  
15      they a qualifier? And the answer to that is we don't  
16      have a qualifier who is a plumbing contractor.

17              So we don't have in-house knowledge to do the  
18      operation and maintenance on our specific equipment;  
19      however, there are outside contractors that could  
20      provide still sets above and beyond what we have  
21      in-house.

22           **Q       Okay. I have one more question for you along**  
23       **this line of questions.**

24              **In the past, when you didn't have the full**  
25       **complement of employees, did KW -- excuse me, I am**

1       **assuming operational employees -- did KWRU forego**  
2       **maintenance needed, or have to hire outside contractors**  
3       **to perform that maintenance?**

4           A      We did have to hire outside contractors. And  
5       if we didn't have in-house maintenance to do -- skilled  
6       enough to do the work, that would only lead us in the  
7       direction of an outside contractor. And how quickly you  
8       get an outside contractor to your site, you are  
9       dependent on other people's schedules, availability and  
10      knowledge.

11                  We have some jobs that we cannot just bring  
12       any electrician in on. There is a very finite number of  
13       electricians that can do the kind of work that we need  
14       do. We use the same electrician that, when the City of  
15       Key West, during hurricane, had their generator fail.  
16       The gentleman who did that work, that's our electrician.  
17       He is a qualifier. He owns his own company and he has a  
18       skill set that we need.

19           Q      **When it comes to properly maintaining your**  
20       **system to stay in compliance with your DEP permit,**  
21       **operating permit, you were able to do that without a**  
22       **full complement of employees; correct?**

23           A      We have been able to do that, yes.

24           Q      **Let's see, let's talk about your chlorine**  
25       **contact chamber costs, page four of your rebuttal. I**

1 have a few questions about that. And also I am  
2 introducing an exhibit.

3 On page four of your rebuttal, you testify  
4 about the cost of housing increased for the chlorine  
5 contact chamber replacement project beyond what you  
6 initially estimated and included in your direct  
7 testimony, correct? I mean, you testified that housing  
8 costs are higher than anticipated, correct?

9 A Correct. What line are you on?

10 Q Excuse me, page five.

11 A Okay, I am sorry, yeah.

12 Q Line three, you state: There are additional  
13 expenses that have arisen. And you would agree that a  
14 large part of that increase was related to housing  
15 costs, correct?

16 A Yes. The housing anticipated 29,325 rose to  
17 61,271.

18 Q And you would agree that you mobilized for  
19 this project after Hurricane Irma damaged a chlorine  
20 contact chamber, correct?

21 A Correct. This project was given high priority  
22 after the damage was sustained, correct.

23 Q But you would agree that this was a project  
24 that was on your, quote, "to-do list," end quote, for  
25 capital projects, correct?

1           A     This was a known unknown project. It was on  
2     the radar screen, yes.

3           Q     **And it got moved to the front of the line**  
4     **because of the damage sustained by Irma?**

5           A     I would say yes to that. It got more  
6     immediacy because of the damage.

7           Q     **All right. And you are aware of the peak**  
8     **season for tourists for Stock Island and Key West,**  
9     **correct?**

10          A     Correct.

11          Q     **All right. And you also saw the damage that**  
12     **was caused by Irma to Stock Island in the housing,**  
13     **correct?**

14          A     Correct.

15          Q     **And you knew both of these things before,**  
16     **including this estimate in your prefilled direct**  
17     **testimony, correct?**

18          A     I certainly knew of the damage. Housing  
19     costs, I was not aware of at that exact point in time.

20          Q     **All right.**

21                MR. SAYLER: Commissioner Polmann, there was  
22     an exhibit I distributed called Chlorine Contact  
23     Chamber Expense.

24                COMMISSIONER POLMANN: Yes.

25                MR. SAYLER: And I would like to have that

1           identified as -- marked as Exhibit 136 for the  
2           comprehensive exhibit list.

3           COMMISSIONER POLMANN: Yes. We are at 136,  
4           and we will identify that as Chlorine Contact  
5           Chamber Expense for Office of Public Counsel.

6           (Whereupon, Exhibit No. 136 was marked for  
7           identification.)

8       BY MR. SAYLER:

9           **Q      All right. Would you take a moment and look**  
10     **at this exhibit, Mr. Johnson?**

11          A      Okay.

12          **Q      You would agree it's a discovery response to**  
13     **staff's fourth set of interrogatories, correct?**

14          A      Correct.

15          **Q      And in response to No. 80, it says: Please**  
16     **provide an update of all documents supporting, related**  
17     **to, or identified in the utility's response to staff's**  
18     **second set of interrogatories No. 42, including but not**  
19     **limited to all updated invoices and bids. Do you see**  
20     **that?**

21          A      I do.

22          **Q      So staff asked for an update to an earlier**  
23     **interrogatory, correct?**

24          A      It appears so with the context, yes.

25          **Q      And would you be the one sponsoring this**

1       **response?**

2           A     It would have been my staff, yes.

3           Q     Okay. And do you know when that discovery was  
4     served, or when you responded to that discovery?

5           A     I don't have any way of knowing, no.

6           Q     Okay.

7           A     Sorry.

8           Q     Would you turn to what is Bates-stamped KWRU  
9     020083?

10          A     Yes.

11          Q     It's a receipt from K-mart, you would agree?

12          A     Yes.

13          Q     And would CCC project be the chlorine contact  
14     chamber project?

15          A     Yes.

16          Q     And if you look at the line called General  
17     Merchandise, you see the first two items are \$359.98 and  
18     \$119.98?

19          A     Yes.

20          Q     You would agree that the utility bought two  
21     LED TVs and TV stands for the chlorine contact chamber  
22     project, correct?

23          A     The purchase wasn't for the project, per se.  
24     It was for the housing of the workers in the project,  
25     correct.

1           Q     All right. So this total \$843 was for  
2     **housing?**

3           A     For furnishing of the housing.

4           Q     Okay. And what happens to these two LED TVs  
5     **and other merchandise purchased for the housing once**  
6     **everything is demobilized?**

7           A     I am not exactly sure. However, my assumption  
8     is it will be sold, or if we have another project, we  
9     might use that. We took the housing out of the contract  
10    to save money, and we are saving money.

11                 So the \$100,000 housing allowance was reduced  
12    to something in the neighborhood of 60 some odd  
13    thousand. So there is a cost savings that the utility  
14    realized. You want to buy a TV, let me know. I don't  
15    know what we are going to do after the project is over.

16           Q     All right. Do you know when you expect to  
17    **demobilize from the --**

18           A     We do; however, I will say this, Erik, we  
19    could use these TVs in our conference room. Right now  
20    we don't have any. So for training -- safety training  
21    is a big thing that we do now, these will be helpful.

22           Q     Okay. We are in the home stretch.

23                 Would you turn to page three of your rebuttal?

24           A     I should also say my eyes aren't any good  
25    anymore, so a larger monitor might be nice for me.

1 Sorry, go ahead.

2 Q Well, then shouldn't that be expensed as  
3 opposed to capitalized?

4 A We will see. That's Debbie Swain.

5 Q All right. Here you are responding to Mr.  
6 Woodcock's testimony about Lift Station L2A replacement  
7 that was not competitively bid. Do you see that?

8 A Can you redirect me to the page again?

9 Q Page three.

10 A Yes.

11 Q And this is where you recount a conversation  
12 with the Wharton Smith contractor, Mr. Williams, about  
13 why Wharton Smith didn't initially bid on the L2A  
14 project, correct?

15 A Correct. I include his quote from an email  
16 where I asked him to refresh my memory; according to my  
17 memory, he didn't want to bid this, please tell me why,  
18 and that's his reason.

19 Q All right. And you are testifying that he  
20 said, we assumed our number would not be competitive  
21 with any local contractors; correct?

22 A He is saying that he didn't submit a bid due  
23 to the high cost of remobilization considering we  
24 already left the area. Consequently, we assumed that  
25 our number would not be competitive. So those are

1 Mr. Williams' words.

2 Q Okay. So you are repeating his words to the  
3 Commission today, correct?

4 A This is his explanation, yes.

5 Q All right.

6 A Yes.

7 Q And that is your rebuttal justification why  
8 you didn't seek a competitive bid for this project,  
9 correct?

10 A That is, yes.

11 Q All right. Generally, you would agree that  
12 Wharton Smith is more likely to bid on big projects than  
13 small projects, correct?

14 MR. SMITH: Objection, this calls for  
15 speculation. It's requesting what Wharton Smith  
16 would do.

17 COMMISSIONER POLMANN: Sustained.

18 BY MR. SAYLER:

19 Q In your experience, Wharton Smith does bigger  
20 projects, correct, like your chlorine contact chamber  
21 replacement project?

22 A I don't know. They were willing to bid twice  
23 on our generator project. That job was originally bid  
24 at 190 whatever, and then we reengineered it, did our  
25 value engineering and came in at 170 something. So what

1 do you consider a big job? I mean, I don't know your  
2 definition of big and small, but they are interested in  
3 doing jobs of different scales, provided it's within  
4 their mobilization area or suits their schedule.

5 Q **And they are the ones that constructed the**  
6 **350,000 gallon per day wastewater treatment plant tank?**

7 A Yeah, they were the general contractor.

8 Q **And they also did the, what was it, the vacuum**  
9 **tank that was replaced in the last rate case?**

10 A The vacuum tank was bid out. They were the  
11 low bidder, and it was then added on to that. It was  
12 sort of a separate contract, but because they were the  
13 low bidder and already mobilized, we utilized the  
14 existing contract, so that is correct.

15 Q **All right. And you did not invite Wharton**  
16 **Smith to bid on the rehab of the two existing plants,**  
17 **correct?**

18 A That's correct. That was a sole source bid.

19 Q **Let's see, if Wharton Smith wasn't interested**  
20 **in bidding this project, why didn't you seek bids from**  
21 **other local contractors for this project?**

22 A We thought using Beneway would be the best  
23 advantage to the utility because of the fact that they  
24 had done the lift station, which is the identical lift  
25 station, 300 feet away in 2014.

1               This lift station utilized those exact set of  
2 plans and was the exact same installation. So having a  
3 contractor who is familiar with the work, familiar with  
4 the local conditions, we thought, provided an advantage  
5 to just walking around the neighborhood and seeing who's  
6 available. There aren't a lot of local contractors that  
7 do underground work such as this.

8               **Q     So most of your invitations to bid are, I**  
9 **think you testified, walk-around-the-neighborhood**  
10 **contractors?**

11              A     We try to identify qualified contractors who  
12 can do the type of work, depending on the project. And  
13 if we identify a number of contractors that are  
14 qualified, a number of contractors will receive  
15 invitations. But lately, we have been turned down a  
16 lot. We've tried to seek bids from quite a few more  
17 contractors than that have submitted. Simply, Wharton  
18 Smith turned me down twice on this. I came back to them  
19 a second time and said no. So Wharton Smith doesn't  
20 want to do this L2A project.

21              There aren't -- our generator project, Bosford  
22 Builders looked at it and said, thanks, but no thanks.

23              Right now in the Keys, contractors are quite  
24 busy, they are not willing to do anything that's outside  
25 of their comfort zone.

1           Q     **Is this lift station in risk of catastrophic**  
2       **failure any day now, or does it just need to get**  
3       **replaced sooner than later?**

4           A     I would say your second, sooner rather than  
5     later.

6           Q     **And do you know if Beneway is still working on**  
7       **some other bid projects and they haven't gotten to your**  
8       **project, correct?**

9           A     Ideally, this week I would have spoke to them  
10    and figured out how to get them here quicker. I have  
11    been in these meetings. They are on another project.  
12    They are in Marathon; however, when I get done with  
13    these hearings, my first order of business will be to  
14    call them and find out when we can get them on-site.

15          Q     **All right. And you would agree that in an**  
16       **ideal world, getting actual bids from actual local**  
17       **contractors would be better than -- better support for**  
18       **the reasonableness of this bid than a conversation with**  
19       **Wharton Smith, who didn't bid on the project; correct?**

20          A     That was a lot of words there.

21          Q     **You would agree that actual bids from actual**  
22       **local contractors would be better than a conversation --**  
23       **better support for the reasonableness of this bid, or**  
24       **this contract, than a conversation with Wharton Smith,**  
25       **who didn't bid on the project; correct?**

1           A     It may be better support; whether you get a  
2 better job or not, I would definitely not agree to that.

3                   MR. SAYLER: Thank you, Mr. Johnson. No  
4 further questions.

5                   COMMISSIONER POLMANN: Thank you, Mr. Sayler.  
6 Monroe County.

7                   MR. WRIGHT: Commissioner, if I may, we have  
8 been going a while. I do have a moderate amount  
9 for Mr. Johnson. I would like to take a brief  
10 break. I need to give the staff a few more  
11 exhibits, and I need to tend to something personal  
12 momentarily.

13                  COMMISSIONER POLMANN: Okay.

14                  MR. WRIGHT: Thank you.

15                  COMMISSIONER POLMANN: Let's take 10 minutes.

16                  MR. WRIGHT: Thank you, sir.

17                  (Brief recess.)

18                  (Transcript continues in sequence in Volume  
19 7.)

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## 1 CERTIFICATE OF REPORTER

2 STATE OF FLORIDA )  
3 COUNTY OF LEON )

4

5 I, DEBRA KRICK, Court Reporter, do hereby  
6 certify that the foregoing proceeding was heard at the  
7 time and place herein stated.8 IT IS FURTHER CERTIFIED that I  
9 stenographically reported the said proceedings; that the  
10 same has been transcribed under my direct supervision;  
11 and that this transcript constitutes a true  
12 transcription of my notes of said proceedings.13 I FURTHER CERTIFY that I am not a relative,  
14 employee, attorney or counsel of any of the parties, nor  
15 am I a relative or employee of any of the parties'  
16 attorney or counsel connected with the action, nor am I  
17 financially interested in the action.

18 DATED this 29th day of May, 2018.

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DEBRA R. KRICK  
NOTARY PUBLIC  
COMMISSION #GG015952  
EXPIRES JULY 27, 2020

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