

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

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Docket No. 20170141-SU

REBUTTAL TESTIMONY

OF

DEBORAH D. SWAIN

on behalf of

K W Resort Utilities Corp.

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

2 A. My name is Deborah D. Swain. I am Vice President of Milian, Swain & Associates, Inc.  
3 and head up the firm's finance, accounting and management team. My business address is  
4 2015 SW 32<sup>nd</sup> Ave., Suite 110, Miami, Florida 33145.

5 **Q. Have you presented direct testimony in this case.**

6 A. Yes I have.

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

8 A. The purpose of my rebuttal testimony is to present information to refute some of the issues  
9 and arguments presented by Florida Public Service Commission witness Marisa Glover,  
10 Office of Public Counsel witnesses Helmuth Schultz and Andrew Woodcock, and Monroe  
11 County witnesses Terry Deason and Jeffrey Small.

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

13 A. Yes, I am sponsoring the following exhibits: Exhibit DDS-2, select updated schedules from  
14 MFR Volume I; Exhibit DDS-3. Stipulated Audit Finding 1 and COA booked by the  
15 Utility; Exhibit DDS-4, Table 1-1 from the 2014 Audit Report; Exhibit DDS-5, 2017 asset  
16 detail for pumping equipment; Exhibit DDS-6, current prime rate as published by the Wall  
17 Street Journal; DDS-7, Interest Paid on FPWC Escrow Account; and DDS-8, a list of my  
18 adjustments.

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

20 A. Yes they were, using information provided by KWRU staff or consultants.

21 **Q. What issues will you be addressing in your testimony?**

22 A. I address each witness one at a time, and cover the following issues:

23 FPSC Witness Marisa Glover

24 • Audit Report

25 OPC Witness Schultz

- 1 • Working Capital
- 2 • Accumulated Depreciation and Depreciation Expense
- 3 • Plant Retirements
- 4 • New Office Cost
- 5 • Five-Year Average for Certain Expenses
- 6 • Proforma Salaries and Benefits
- 7 • Hurricane Irma Costs
- 8 • Extraordinary Event Costs
- 9 • Capital Structure

10 OPC Witness Woodcock

- 11 • Adjustment to Proforma Plant

12 County Witness Small

- 13 • The appropriateness of projected test year billing units
- 14 • The calculation of projected test year billing units

15 County Witness Deason

- 16 • Matching Principle

17

18 AUDIT FINDINGS

19 **Q. Do you agree with the findings in the Audit Report prepared by FPSC Witness Marisa**  
20 **Glover?**

21 A. I agree with Audit Finding 4 and Audit Finding 5, but disagree with Findings 1, 2 and 3.

22

23 FPSC AUDIT FINDING 1

24 **Q. Please explain why you are not in agreement with Finding 1.**

25 A. Audit Finding 1 makes additional adjustments to plant, accumulated depreciation and

1 depreciation expense for commission ordered adjustment allegedly not made by KWRU  
2 from the prior case.

3 Audit Finding 1 in the prior case, Docket No. 150071-SU, found numerous corrections to  
4 entries recorded to utility plant accounts. KWRU filed a response to that finding on  
5 November 19, 2015. In the Order No PSC-16-0123-PAA-SU, the Commission agreed with  
6 the utility's objections, stating, - "In response to Audit Finding No. 1, the Utility disagreed  
7 with the removal of \$160,823 from plant and provided explanations and support for the  
8 inclusion of multiple transactions that occurred during 2007, 2008, and 2009. We agree  
9 with the Utility's explanations and the appropriate corresponding adjustments to increase  
10 plant and accumulated depreciation by \$160,823 and \$45,676 respectively shall be made."  
11 Although the PAA was protested, the Final Order reflects that all parties stipulated to  
12 adjusted Finding No. 1, and included a table identical to the table in the PAA order that  
13 reflects the agreed to amounts as they pertained to rate base (with the exception of  
14 working capital). The stipulation was \$817,240.

15 Table 1-1: 13-Month Average Adjustment

16 Although the level of detail regarding the calculations behind the stipulated amounts are not  
17 contained in the final order, it is appropriate to refer to the PAA Order to find those details.  
18 The pertinent issue is that the utility objected to adjustments included in the associated audit  
19 report in the amount of \$160,823, and the resulting amount was incorporated into the final  
20 order.

21 It appears that not all of the individual items included in that total of \$160,823 were  
22 considered in the audit report in this case. For example, the first line item detailed on page  
23 6, Account 361 Collection Sewers, indicates that the utility should have made an adjustment  
24 of \$140,054 but only made an adjustment of \$124,296. My Exhibit DDS-3 shows the  
25 detail of the adjustments argued by KWRU in Docket 15071-SU, the resulting

1 stipulated Finding 1, the adjustment booked by the utility. It then shows the 2017  
2 Finding 1 amount Witness Glover said was booked compared to what she claimed was  
3 actually booked. By reviewing my Exhibit, it is apparent that not all of the amounts and  
4 adjustments in that 2017 Audit Report are correct. It is also apparent that although  
5 KWRU booked all of the adjustments, the adjustments were not necessarily to the  
6 account determined in the audit for the last case. In some cases it is because the  
7 adjustment made by KWRU was to the account where the error actually resided, but in  
8 some cases, the entry was to the incorrect account. Exhibit DDS-4 is Table 1-1 which  
9 provides the detail extracted from the 2014 Audit Report for Audit Finding 1.

10 **Q. What adjustments, if any, should be made to Finding 1?**

11 A. Finding 1 should be reversed in its entirety.

12  
13 FPSC AUDIT FINDING 2

14 **Q. Please explain why you are not in agreement with Finding 2.**

15 A. Audit Finding 2 states that "Typically interest bearing accounts, such as these, are excluded  
16 from working capital unless the associated interest income is also included above the line in  
17 Revenues. The Utility did not include any interest income in revenues for this rate case.  
18 Therefore, average working capital should be decreased by \$20,160."  
19 However, the utility did include the income from deposits paid during the test year, as  
20 interest paid is a credit on the invoice for service from the provider. KWRU recorded only  
21 the net amount of the invoice as an expense on its books, having the same net effect as  
22 recording the interest as income.

23  
24 FPSC AUDIT FINDING 3

25 **Q. Please explain why you are not in agreement with Finding 3.**

1 A. Audit Finding 3 recommends an increase of \$20,789 in test year revenues -based upon a  
2 review of billing registers and billing history reports. Of that total adjustment, \$9,982 is due  
3 to a difference between the miscellaneous revenues in the MFRs and the amount reported  
4 on the utility's RAF report. However, \$9,623 of that is MCDC revenues that were incurred  
5 in the prior period (June 2016), and on the company books in June 2016, but inadvertently  
6 omitted from the RAF report as of June 30, 2016. This amount was included in the  
7 December 31, 2016 return. This amount, \$9,623 should not be an adjustment to test year  
8 revenues. Next, -after reviewing the audit workpapers, I do not agree with the adjustment of  
9 \$10,807 for measured residential (522.1) and commercial revenues (522.2) as it appears that  
10 no adjustments and/or credits to customer bills were considered.

11  
12 WORKING CAPITAL

13 **Q. Do you agree with OPC Witness Schultz' adjustment to cash in the calculation of**  
14 **Working Capital included in Rate Base?**

15 A. No. I do not agree with him that the utility has accumulated a significant amount of cash  
16 that is not readily needed to operate the Company on a daily basis. During the test year the  
17 utility was unable to meet its financial obligations on two occasions during the months of  
18 July and August 2016. In July 2016, the utility was unable to cover the costs of construction  
19 requiring a loan transfer in the amount of \$681,780 into its capital account. Additionally  
20 during the month of August 2016 the utility had to rely on capital contributions in the  
21 amount of \$530,000 to cover construction costs. The utility relied on capital contributions  
22 and draws from long term debt to cover its normal operating costs and construction costs  
23 during the test year.

24 Furthermore, in the last rate case, OPC claimed that the \$877,289 of cash included in  
25 KWRU's requested working capital was excessive, and in Order No. PSC-16-0123-PAA-

1 SU, Commission reduced the amount allowed in working capital by \$559,311. However, it  
2 is obvious that this assertion was inaccurate, the amount was not excessive, and in fact has  
3 continued and even slightly increased through the current test period.

4 KWRU has continued to struggle to obtain the cash needed for their operations and the  
5 sizable capital program they have in place. It is unfair to arbitrarily reduce cash because it  
6 is "not needed" when this is just not the case. The appropriate amount includable in working  
7 capital so that the utility can meet its financial obligations is \$911,826.

8 **Q. Do you agree with OPC Witness Schultz' that the 13-month average for deferred rate  
9 case expense for the last rate case is overstated?**

10 A. Yes, I agree with him that the 13-month average for deferred rate case expense for the last  
11 rate case on Schedule A-18 Page 2 of 2 is overstated and that the correct 13-month average  
12 less amortization should be \$408,931. I do not agree with the calculation of his  
13 recommended adjustment that working capital should be decreased by \$29,055. Omitted  
14 from Witness Schultz calculation is the Utility's adjustment on Schedule A-3 Page 2 of 2  
15 Line 14 adjusting working capital for 6 months amortization in the amount of \$(53,853). As  
16 agreed, the 13-month average for deferred rate case expense as presented in Witness  
17 Schultz testimony should only be adjusted for two months amortization, therefore working  
18 capital should be increased by \$24,798, as calculated below.

19	2015 Deferred Rate Case Expense OPC Balance - 13-month Average	\$ 408,946
20	2015 Deferred Rate Case Expense MFR Schedule A-18 - 13-month Average	\$ 438,001
21	Schedule A-3 Page 2 of 2 Line 14 Working Capital Adjustment for Unamortized	
22	rate case expense	<u>\$ ( 53,853)</u>
23	Deferred Rate Case Expense included in Working Capital	<u>\$ 384,148</u>
24	Working Capital Adjustment (additional)	<u>\$ 24,798</u>

25 **Q. Do you agree with Witness Schultz that Working Capital should exclude the "FPSC  
26 Escrow Funds"?**

27 A. No, I do not agree that working capital should be decreased by the 13-month average

1 balance of \$282,123 in the FPSC Escrow Account. Funds in this account represented  
2 43.94% of all utility revenues collected per Order No. PSC-16-0123-PAA-SU deposited  
3 into an interest bearing trust account as required. ~~KWRU was not given an opportunity by~~  
4 ~~the PSC to post a bond or any other kind of surety, which would have alleviated the need~~  
5 ~~for the escrow and those sums would not have been booked to an interest bearing account.~~

6 The approximately .5% annual interest is nominal the utility is willing to include the \$1,689  
7 of interest paid on the account in utility income, and include the FPSC Escrow Account in  
8 working capital. It should be noted that the utility paid more interest than the amount  
9 earned in refunds to customers. I have provided the report of interest paid on the FPSC  
10 Escrow Account in DDS-7.

11 **Q. Do you agree with Witness Schultz that the actual cost of the service truck with the**  
12 **crane should be used instead of the original estimated cost?**

13 A. Yes, I do. As ~~KW~~KWRU Witness Johnson testifies, the actual cost is different than the  
14 original estimate, and the actual cost should be used instead.

15 **Q. Do you agree with Witness Schultz that the actual cost of the sand-sifter should be**  
16 **used instead of the original estimated cost?**

17 A. Yes, I do. As Witness Johnson testifies, the actual cost is different than the original  
18 estimate, and the \$43,110 actual cost should be used instead.

19 **Q. Do you agree with Witness Schultz that the cost of the new office building should be**  
20 **excluded?**

21 A. No. Although he has no objection to KWRU's request for a new office building. he  
22 recommends that no cost be allowed.

23 **Q. What is Witness Schultz' objection?**

24 A. First, he objects to the cost of the new office, stating that it is too high . He explained that  
25 he did an online review of construction costs, comparing the requested cost of KWRUs



1 office to prices he found in Broward, Miami and West Palm Beach. As the utility has  
2 explained consistently, the cost of virtually everything in the Keys is higher than elsewhere.  
3 Materials, supplies and labor all must be brought in from the mainland. It does not take  
4 much to speculate that the cost after the hurricane is even higher. Resources are scarce, and  
5 comparisons in other areas of the state or the country are irrelevant.

6 **Q. To what else does Witness Schultz object with respect to the new office?**

7 A. He objects to the lack of competitive bids, however Witness Johnson explains that this is  
8 incorrect.

9 **Q. What is your recommendation about the cost and inclusion of a new office?**

10 A. The cost which is supported by Chris Johnson should be included, and consideration for the  
11 difficulty in negotiating and securing a contractor for the work should be recognized.

12 **Q. Do you agree with Witness Schultz that the actual cost of other proforma plant  
13 additions that he notes from OPC Witness Woodcock's testimony should be used  
14 instead of the original estimated cost?**

15 A. Yes, I do. As Witness Johnson testifies, where the actual cost is different than the original  
16 estimate, and the actual cost should be used instead. However, it should be noted that  
17 Witness Johnson supports different actual costs than Witness Woodcock. I recommend  
18 adjustments to the MFRs to the extent than Witness Johnson has supported.

19

20 ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE

21 **Q. Do you agree that any adjustments to the proforma capital costs should include  
22 adjustments to the associated accumulated depreciation and depreciation expense?**

23 A. Yes. The calculation of proforma accumulated depreciation and depreciation expense  
24 should be based on the final allowed proforma capital costs.

25 **Q. Is Witness Schultz correct that the worksheet provided by KWRU titled "Plant**

1           **Additions" does not match the trial balance?**

2    A.    He is correct, which is why the utility corrected the MFRs, showing the adjustment on MFR  
3           Schedule A-3, page 1 of 2. He then goes on to describe how this discrepancy was not  
4           properly considered when KWRU annualized depreciation for this plant. Again he is  
5           correct. However, his adjustment is inaccurate.

6    **Q.    Please explain the adjustments you would make.**

7    A.    I would make the following adjustments:

8           (1) KWRU made an annualization adjustment to Accumulated Depreciation for one-half  
9           year, as if no depreciation had been recorded. Upon review, I have found that this is  
10          incorrect. KWRU had recorded accumulated depreciation on all plant added after January  
11          2017 for six months, and this is what is included in the MFRs. No annualization adjustment  
12          to accumulated depreciation should have been made.

13          (2) When KWRU made the entry in March 2017 to record the completion of the AWT  
14          plant, the entire amount was recorded to 354.4 Structures and Improvements, which has a  
15          30-year life. Of that amount recorded, \$1,769,864 should not have been recorded to that  
16          account. This balance should have been charged to the accounts below. This correction  
17          should result in an adjustment to accumulated depreciation.

18          The correction to plant, as shown in the MFRs on Schedule A-3, page 1 of 2, lines 4-6 and  
19          lines 20-22, is as below:

20           354.4 Structures and Improvements	(1,769,868)	(30-year life)
21           364.2 Flow Measuring Devices	78,652	(5-year life)
22           380.4 Treatment & Disposal Equipment	1,591,112	(18-year life)
23           381.4 Plant Sewers	100,100	(35-year life)

24          The accumulated depreciation impact of these corrections to plant additions is as below,  
25          with a one-half year convention.

1	354.4 Structures and improvements	(29,498)
2	364.2 Flow Measuring Devices	7,865
3	380.4 Treatment & Disposal Equipment	44,198
4	381.4 Plant Sewers	<u>1,430</u>
5	Total (additional accumulated depreciation required)	23,995

6

7 (3) The adjustment made by KWRU on the MFRs to annualize depreciation expense was  
8 incorrect. The adjustment assumed that expense commenced the month after the plant was  
9 added. However, in fact, depreciation started in January. The adjustment to increase  
10 depreciation by \$185,311 should have only been \$125,074, per the "Plant Additions"  
11 worksheet.

12 (4) The correction to the plant accounts described above requires an adjustment to  
13 depreciation expense as it did to accumulated depreciation. This correction is as follows,  
14 using a full year of depreciation expense

15	354.4 Structures and improvements	(58,996)
16	364.2 Flow Measuring Devices	15,730
17	380.4 Treatment & Disposal Equipment	88,396
18	381.4 Plant Sewers	<u>2,860</u>
19	Total	47,990

20 **Q. Please summarize these four adjustments.**

21 A. I would summarize as follows:

22		<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>	
23	Correction reference	(1)	(2)	(3)
24	354.4 Structures & Improvements	(63,736)	(29,498)	(31,868)
25	360.2 Collection Sewer Force	(3,839)		(640)
26	364.2 Flow Measuring Devices	(7,865)	7,865	(3,933)
				15,730

1	371.3 Pumping Equipment	(764)		(284)	
2	375.6 Reuse Trans/Dist	(2,358)		(393)	
3	380.4 Treatment & Disposal Equipment	(44,951)	44,198	(22,405)	88,396
4	381.4 Plant Sewers	(1,430)	1,430	(715)	2,860
5	390.7 Office Furniture	<u>(132)</u>		<u>1</u>	
6		<u>(125,074)</u>	<u>23,995</u>	<u>(60,237)</u>	<u>47,990</u>

7 Total additional adjustment

8 Accumulated Depreciation:  $(\$125,074) + 23,995 = \underline{\underline{\$(101,079)}}$

9 Depreciation Expense:  $(\$60,237) + 47,990 = \underline{\underline{\$(12,247)}}$

10

11

RETIREMENTS

12 **Q. Do you agree with OPC Witness Schultz' adjustments to retire several assets,**  
 13 **including the chlorine contact chamber, lift station, generator, and the office?**

14 A. I agree that the chlorine contact chamber and the lift station should be retired, since we have  
 15 included proforma plant to replace those items.

16 **Q. Do you agree with the retirement entries he recommends?**

17 A. Since the chlorine contact chamber and the lift station were constructed many years ago, we  
 18 are unable to find the original cost of those specific assets. In that case, it is consistent with  
 19 Commission policy to assume an original value of 75% of the replacement cost without  
 20 better or more reliable information. However, in looking at the adjustments he recommends,  
 21 and the balance in the specific accounts, I do not agree with the adjustments he makes.

22 **Q. With what do you disagree?**

23 A. Lift stations: His adjustment to retire lift stations is a reduction to account 354.3 of \$92,715.  
 24 However the balance in that account before the proforma adjustment is only \$875, the cost  
 25 of a fence installed in 2003. KWRU estimates that the lift station was installed in the mid-  
 26 1980s. The account with additions in the 1980s is account 3713 Pumping Equipment, with a

1 total addition of \$163,052 in 1984. The next addition to that account was not until 2003, so  
2 this lift station is most likely included in that 1984 line item. The only other assets added in  
3 the 1980s were 3534 Land (1985), 3544 Structures (1985), 3602 Force Mains (1986), 3612  
4 Gravity Lines (1986), 3804 "Oxidation Lagoon" (1986), 3894 Misc Equipment (1984), and  
5 3937 Tools (1984).

6 **Q. Why is this significant?**

7 A. Most importantly, account number 3713 only has a 18-year life and that particular line item  
8 is no longer being depreciated. With the exception of account 3612 Gravity Mains (45 year  
9 life), all assets added in those categories in the 1980s are also fully depreciated, and the  
10 company is no longer depreciating them.

11 **Q. What is your recommendation pertaining to lift stations?**

12 A. Based on my review of the asset schedules, I believe that Lift Station 2A was included in  
13 the account 3713 Pumping Equipment. Since we cannot trace the original cost of the lift  
14 station, the utility should follow Commission policy and retire 75% of the replacement cost.  
15 This is \$109,795 ( $\$146,393 \times 75\%$ ), reducing account 3713 and accumulated depreciation  
16 by that amount. However, no adjustment to depreciation expense is needed as the asset is  
17 fully depreciated, and has not been depreciated since June 2002. The asset details to which I  
18 am referring were provided in response to OPC 1st Request for POD #12 and attached to  
19 my rebuttal testimony as Exhibit DDS-5.

20 **Q. Do you agree with the retirement of the chlorine contact chamber?**

21 Although KWRU estimates that the two original chlorine contact chambers were  
22 constructed in 1994 and 1996, a review of that same asset detail shows that the only  
23 additions to plant in that year were to accounts 3602 Force Mains, and 3804 Treatment and  
24 Disposal Equipment. In 1997 there was also an addition to 3804 Treatment and Disposal  
25 Equipment. It would be consistent with the records to presume that the two contact

1 chambers are included in the balance for account 3804. However, the depreciation life of  
2 3804 is 15 years. The additions to 3804 from 1997 and earlier were fully depreciated, and  
3 there is no depreciation expense in the MFRs for those assets. The next addition to that  
4 account is not until the year 2000 for the installation of a pond liner. As is consistent with  
5 Commission policy, it would be appropriate to reduce account 3804 and accumulated  
6 depreciation by \$832,470 ( $\$1,109,960 \times 75\%$ ) but no adjustment to depreciation expense is  
7 appropriate.

8 **Q. Do you agree with that the office which is being replaced should be retired?**

9 A. Yes, I do. Although Witness Schultz did not propose an adjustment, it was because he was  
10 not including the new office. A review of the asset detail indicates that the current office  
11 was purchased in 2002, is included in the account 3544 Structures and Improvements, the  
12 cost was \$44,450, and is being depreciated over 30 years. In addition, in that same account,  
13 there was a charge for relocating the office trailer \$20,064, and for office trailer electrical of  
14 \$4,461 in 2003. The appropriate adjustment is to reduce account 3544 Structures and  
15 Improvements, and accumulated depreciation by \$68,975 ( $\$44,450 + 20,064 + 4,461$ ). It is  
16 also appropriate to remove the associated depreciation expense included in the MFRs by  
17 \$2,299, which is  $\$68,975$  divided by 30 years.

18 **Q. Do you agree that the generator which is being replaced should be retired?**

19 A. Yes, I do. However, the amount and account he used for the retirement adjustments is  
20 incorrect. Per the asset detail schedule, the Kohler Generator was purchased in December  
21 2005 at a cost of \$75,682, plus various installation costs totaling \$34,541, and additions in  
22 2012 of \$18,034, all recorded in account 3554 Power Generated Equipment, which has a 20  
23 year life for depreciation. The correct retirement adjustment would be a reduction to 3554  
24 Power Generated Equipment and accumulated depreciation for the total including  
25 installation of \$128,257, and a reduction to annual depreciation expense of \$6,413 which is

1           \$128,257 divided by 20 years.

2

3

PHONE SYSTEM

4   **Q.   Do you agree that a redundant phone system should be excluded from rates?**

5   A.   No. Apparently it is not possible for Mr. Schultz to contemplate the enormous impact on  
6       customers when a telephone system fails after a catastrophic event. Like millions of  
7       customers in all of south Florida, KWRU was completely without telephone service for  
8       days. KWRU provides vital service to its customers, and cannot fail to provide that service.  
9       What Mr. Johnson has stated in his testimony is that the SCADA system is controlled over  
10      the internet. KWRUs internet service was through its telephone service provider. It is not  
11      surprising that Mr. Johnson is installing a redundant system to this vital service to ensure  
12      that the wastewater system is operational as quickly as possible in after a hurricane.

13 **Q.   Is a redundant phone system only needed in event of a hurricane?**

14 A.   No. The failure of the telephone and internet systems as a result of the hurricane simply  
15      highlighted the fragility of these systems. Redundancy is in place for the electrical system  
16      and now KWRU will put in place redundancy for the communication systems. The Florida  
17      Keys suffer a particular vulnerability due to their geography. The communication system  
18      infrastructure serving the keys are installed adjacent to the 120 mile , length of US Highway  
19      1. Any disruption of service along that span results in service disruption. The utility's  
20      SCADA system relies on the communication system to provide the information, including  
21      alerting on-call personnel in event of a system failure, Without an operational  
22      communication system, the Utility will not receive an alert for an emergency condition, and  
23      the consequences can be catastrophic.

24

25

SALARIES AND WAGES

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

2 A. No, I do not. Although he provided a lengthy discussion which concludes that the  
3 existence of vacant positions during the test year is a predictor of future vacancies, saying  
4 that "given the Company's history the vacancy issue will continue." However, as of today,  
5 fourteen employees are on staff. In the prior rate case, the utility was allowed the cost of  
6 13.5 employees.**Q. Did Witness Schultz make any other adjustments to salaries?**

7 A. Yes, he removed the adjustment that the utility made to payroll for anticipated extraordinary  
8 events. It was during the preparation of the MFRs that KWRU was impacted by Hurricane  
9 Irma. Although they incurred expenses in the recovery, and still are, they really were  
10 fortunate not to get a direct hit. The utility analyzed the potential additional impact of and  
11 "extraordinary event", and determined that they could have reasonably needed staff to work  
12 3 hours per day overtime for a period of six weeks. This is time that would have been  
13 incurred preparing for a direct hit, and the restoration work after the impact.

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

15 A. No, this is different. The hurricane costs represent the actual cost (adjusted estimated costs)  
16 of Hurricane Irma, amortized over four years which represents the anticipated time till  
17 another similar event. The extraordinary event cost represents an additional cost in the event  
18 of a direct hit, specifically for overtime. KWRU initially proposed that it be amortized over  
19 five years, but after further review, the utility requests that the additional overtime request  
20 be amortized over four years, anticipating that the cycle between similar events would be  
21 four years, not five.

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

23 A. No, I do not. Although he did not propose an adjustment, Witness Schultz expressed  
24 concern that salaries for officers had increased so dramatically when comparing the cost to  
25 2014. However, the cost increased because an employee was promoted, and his salary is



1 now included in officer salaries instead of employee salaries.

2 I want to also take a moment to address his statement, " The significance of the [officers'  
3 salary] increase is only magnified by the fact that the KWRU has indicated that  
4 compensation is an issue in retaining employees yet the increase in compensation is focused  
5 on officers and not the operating employees that need to be retained." I find this remarkable  
6 considering that Witness Schultz has argued against KWRU's advertising expense, loan to  
7 an employee that was written off, the increase in benefits, the employee bonuses, and in  
8 particular the "gold-plated" pension plan. All of these have been efforts to attract and retain  
9 staff - which has been both necessary and successful as KWRU is now fully staffed and has  
10 been fully staffed for 2017.

11 **Q. Do you have any further adjustments to Salaries and Wages?**

12 A. Yes. As Witness Johnson testifies, the salaries and wages should be updated to show  
13 current conditions. Additionally, known salary increases anticipated within a short period of  
14 time should be included. I have made an adjustment to salaries and wages consistent with  
15 Witness Johnson's testimony. I have also made appropriate adjustment to corresponding  
16 payroll related costs, such as pension and benefits, payroll taxes and workman's  
17 compensation.

18 PENSION PLAN

19 **Q. Do you agree with Witness Schultz' testimony regarding the pension expense?**

20 A. I do not agree with his adjustment to pension expense. KWRU has implemented a  
21 traditional pension plan in response to difficulties with retaining employees. He even  
22 characterized this traditional pension plan as "gold- plated".

23 First, as explained in Response #13 to Staff's 2nd Interrogatories, and supported by Witness  
24 Johnson's rebuttal testimony, KWRU found that the pension plan was a key factor in its  
25 ability to retain staff. This is primarily because the previous plan, a 401k, allowed

1 employees to take 100% of the funds paid in by the Company at the time the employee left  
2 through a rollover to an IRA, in other words, vesting immediately. The traditional pension  
3 plan builds in a vesting schedule that encourages employees to remain with the company in  
4 order to vest.

5 Second, as Witness Johnson testifies, and as KWRU in that same response explained,  
6 employees have left for other employment due, in part, to the pension plan. Considering  
7 that other employers are offering traditional pension plans, this would dispel the claim that  
8 this pension plan is somehow excessive.

9 And finally, several years ago, my own company added a traditional pension plan to our  
10 benefits package in addition to a 401k. We did this for the same reason as KWRU - to  
11 establish a competitive benefit package and retain employees - in our case, professional  
12 engineers. The advantage is that it encourages employees to stay with the company, or they  
13 will not vest in the plan, unlike with payments by the company to the 401k plan which are  
14 vested immediately.

15 **Q. Can you explain how you calculated the pension expense?**

16 A. Yes. I want to first point out that I have revised the original incremental cost of the new  
17 pension plan. In the MFRs I made an adjustment of \$10,141 to add 1% of salary as the  
18 additional cost of the pension plan. However, in response to discovery requests, we  
19 determined that this number did not incorporate the full incremental additional cost.

20 As explained by KWRU in its Response #123 to OPC's 5th set of Interrogatories, and  
21 further explained by Witness Johnson, the total incremental cost of implementing a  
22 traditional pension plan included within the test year will be higher than the \$10,141  
23 included in the original pro forma adjustment. The amount that should be included is  
24 \$35,445, calculated as 5% of annualized November salaries plus an expectation of  
25 overtime, minus \$18,001 included in the test year.

1	Salaries and wages, adjusted as described above	\$ <del>964,928</del> <u>971,380</u>
2	Company contribution of 5%	\$48,246 <u>569</u>
3	Administration & setup costs	5,200
4	Less test year amount paid	<u>(\$18,001)</u>
5	Estimated incremental pension expense	\$35,445 <u>768</u>

6 I have incorporated this number into my revised MFR Schedules included in Exhibit  
7 DDS-2.

8  
9 BAD DEBT EXPENSE

10 **Q. Do you agree that KWRU's bad debt expense for an unpaid employee loan should be**  
11 **disallowed?**

12 A. While I understand Witness Schultz' arguments for removing that cost, I disagree with his  
13 conclusion. The expense incurred should have more correctly been charged to employee  
14 costs rather than bad debt expense. Schultz' first argument is that the KWRU did not pursue  
15 collection, it should not become a burden to the ratepayer. He is not arguing that the loan  
16 should not have been made. In his analysis, he should have considered the cost of pursuing  
17 collection through a collection company as an offset to the potential payment. He also  
18 claims that this is a non-recurring cost, however there is no indication that this is non-  
19 recurring, or that if it is, that some similar cost won't be incurred in the company's  
20 continuous effort to attract and maintain its employees.

21  
22 HURRICANE IRMA COSTS

23 **Q. Witness Schultz identifies certain hurricane costs that were duplicated in KWRU's**  
24 **filing. Can you please go over them, and tell us what you found?**

25 A. Yes. Witness Shultz found two charges to Information Technology Solutions for \$142.50

1 and \$1,722.50 that appear to be duplicated. After reviewing the information provided, I  
2 agree that the two charges from Information Technology Solutions in the amounts of  
3 \$142.50 and \$1,722.50 are duplicates and should be removed.

4 He also identified a charge of \$2,899 to Nearshore Electric to set up the electrical in the  
5 temporary office trailer, in addition to \$6,000 for utility installation costs. I agree that the  
6 charge from Nearshore Electric in the amount of \$2,899 should be removed.

7 There is also a charge from Sunbelt Rentals for \$1,940.41 in addition to six months of rental  
8 expense for the tow behind generator, finding that this one charge was a duplicate.

9 However, I do not agree that the \$1,940.41 charge from Sunbelt Rentals should be removed.

10 So far the Utility has paid a total of \$13,582.87 for seven months rental expense. Rental of

11 the tow behind generator is expected to continue for an additional 4 months until the

12 purchased unit will be delivered. I have also updated the cost associated with the rental of

13 the large generator for a total of \$147,419 as it will also continue for 11 months.

14 Therefore, our requested hurricane costs should be increased by an additional  
15 ~~\$761,347~~57,095, amortized over 4 years for an increase of ~~1,940.41~~\$14,274 to O&M costs.

16 ~~I have also updated the cost associated with the rental of the large generator as it will also~~  
17 ~~continue for 11 months.~~

18 Finally, Witness Schultz finds that 6 charges labeled Paychex Overtime totaling \$7,440.27  
19 are a duplicate of a separate line item on Schedule B-3 to amortize the hurricane overtime.

20 However, there is only one adjustment included on the B-3 for costs associated with

21 Hurricane Irma, and this is not a duplicate, Furthermore, these costs were incurred as a

22 direct result of the hurricane, which took place after the test year, and is therefore not

23 otherwise included in the MFRs.

24 **Q. Do you agree with Witness Schultz argues that any insurance proceeds paid to**  
25 **compensate for damage caused by Hurricane Irma should be used to reduce the**

1           **amount requested by KWRU?**

2    A.    Yes, I do. In February 2018, KWRU received a payment of \$ \$19,393 as compensation for  
3           damages sustained from the hurricane. That payment should be used to reduce the deferred  
4           hurricane expense amount we are including in working capital, and amortizing over four  
5           years.

6    **Q.    Do you agree that the cost associated with Hurricane Irma should be amortized over**  
7           **five years, not four?**

8    A.    No, as testified to by Witness Chris Johnson, hurricane cost should be amortized over four  
9           years, not five. KWRU has determined that the anticipated average occurrence of impact  
10           from a hurricane is four years.

11

12

ORGANIZATION MEMBERSHIPS

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

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

19                    The Florida Rural Water Association (FRWA) was formed for the  
20                    benefit of small water and wastewater systems throughout Florida.

21                    We are a nonprofit, non-regulatory professional association. Our  
22                    primary purpose is to assist water and wastewater systems with every  
23                    phase of the water and wastewater operations.

24                    Rotary is a worldwide service organization that provides support to the Clubs' local  
25                    communities, as well as communities around the world through its 1 million plus members.

1 It is a community service organization, not an image-building or a business networking  
2 organization. Members are attracted to the opportunity to engage in community service, and  
3 civic-minded companies encourage key employees to engage in these types of service  
4 activities, often through memberships. It is worthwhile to point out that other members of  
5 the Rotary Club of Key West include local public agencies, including FKAA, Keys Energy,  
6 Monroe County, City of Key West, Monroe County School Board, US Navy, Monroe  
7 County Sheriff, and Mosquito Control.

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

10  
11 ADVERTISING EXPENSE

12 **Q. Do you agree with Witness Schultz' recommendation that the most appropriate**  
13 **method for estimating advertising expense is a five-year average?**

14 A, No, I do not agree with his recommendation that the most appropriate method for  
15 estimating advertising expense is a five-year average. Considering the newly  
16 constructed plant, the resulting change in operations, including virtually all operating  
17 and maintenance conditions, it is inappropriate to do look-back to analyze current  
18 conditions for most expenses.

19 Rule 25-30.437 F.A.C. states that the includable operations and maintenance cost in an  
20 application for rate increase is the total test year expense. Rule 25-30.433(8), F.A.C.  
21 states that non-recurring expenses shall be amortized over a five-year period.

22 Advertising expenses, as indicated in Witness Schultz testimony, is an annual expense  
23 incurred by the Utility. It is not a non-recurring expense and therefore the includable  
24 amount is the total test year actual expense.

25 **Q. Do you agree with the use of the Annual Reports to calculate a 5-year average?**

1 A. No. I do not agree with Witness Schultz' calculating the 5-year average based on  
2 information from the Annual Reports. Information found in the Utility's Annual  
3 Reports are compiled on a December 31 basis while the test year is June 30, 2017. The  
4 period for any calculated average should from July through June. By using this method,  
5 he is excluding six months of the test year in his average. This is particularly pertinent  
6 in the case of advertising expense, where the \$0 was incurred between January - June  
7 2016, and the entire \$1,376 in 2016 was incurred from July - December 2016. Another  
8 \$4,256 was incurred in the period January - June 2017, and the total for the test year  
9 was \$5,803. The results of an average were significantly skewed since the amount used  
10 by Witness Schultz for the fifth year of his 5-year average was the \$1,376 incurred in  
11 late 2016.

12  
13 MATERIALS AND SUPPLIES

14 **Q. Do you agree with Witness Schultz' recommendation that the most appropriate**  
15 **method for estimating materials and supplies expense is a five-year average?**

16 A, No, I do not agree with his recommendation that the most appropriate method for  
17 estimating materials and supplies expenses is a five-year average. Considering the  
18 newly constructed plant, the resulting change in operations, including virtually all  
19 operating and maintenance conditions, it is inappropriate to do look-back to analyze  
20 current conditions for most expenses, and particularly for materials and supplies. \_  
21 Rule 25-30.437 F.A.C. states that the includable operations and maintenance cost in an  
22 application for rate increase is the total test year expense. Rule 25-30.433(8), F.A.C.  
23 states that non-recurring expenses shall be amortized over a five-year period. Materials  
24 and supplies, as indicated in Witness Schultz testimony, is an annual expense incurred

1 by the Utility. It is not a non-recurring expense, and therefore the includable amount is  
2 the total test year actual expense. [Averaging expense completely fails to recognize](#)  
3 [increasing trends as conditions change.](#)

4 **Q. Do you agree with the use of the Annual Reports to calculate a 5-year average?**

5 No. I do not agree with Witness Schultz' calculating the 5-year average based on  
6 information from the Annual Reports. Information found in the Utility's Annual  
7 Reports are compiled on a December 31 basis while the test year is June 30, 2017. The  
8 period for any calculated average should from July through June.

9 Finally, KWRUs detailed general ledger accounts are in much greater detail than the  
10 summary accounts listed in the annual reports and in the MFRs. While reviewing the  
11 amounts recorded in materials and supplies based upon the testimony of Witness  
12 Schultz, I discovered that the accounts included in materials and supplies in the MFRs  
13 is not consistent with the accounts used in the Annual Reports nor the prior MFRs. For  
14 that reason, an adjustment must be made to categorize the detailed accounts correctly  
15 and consistently with all prior years. The details of the individual accounts totaled for  
16 materials and supplies in the MFRs was provided in OPC's 1st request for POD, number  
17 12, subsequently revised on 2/21/2018 document # 0165-2018, and attached hereto as  
18 Exhibit DDS-2

19 Below are the individual detailed accounts included in materials and supplies in the  
20 MFRs, and the account that should have been used:

		<u>MFRs</u>	recommended
			Account
23	7180510 Supplies	22,518.99	720
24	7200510 Equipment & Supplies	9,497.08	720



1	7200820	Office Supplies	10,734.70	720
2	7360110	Emergency Repairs	684.40	736
3	7360200	Vacuum Stn Repairs & Maint	10,180.64	736
4	7360330	Vacuum Collection System	2,429.94	736
5	7360410	Lift Stations-Cleaning	2,263.89	736
6	7360420	Lift Station Repair & Maint	5,076.27	736
7	7360430	Pumps & Panels Repairs & Maint	2,749.08	736
8	7360520	Equipment Repair & Maint	3,997.53	736
9	7360530	Filter Beds	26.86	736
10	7360540	Generator Maintenance	3,815.84	736
11	7360600	Grounds and Office Maint	2,849.24	736
12	7360610	Plant Repair or Maintenance	<u>9,216.11</u>	736
13		Total	86,040.57	

14 This would result in a reduction of \$43,290 to account 720 Materials and Supplies and  
15 an increase in the same amount to Account 736 Contractual Services Other. The  
16 resulting total would be as below:

	<u>per MFRs</u>	<u>adjustment</u>	<u>adjusted total</u>	<u>Schultz average</u>	
19	Account 720	\$86,041	(\$43,290)	\$42,751	\$37,566
20	Account 736	\$0	\$43,290	\$43,290	N/A

21 It is pertinent to point out here that Witness Schultz did not perform a historical analysis  
22 on account 736 which went from \$45,054 allowed in the 2014 test year rate case to \$0  
23 in our 2017 MFRs.

24 To make the impact of the re-assignment of the detailed accounts above, I have  
25 included revised MFR schedules B-6 and B-8 as Exhibits DDS-2

1

2

CONTRACTUAL SERVICES - ENGINEERING

3

**Q. Do you agree with Witness Schultz' recommendation that the most appropriate method for estimating contractual services-engineering expense is a five-year average?**

4

5

6

No. I do not agree with his recommendation that the most appropriate method for estimating contractual services - engineering expenses is a five-year average.

7

8

Considering the newly constructed plant, the resulting change in operations, including virtually all operating and maintenance conditions, it is inappropriate to do look-back to analyze current conditions for most expenses, including engineering services. Rule 25-30.437 F.A.C. states that the includable operations and maintenance cost in an application for rate increase is the total test year expense. Rule 25-30.433(8), F.A.C. states that non-recurring expenses shall be amortized over a five-year period.

9

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Contractual services - engineering, as indicated in Witness Schultz' testimony, is an annual expense incurred by the Utility. It is not a non-recurring expense and therefore the includable amount is the total test year actual expense.

17

**Q. Do you agree with the use of the Annual Reports to calculate a 5-year average?**

18

19

20

21

A. No. I do not agree with Witness Schultz' calculating the 5-year average based on information from the Annual Reports. Information found in the Utility's Annual Reports are compiled on a December 31 basis while the test year is June 30, 2017. The period for any calculated average should from July through June.

22

**Q. Do you agree that the cost included in Contractual Services - Engineering to renew the DEP permit should be amortized over 5-years?**

23

24

A. Yes, the cost of obtaining or renewing a permit should be amortized over the life of the

1 permit. However, the unamortized balance should be included in working capital.

2 **Q. Do you agree that the cost included in Contractual Services - Engineering to**  
3 **associated with plant projects should be capitalized?**

4 A. Yes, the cost of engineering associated with plant projects should have been capitalized  
5 to those plant projects.

6

7 WORKMANS' COMPENSATION INSURANCE

8 **Q. Do you agree that only the test year amount workman's compensation should be**  
9 **allowed?**

10 A. No. The cost of those employees for workman's compensation is 4.4% as provided in its  
11 response to Citizens' Interrogatory No. 61. Witness Schultz does not present an argument  
12 against the calculation. He asserts that since the number of employees has not increased, the  
13 cost should not increase. However, as I have discussed, the number of employees has  
14 increased, as KWRU had projected in its proforma expense adjustment, and therefore the  
15 expense should increase.

16

17 EMPLOYEE BONUS EXPENSE

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

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

25

1 RETIREMENT PARTY EXPENSE

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

4 A. No, I do not agree. First, though, I need to correct the characterization of this expense,  
5 which was incorrectly described by KW. It was a the cost of ceremony dedicating the  
6 new Wastewater Treatment Plant to long-time employee Mark Burkemper to recognize  
7 him for his valuable contribution to wastewater treatment in the Keys. This event served  
8 to demonstrate appreciation for an individual's contribution and to showcase the new  
9 WWTP. This was not a lavish affair, and the \$709 cost included food, a tent and chairs.  
10 This is not unlike public dedication ceremonies given by the Commission and paid for  
11 by public funds.

12  
13 EQUIPMENT RENTAL EXPENSE

14 **Q. Do you agree with Witness Schultz' recommendation that the most appropriate**  
15 **method for estimating equipment rental expense is a five-year average?**

16 A. No. I do not agree with Witness Schultz' recommendation that the most appropriate  
17 method for estimating rental of equipment expense is a five-year average. Rule 25-  
18 30.437 F.A.C. states that the includable operations and maintenance cost in an  
19 application for rate increase is the total test year expense. Rule 25-30.433(8), F.A.C.  
20 states that non-recurring expenses shall be amortized over a five-year period.  
21 Equipment rental expense, as indicated in Witness Schultz testimony is not a non-  
22 recurring expense and therefore the includable amount is the total test year actual  
23 expense.

1 **Q. Do you agree with Witness Schultz' recommendation that the entire test year**  
2 **expense should be removed?**

3 A. No. In his testimony Witness Schultz calculated a 5-year average expense of \$656 for  
4 rental of equipment then recommended removing the entire test year expense of \$1,479.  
5 I do not agree with the recommended adjustment to remove the entire test year expense  
6 of \$1,479 as it is unreasonable to assume that there will be no future equipment rental  
7 expense since the Utility has purchased a crane truck. On the contrary, there will  
8 continue to be other ongoing equipment rental needs. The utility's equipment rental  
9 expense is certainly not limited to the crane truck.

10 **Q. Do you agree with the use of the Annual Reports to calculate a 5-year average?**

11 A. No. I do not agree with Witness Schultz' calculating the 5-year average based on  
12 information from the Annual Reports. Information found in the Utility's Annual  
13 Reports are compiled on a December 31 basis while the test year is June 30, 2017. The  
14 period for any calculated average should from July through June.

15 **EMPLOYEE TRAINING**

16 **Q. Do you agree with Witness Schultz' recommendation that the most appropriate**  
17 **method for estimating employee training expense is a four-year average?**

18 A. No. I do not agree with Witness Schultz' recommendation that the most appropriate  
19 method for estimating employee training expense is a four-year average. Rule 25-  
20 30.437 F.A.C. states that the includable operations and maintenance cost in an  
21 application for rate increase is the total test year expense. Rule 25-30.433(8), F.A.C.  
22 states that non-recurring expenses shall be amortized over a five-year period. Employee  
23 training expense, as indicated in Witness Schultz testimony is not a non-recurring  
24 expense and therefore the includable amount is the total test year actual expense.

1 Furthermore, Witness Schultz uses a historical calendar years for his analysis, which  
2 exclude one-half of the entire test year. He performs no analysis to determine the cause  
3 for an increase in training over time, and ignores that the test year amount is actually  
4 lower than the 2016 calendar year amount.

5  
6 BENEFIT EXPENSES AND PAYROLL TAXES

7 **Q. Do you agree that an adjustment to employee benefits and payroll taxes is warranted**  
8 **if salaries and wages are adjusted?**

9 A. Yes. Since employee benefits and payroll taxes are a function of salaries and wages, it is  
10 appropriate to adjust them proportionately, whether salaries and wages are increased or  
11 reduced. Since I do not support a reduction in salaries and wages, I of course do not support  
12 a reduction in benefits and payroll taxes.

13 RATE CASE EXPENSE

14 **Q. Have you reviewed Witness Schultz' testimony regarding rate case expense?**

15 A. Yes, I have. He observes that the Utility has not provided updated actual and estimated cost  
16 information for completion of the case. We have provided that several times, most recently  
17 in response to ~~###~~ #63 of ~~FPSC-Staff's Third Interrogatories??~~ ~~POD~~. I have attached  
18 included the updated rate case expense in Schedule B-10 of my Exhibit DDS-2 consistent  
19 with the information provided in that response. As is customary, KWRU will continue to  
20 provide copies of actual invoices and estimates for completion as appropriate during the  
21 duration of the rate case.

22 It's worthwhile also pointing out that Witness Schultz notes that Smith Hawks and  
23 Friedman and Friedman's hourly rates are very high, and "significantly higher in this case  
24 than in KWRU's last rate case in Docket No. 20150071-SU." However, Friedman and  
25 Friedman's ~~hours-lates-are~~ hourly rate is \$370 per hour, compared to \$360 three years ago in

1 that prior Docket. Smith Hawks was \$350 per hour three years ago, compared to \$347.50  
2 average rate charged in this case.

3 CAPITAL STRUCTURE / COST OF CAPITAL

4 **Q. Do you agree with Witness Schultz' testimony regarding the appropriate capital  
5 structure and the cost of the various components?**

6 A. I do not agree with his assessment of Common Equity, where he expresses concern about a  
7 difference in Common Equity between a workpapers provided, and Schedules A-19 and D-  
8 2 of the MFRs. There are a couple of reasons. The first reason is a common accounting  
9 practice, whereby current earnings are closed to retained earnings once a year at the  
10 company's fiscal year end. As the company closes it books on December 31, and the test  
11 year end is June 30, the company's balance sheet does not include a closing of the current  
12 earnings against retained earnings except for the -month December 31, 2016. "BS\_Trial  
13 Balance" includes no current earnings on the schedule showing total equity. On "BalSheet  
14 Acct\_PerAR" we included a line called "Net Income" in the calculation of common equity.

15  
16  
17 PRO FORMA PLANT ADDITIONS

18 **Q. Do you have any specific observations about the adjustments recommended by OPC  
19 Witness Andrew Woodcock?**

20 A. Yes, although the specifics regarding individual proforma projects are addresses by Witness  
21 Johnson, I did note that in his testimony, Witness Woodcock stated, "It is my opinion that,  
22 of the \$129,763.75 included in Mr. Johnson's testimony, \$122,557.50 is associated with the  
23 rehabilitation of the WWTP and should be included in rate base. The remaining \$7,205.75  
24 should not be included." These costs [he seeks to exclude](#) were incurred in November 2016  
25 and June 2017, which is during the test year, and if not capitalized, he should have added it

1 to Contractual Services - Engineering.

2

3 ADDITIONAL REVENUES AND CIAC FOR POST-TEST YEAR CUSTOMERS

4 **Q. Have you reviewed the testimony of Monroe County Witness J. Terry Deason?**

5 A. Yes, I have. Witness Deason's testimony proposes including additional revenues from  
6 future possible customers as an adjustment to test year revenues, thereby reducing the  
7 overall increase required by the Utility. He also proposed including contributions in aid of  
8 construction (CIAC) from those future customers as a reduction to rate base. He explains  
9 the Commission's authorization to do so, cites prior case justifying the use of a projected  
10 test year (PSC-01-2511-PAA-WS), explains the "matching principle" as it applies to rate  
11 cases, and argues that the conditions in this case warrant such treatment.

12 **Q. Do you agree with his proposal?**

13 A. No, I do not. I will address each of his points separately.

14 Commission Policy on Selection of a Test Year

15 Witness Deason first quotes Rule 25-30.430(1), FAC, which establishes the Commission  
16 authority to approve the test year requested by the water or sewer utility prior to an  
17 application for a general rate case.

18 **Q. What is the significance of this Rule?**

19 A. The significance to me of this Rule is that pursuant to the Rule, the Utility requested a  
20 historical test year of twelve months ended June 30, 2017, and the Commission accepted  
21 that test year. The utility relied on the Commission's acceptance of the proposed test year  
22 when it then prepared its application for a rate increase.

23 **Q. Does Witness Deason agree that the historical test year accepted by the Commission is  
24 appropriate?**

25 A. No, Witness Deason looks to a Commission Order from 1986 for Martin Downs Utilities,



1 Inc., where the Commission found that a projected test year was appropriate. However, as  
2 he quoted from that order, "...Based upon historical data we anticipate Martin Downs will  
3 continue to experience a rapid growth of demand for its services. Therefore, we believe a  
4 projected test year is appropriate in this case."

5 **Q. Are the conditions in the case consistent with the Martin Downs case?**

6 A. No, not at all. In that case the Commission stated that the reason a projected test year was  
7 appropriate was that they anticipated continued rapid growth. However, there is nothing in  
8 KWRU's filing that would conclude that the Utility anticipates experiencing rapid growth.  
9 On the contrary, the Utility has filed its case using the same non-used and useful percentage  
10 approved by the Commission in its final order, Order No. PSC-17-0091-FOF-SU.

11 **Q. Does Witness Deason present any other justification for the use of a projected test  
12 year?**

13 A. When asked, "Does the Commission have a preference for projected versus historic test  
14 years", he answered that the Commission primarily relies on project test years for electric  
15 utilities. He then quoted a Supreme Court Case pertaining to a telephone company from  
16 1983, which states, among other things that projected test years may be effective in  
17 minimizing regulatory lag.

18 **Q. Do you agree that the treatment by the Commission in electric and telephone cases  
19 should be consistent with respect to the use of projected test years?**

20 A. It would only be appropriate if other issues were also treated consistently between electric  
21 and telephone, and water and sewer. Without arguing the appropriateness of consistent  
22 treatment among a number of issues, the bottom line is that few water and wastewater cases  
23 brought before the Commission use projected test years.

24 **Q. Do you agree, however, that a projected test year may be effective in minimizing  
25 regulatory lag?**

1 A. Whether a projected test year may be effective is irrelevant in this case, because the filing is  
2 based on a historic test year. And regardless of whether a case is filed using a projected or  
3 historic test year, there are some causes of regulatory lag that neither addresses. In any rate  
4 application, the historical period is reflected. Inevitably, it shows that in the past year the  
5 utility has not achieved its authorized return on equity and in most cases have experienced a  
6 loss. This loss will never be recovered, no matter what the test year is. Projecting is not  
7 going to solve this type of regulatory lag. In most of the cases I have filed, the rate  
8 application is filed approximately six months after completion of the historical period.  
9 During that time, the loss which precipitated the need for a rate increase has continued. The  
10 best the utility can hope for is to have interim rates approved quickly, but the incurred  
11 losses are never recovered for that period of time. No projection is going to ever make that  
12 utility whole. Furthermore, a projected test year incorporates projected billing units, which  
13 alone will result in a lower per unit rate, reducing even further the opportunity to fully  
14 recover.

15 **Q. Does Witness Deason cite any other water and sewer cases that use a projected test**  
16 **year?**

17 A. Yes, he describes that in a staff assisted rate case from 2001, Burkim Enterprises, Inc.,  
18 Commission Order No. PSC-01-2511-PAA-WS stated that a projected test year was used  
19 "Because the utility is growing at an exceptionally high rate (29 connections per year), rates  
20 based on historical data alone will be significantly different than rates based on current or  
21 even future conditions..."

22 **Q. Does Witness Deason correlate the "rapid growth" or "exceptionally high rate" of**  
23 **growth to the conditions at KWRU?**

24 A. No, he doesn't. What he says is that the inclusion of proforma plant and expense (alone)  
25 necessitate the inclusion of revenues from future customers.

1 **Q. Is he recommending the use of a projected test year?**

2 A. No, not at all. On the contrary he states that the County has no objection to the selected test  
3 year, "per se". Rather, the only projection he recommends is to revenues and CIAC.

4 **Q. What other argument does Witness Deason present to justify the inclusion of revenues  
5 from future customers?**

6 A. He provides an accounting definition of the matching ~~principal~~principle, and states that this  
7 ~~principal~~principle in the regulatory arena, "...requires that the utility's rates be set using the  
8 utility's costs, investments, revenues, and sales units from the same time period, and that  
9 they be representative of the time period in which the new rates will be in effect." Witness  
10 Deason then goes on to say that whenever investment is made " to serve a growing  
11 customer base or growing customer demands for service, or both..." that additional revenues  
12 from future customers should be used.

13 **Q. What do you find wrong with this argument?**

14 A. First, when asked in his testimony, "If there is credible evidence that the gallonage of  
15 wastewater treated and billed by KWRU is likely to be greater during the time that rates  
16 will be in effect, should the Commission take that evidence into account when setting  
17 KWRU's rates in this case," he answers, "If the amount of wastewater treated and billed by  
18 KWRU is to be higher during this extended period, the rates should be based on such  
19 greater usage." He presents no evidence, nor claim, that the amount of wastewater treated  
20 and billed will be higher.

21 **Q. Do you agree that the conditions in this case are similar to the prior KWRU case, test  
22 year December 31, 2014?**

23 A. No. Witness Deason uses that case to show that the basis of the adjustments made by the  
24 Commission to address the passage of time was the use of the matching ~~principal~~principle.

25 **Q. What conditions were different between this case and that case?**

1 A. First, in that case, the Final Order was more than two years after the end of the test year. As  
2 time went on, more and more actual data was available from which to evaluate for possible  
3 adjustments. This case will have a final order within 14 months of the end of the test year.  
4 Second, the proforma plant and expense adjustments proposed by KWRU in that case were  
5 in a large part due to customer growth which is not true in the instant case.

6 **Q. What final arguments do you have to Witness Deason's testimony?**

7 A. I will summarize point by point:

- 8 1. Water and Sewer utilities are not treated consistently with electric and telephone  
9 utilities as it applies to the use of projected versus historical test years.
- 10 2. In the two water/sewer cases cited, Martin Downs and Burkim, the rationale for the use  
11 of a projected test year was continued rapid growth and extraordinarily high growth,  
12 neither of which apply in this case.
- 13 3. Even if the two cases above did apply, Witness Deason is not proposing the use of a  
14 projected test year, and is only proposing the inclusion of revenues and CIAC from  
15 future customers.
- 16 4. His claim that proforma plant and proforma expenses are related to customer growth is  
17 inaccurate. I reviewed KWRU Witness Johnson's testimony and found that none of the  
18 proforma adjustment - neither expenses nor capital costs, is related to growth.
- 19 5. It is inappropriate to use the matching principle as justification for the addition of  
20 revenues and CIAC from future customers, giving no consideration to the impact those  
21 customers have on other components included in the MFRs.

22 **Q. Have you reviewed the testimony of Monroe County Witness Jeffrey Small?**

23 A. Yes, I have.

24 **Q. Can you describe the issues raised by Witness Small and address each?**

25 A. First, he calculates the revenues that may be derived from future customer using the

1 projected billing determinants identified in the testimony provided by Monroe County  
2 Witness Kevin G. Wilson, P.E. However, he also goes on to claim that future billing  
3 determinants must be used so that resulting rates are fair, and this is consistent with the  
4 "matching ~~principal~~principle".

5 **Q. Do you agree with Witness Small argument regarding the appropriateness of using**  
6 **revenues from future customers?**

7 A. No, as I stated in my argument with County Witness Deason's testimony, this is not the  
8 appropriate use of the matching principle in that it only incorporates two factors, it is not  
9 the appropriate conditions to apply the matching principle in that the proforma adjustments  
10 are unrelated to future growth.

11 **Q. Do you have any further arguments to the inclusion of revenues from future**  
12 **customers?**

13 A. Yes. If for some reason the Commission decides it is appropriate to include future revenues,  
14 they need to consider and include all of the additional costs associated with providing  
15 service to those additional customers. This is particularly critical since KWRU's MFRs do  
16 not include any future cost of providing service to future customers.

17 **Q. Are there any adjustments to the MFRs you would make to recognize future**  
18 **conditions in this case?**

19 A. Yes, of course. First I would revise any of the proforma adjustments made in the case to  
20 reflect additional information that has come to light. This is commonly done, and  
21 appropriate. I have identified some in my testimony, and Witness Johnson has provided  
22 several as well. These adjustments should be made whether they are increases or decreases.  
23 Additionally, changes come to light after filing the rate case that should be incorporated  
24 into the MFRs, One such example is the increase in debt cost as a result of the increase in  
25 the Fed prime rate to 4.75% on March 22, 2018. Exhibit DDS-6 shows the current prime

1 rate and effective date published by the Wall Street Journal. Since KWRU's long term debt  
2 is tied to the prime rate, the cost of long debt should be adjusted. Although there is  
3 expectation that there will be additional adjustments to the prime rate this year, I am  
4 recommending an adjustment for only the increase effective last month. The impact is to  
5 increase KWRU's long term debt interest rate from 4.75% to 5.25%, and increases the  
6 overall rate of return to 7.7%.

7 **Q. What is the impact of the adjustments you have made to the MFRs?**

8 A. I have provided the impact of this and all of the other adjustments I have made in my  
9 Exhibit DDS-2, which includes revisions to MFR Schedules A-2, A-3, B-2, B-3, B-6, B-10,  
10 B-14, D-1, D-6 and E-1, and DDS-8, which lists the adjustments contained in those  
11 schedules.

12 **Q. The Utility provided revised schedules after the MFRs were complete. Can you  
13 explain the revisions?**

14 A. An adjustment was made to increase personal property taxes. The Utility adjusted property  
15 taxes to account for pro forma plant additions net of accumulation depreciation but did not  
16 make an adjustment for net plant of \$2,297,429 added during January through June 2017  
17 that was not included in the payment of property tax in November 2016. At a millage rate of  
18 9.4797 the MFRs were revised to reflect an increase of \$21,779 to property tax expense.  
19 The Utility revised the B-6 and B-8 to correct a data entry error. During discovery, the  
20 Utility realized that in the month of February, the monthly amounts from the GL were  
21 uploaded onto the wrong rows on the B-6 which then flowed to the B-8. While the total  
22 O&M expenses for the test year was correct, the annual amounts for the following accounts  
23 were incorrect:

24 711 Sludge Removal Expense

25 715 Purchased Power

- 1                   718 Chemicals
- 2                   720 Materials and Supplies
- 3                   735 Contractual Services - Testing
- 4                   742 Rental of Equipment
- 5                   770 Bad Debt Expense
- 6                   775 Miscellaneous Expense

7                   The corrected amounts were provided in a series of Interrogatories, and the B-6 and B-8  
8                   were revised to reflect the correct annual amounts.

9                   The Utility also revised the B-10 schedule to include unamortized rate case expenses from  
10                  the prior rate case.

11

12   **Q.**

13   A.

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

15   A.   Yes, it does.