

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 160101-WS

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

VOLUME 9
PAGES 1414 THROUGH 1572

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: CHAIRMAN JULIE I. BROWN
COMMISSIONER ART GRAHAM
COMMISSIONER RONALD A. BRISÉ
COMMISSIONER JIMMY PATRONIS
COMMISSIONER DONALD J. POLMANN

DATE: Wednesday, May 10, 2017

TIME: Commenced at 7:00 p.m.
Concluded at 10:12 p.m.

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

REPORTED BY: JANYCE BOOTH
Court Reporter

APPEARANCES: (As heretofore noted.)

PREMIER REPORTING
114 W. 5TH AVENUE
TALLAHASSEE, FLORIDA
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P R O C E E D I N G S

(Transcript follows in sequence from Volume 8.)

CHAIRMAN BROWN: Good evening, everyone.

So we're running a little bit behind here, but we do have a quorum, and we do have staff members.

I wanted to kind of take the temperature, not actual temperature, the temperature of folks tonight. My understanding is that Mr. Hoy -- that the parties will have several questions for Mr. Hoy on rebuttal.

I didn't eat dinner. I'm sorry.

MR. FRIEDMAN: Ms. Swain would be the next -- the next witness is Swain.

CHAIRMAN BROWN: I understand that. So my understanding is that Mr. Hoy -- folks have a lot of rebuttal.

MR. SAYLER: No, ma'am. I probably have less than 30 minutes, if any. I just need to -- I've been working on my questions to figure out what we've already established; what we haven't.

MR. ARMSTRONG: Summertree and Mrs. Ryan have no cross for either of the remaining witnesses.

CHAIRMAN BROWN: That's surprising.

MR. SAYLER: And after Ms. Swain gets up, I will communicate with Mr. Friedman and see if we

1 can work out a compromise.

2 CHAIRMAN BROWN: All right. So with that --

3 MR. SAYLER: Stipulation and agreement to
4 speed things up.

5 CHAIRMAN BROWN: Thank you. All right. I
6 appreciate that.

7 So at this time we are on -- we have two
8 witnesses left as we all know. Ms. Debra Swain.
9 How much time of cross do we have on Ms. Swain?

10 MS. CHRISTENSEN: Probably about 45 minutes of
11 both.

12 CHAIRMAN BROWN: All right. Let's get to
13 Ms. Swain.

14 MR. SAYLER: Would you like to identify this
15 corrected page to Mr. Woodcock's testimony now? I
16 know he's already been excused, but you had asked
17 for a correction to the correction.

18 CHAIRMAN BROWN: I did. Thank you.

19 We're going to go ahead right now and mark as
20 Exhibit 335 the corrected page for Mr. Woodcock's
21 testimony revised/revised.

22 (WHEREUPON Exhibit 335 was marked for
23 identification.)

24 MS. CHRISTENSEN: With that, Ms. Christensen,
25 I believe we have -- I'm sorry. I didn't eat.

1 MR. FRIEDMAN: Okay. Do you want me to just
2 go?

3 CHAIRMAN BROWN: Mm-hmm.

4 DEBORAH SWAIN

5 was called as a witness on behalf of Utilities, Inc of
6 Florida, and having been first duly sworn, testified as
7 follows:

8 EXAMINATION

9 BY MR. FRIEDMAN

10 Q Would you please state your name?

11 A Deborah Swain.

12 Q And, Ms. Swain, did you prefile rebuttal
13 testimony in this matter?

14 A Yes, I did.

15 Q And if I ask you the questions in your
16 prefiled rebuttal, would there be any changes?

17 A I provided changes to my rebuttal a week or so
18 ago.

19 Q Okay. And --

20 MR. FRIEDMAN: And Madam Chairman and
21 Commissioners, we filed that in the docket file; so
22 hopefully you each have her -- her changes.

23 CHAIRMAN BROWN: Just one second.

24 We do.

25 MR. FRIEDMAN: Thank you.

1 BY MR. FRIEDMAN

2 Q And, Ms. Swain, did you sponsor any exhibits?

3 A Yes. I sponsored two exhibits.

4 Q Okay. Thank you.

5 MR. FRIEDMAN: Madam Chairman, I would like to
6 ask that Ms. Swain's testimony be inserted into the
7 record as though read.

8 CHAIRMAN BROWN: We will insert Ms. Swain's
9 prefiled rebuttal testimony into the record as
10 though read.

11 MR. FRIEDMAN: Thank you.

12 (Prefiled rebuttal testimony inserted
13 into the record as though read.)
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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 32nd Ave., Suite 110, Miami, Florida 33145.

5 **Q. Have you previously presented testimony in this case?**

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

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

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

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

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

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

18 A. Yes. Ms. Ramas found instances where the Company's presentation of retirements in some
19 cases was greater than the balance in specific plant accounts resulting in negative balances
20 in those accounts. In some cases, the amount of accumulated depreciation retired was
21 greater than the balance in certain accumulated depreciation accounts. First, let me
22 summarize how we went about determining the original cost of plant retired. We used an
23 accepted method of determining the approximate original cost of plant in the absence of
24 actual cost information for the presentation of retirements associated with proforma plant
25 additions in the Company's MFRs. This method is used widely by utilities for the

1 accounting of retirements associated with replacement of those assets. In the absence of
2 specific information, the FPSC policy is to use 75% of the cost of the replacement as an
3 approximation of the original cost of the retired asset. However, for some of those replaced
4 assets in our filing, this resulted in retirements in excess of the actual plant balance. During
5 discovery we became aware of these instances, and agreed that a more appropriate estimate
6 of the original cost of the retired plant assets should be used.

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

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

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

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

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

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

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

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

2 First, Ms. Ramas determines that the inclusion of unamortized balance of prior rate case

3 expense in the calculation of includable rate case expense will result in over-recovery

4 because the Company will have collected an additional 19 months of expense by the time

5 the final rates are in effect on August 1, 2017. However, care must be taken to ensure that

6 the interim rates do, in fact, include the prior rate case expense amortization.

7 Second, Ms. Ramas asserts that the addition of unamortized balance of prior rate case

8 expense to new rate case expense for the calculation of the annual expense allowed, is

9 inconsistent with Section 367.081(8), Florida Statutes. However, the statute clearly states

10 that a longer period would be allowed if justified and in the public interest. If the recovery

11 of the unamortized balance of prior rate case expense is recalculated to expire at the same

12 time as the new rate case expense, the amount recovered would be equivalent, and therefore

13 the customers would not overpay. Furthermore, this treatment would simply spread the cost

14 evenly, and normalize the rates over upcoming years. And finally, it would result in a single

15 rate change at the end of four years, rather than multiple rate changes. This is particularly

16 important when consolidating rates. The impact of individual system revenue reductions

17 across the consolidated system would likely be miniscule rate changes, done multiple times.

18 It is far more practical, less costly to implement, and therefore beneficial to the customer

19 and in the public interest to consolidate the unamortized rate case expense and amortize

20 them all over the next four years, making one adjustment to rates at the conclusion of that

21 period. Making multiple rate changes as a result of the intermittent expiration of rate case

22 expense amortization on a consolidated rate would not be in the public interest.

23 Last, Ms. Ramas determines that in certain of the systems, the amount of the unamortized

24 balance of prior rate case expense was added to new rate case expense, but then prior rate

25 case expense was not removed, thus resulting in a double-counting. She is correct, the

1 Company made an error, and it should be corrected.

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

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

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

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

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

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

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

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

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

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

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

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

14 **Q. What is the impact of this adjustment?**

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

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

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

1 110, however, the rate is correct as filed.

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

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

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

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

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

16 **A.** Although technically correct, the adjustment is immaterial.

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

19 **A.** Ms. Ramas first reduced the cost of the GIS system to \$350,000 based upon Mr. Flynn's
20 Prefiled Direct Testimony. However, as provided by Mr. Flynn in Exhibit Amended PCF-
21 51, the estimate of the cost of the GIS system has been updated, and the new cost should be
22 used.

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

25 **A.** Yes, there were errors in the allocation that requires correction. Again, the updated cost

1 should be used, and allocated to all utilities based upon number of ERCs.

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

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

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

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

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

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

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

1 Schedule of Chemicals.

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

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

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

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

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

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

1 its life if it is still in use.

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

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

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

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

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

22 **A.** The first adjustment Ms. Ramas makes is to remove the proforma addition to salaries and
23 benefits associated with a new maintenance technician for two reasons. She asserts that
24 Company had not demonstrated it had increased the number of personnel, and that it had
25 not demonstrated the need for this additional individual. However, since it has been

1 supported in Mr. Flynn's rebuttal testimony I do not agree that an adjustment to should be
2 made to remove the proforma expenses. Ms. Ramas also makes an adjustment to possible
3 cost savings associated with the proforma methanol pumps replacement and add in-line
4 nutrient analyzers. The Company indicated that methanol is expected to decrease as much
5 as 10% as a result of the proforma plant. The full 10% was adjusted out based upon the
6 Company's statement "as much as 10%". She also makes adjustments to remove out of
7 period expenses associated with a WWTP permit, and with a sludge hauling accrual. We do
8 not agree with her adjustments.

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

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

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

16 **A.** The first adjustment Ms. Ramas makes is to remove the proforma addition to salaries and
17 benefits associated with a new maintenance technician for two reason. She asserts that the
18 Company had not demonstrated it had increased the number of personnel, and that it had
19 not demonstrated the need for this additional individual. However, since it has been
20 supported in Mr. Flynn, an adjustment should not be made to remove the proforma
21 expenses. Next, Ms. Ramas removes the proforma increase in purchased power cost
22 associated with a tariff change from SECO, stating the Company did not adequately support
23 the adjustment. As it has been updated in Mr. Flynn's rebuttal testimony and Exhibit PCF-
24 49, a revised adjustment should be made to increase water purchased power by \$17,840,
25 and reduce wastewater purchased power by \$2,174, which is \$3,163 more in water and a

1 reduction of \$9,831 in wastewater from the original filing..

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

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

18 Reduction in sludge hauling expense of \$3,500/month assuming the
19 pilot test shows the efficacy of the equipment as designed. Initial
20 indications are that the solar unit may only be effective at half the
21 design loading rate resulting in a projected savings of about
22 \$1,750/month. If the project is not successful and not added to rate
23 base, the O&M impact would be about a 10% increased due to the
24 increase in sludge production from customer growth increasing flow
25 to the plant.

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

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

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

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

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

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

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

23 Ms. Ramas makes an adjustment to working capital to remove accrued taxes the Company
24 included, based on the Company's determination that these taxes were as a result of
25 payment of taxes on Post-2000 Tap Fees. Although these accrued taxes are not associated

1 with Post-2000 Tap Fees (the Company's revised response to OPC ROG No. 131(b) was
2 incorrect, and misunderstood the question), the balance of the Federal Tax amount was
3 subsequently written off in a correcting entry. Therefore, the Company agrees that the
4 working capital should be adjusted to remove the balance in the accrued federal income tax
5 account, but not the state. The state amount is legitimately a prepaid state income tax due to
6 timing differences. As I explain later, as a result of reviewing this adjustment, I found that
7 the Company had made a similar adjustment to all of the systems.

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

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

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

20 **A.** Based on the testimony of Mr. Woodcock, Ms. Ramas made a significant adjustment to the
21 Sandalhaven Rate Base, removing a net of \$3,013,376. The result of all of the adjustments
22 made by Ms. Ramas is to reduce the rate base from \$3,944,850 originally filed by the
23 company, to \$293,549, less than 10% of that requested. My particular concern is that the
24 revenue impact is even further exacerbated by Ms. Ramas' calculation of cost of capital
25 with the adjustments. Since the capital structure is allocated, with the exception of system-

specific components, the result is that she is claiming that nearly two-thirds of the financial support for the rate base is from ADIT. This is nonsensical, and the result is that the recommended overall rate of return is 3.01%. This is particularly highlighted in this case because of the magnitude and impact of the rate base adjustments. It is unreasonable to assert that the non-used rate base was fully funded by the high cost components, and that the used and useful assets are financed by the low cost components. Although this mirrors the result for all cases with adjustments to rate base, this particular extreme case vividly depicts that it is not always reasonable or appropriate to allocate only certain capital components. It should be noted that my comments regarding the correct way Ms. Ramas should make adjustments based on Mr. Woodcock's testimony, should not be taken as an endorsement of Mr. Woodcock's determination of used & useful. The utility believes that, based on Mr. Seidman's testimony, the plant at Sandalhaven is 100% used and useful.

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

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

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

Ms. Ramas removes the proforma plant addition for the Myrtle Hill plant since it will be

1 paid for by customers by CIAC. However, until such time as CIAC is recovered, the cost
2 will have been incurred by the Company, and as such should be included. Mr. Flynn
3 explains this further in his testimony.

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

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

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

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

1 the abandonment, and increase in purchased water, as well as the related adjustments to
2 depreciation expense based on the retirement correction. The adjustments should be made,
3 subject to any revisions provided by Mr. Flynn.

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

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

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

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

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

1 a retirement of \$0 would be acceptable.

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

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

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

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

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

21 **A.** Ms. Ramas makes an adjustment to remove bulk water purchases incurred by the utility
22 pending the interconnection of Crystal Lake to Ravenna Park. The Company will incur
23 additional operating and maintenance costs associated with the additional demand on
24 Ravenna Park, and recommends that the purchased water cost incurred on a temporary basis
25 is a valid approximation of the operating costs to be incurred in the absence of a more

1 detailed analysis. Furthermore, although it will not be purchased on a daily basis, water may
2 still be purchased if needed on an emergency basis.

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

5 **A.** Yes, I do. In her analysis Ms. Ramas recommends limiting the amount of the retirement to
6 the balance in the plant account for mains as of December 31, 2000 since additions after
7 that time have been other replacement projects, and the amount associated with this
8 particular replacement project would certainly be no more than the account balance at the
9 date she indicates. Ms. Ramas also makes a similar adjustment to the Northwestern Force
10 Main Replacement, limiting the retirement to the test year end balance in account 360.2,
11 \$28,207.

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

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

18 **A.** Yes, and I have listed them below.

19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]

24 Audit Adjustments - Mr. Deason has provided testimony regarding audit adjustment
25 detailed in the Commission's Official Audit Report. Those adjustments with which he

1 agrees should be made to the filing.

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

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

17 **A.** Yes, it does.

18 **Q.**

19 **A.**

20 **Q.**

21 **A.**

1 BY MR. FRIEDMAN

2 Q Ms. Swain, would you give a brief summary of
3 your rebuttal testimony, please?

4 A Sure.

5 In my rebuttal in particular, I address
6 several issues. First, about rate case expense, and I
7 clarify Ms. Ramas's claim that certain costs should be
8 removed because of time spent on deficiencies, filing
9 and reports, a rework due to discovery responses.

10 First of all, we do agree that no time should
11 be spent regarding responding to deficiency responses.
12 This is Commission practice. The -- none of the time
13 associated with the rate case expense or those people
14 working on rate case expense were involved in the filing
15 of the annual reports. And although this case required
16 an extensive amount of time to respond to discovery,
17 it's unfair to call our time duplicative or rework.

18 For examples, the MFRs and my direct testimony
19 were almost 1700 pages. We spent a lot of time trying
20 to submit all the -- all the work papers completely the
21 first time, but we did have to do a second round.

22 Ms. Ramas also pointed out that certain amounts were
23 included in the MFRs to reduce plant and depreciation
24 for some of the retirements associated with proforma
25 plants and that those retirements were too high and

1 would cause plant accounts to have negative balances,
2 and we agree with many of them. It certainly was not in
3 the Company's benefit to do that. As a matter of fact,
4 it resulted in an understatement of depreciation
5 expense.

6 And I wanted to also assure all that the
7 Company doesn't use that -- that method of retiring
8 75 percent of the original -- or the replacement costs
9 as their method of when they book the retirements. They
10 actually either use the original cost, if it's
11 available, or the Handy-Whitman Guide.

12 During the test year, several plant
13 abandonments and decommissionings took place. The MFRs
14 did not reflect a loss in those cases, and we agree that
15 a loss should be reflected. It should be calculated in
16 compliance with Commission rule, and it should be
17 deferred and amortized, and the unamortized portion be
18 added to working capital.

19 There's -- we did a calculation of deferred
20 taxes associated with the proforma plants, but we
21 neglected to include those deferred taxes associated
22 with bonus depreciation, and we agree that there is a
23 correction that needs to be made to include bonus
24 depreciation.

25 There was some discussion about the health

1 reserve, and Ms. Ramas pointed out that I misunderstood
2 her testimony. I agree I misunderstood her testimony,
3 but that doesn't change the bottom line that she simply
4 decided it was too high a cost, and she reduced it
5 based -- not based on the details that were provided.

6 Also with the exception of Sandalhaven, we
7 didn't make any adjustments to deferred taxes associated
8 with Post-2000 Tap Fees in the MFRs.

9 In the Sandalhaven case, there were two
10 adjustments made by the Commission -- in particular in
11 the PAA for Sandalhaven -- to remove both deferred taxes
12 associated with Post-2000 Tap Fees and also NOLs. And
13 in my original rebuttal, I incorrectly stated that we
14 had removed all the deferred taxes associated with
15 Post-2000 Tap Fees, and, in fact, we did not.

16 And at this point, I agree that a portion
17 should be removed. It should be --

18 MS. CHRISTENSEN: I'm going to object to that.
19 Her testimony regarding removing a portion was not
20 what was in her rebuttal testimony, and this
21 essentially is amending her rebuttal testimony, and
22 I think that's inappropriate in the summary.

23 CHAIRMAN BROWN: Mr. Friedman?

24 MR. FRIEDMAN: If I recollect, this -- is this
25 what we filed a late-filed exhibit on?

1 THE WITNESS: Yes, we did.

2 MR. FRIEDMAN: Yeah. We filed a late-filed
3 exhibit on this at the request of somebody at her
4 deposition. So it can't be a surprise to anybody
5 because somebody asked for it.

6 CHAIRMAN BROWN: What --

7 MS. CHRISTENSEN: Just briefly respond. That
8 was a late-filed deposition exhibit taken in the
9 process of discovery which has not been admitted
10 into the record here --

11 CHAIRMAN BROWN: Just a second, please.

12 What number is the late-filed exhibit?

13 MR. FRIEDMAN: It's No. -- I think it's the
14 last -- it's 20 -- 204 and 205 are her two
15 late-filed exhibits.

16 CHAIRMAN BROWN: When were they filed?

17 MR. FRIEDMAN: Actually 203, 4, and 5.

18 CHAIRMAN BROWN: 203 through 205?

19 MR. FRIEDMAN: Yes. Were her late-filed
20 exhibits to her deposition, and we --

21 CHAIRMAN BROWN: When were those submitted?

22 MR. FRIEDMAN: We sent those -- one of them
23 was the Friday -- Friday of her deposition.

24 THE WITNESS: This one. This one was
25 April 28th, and then the other two were Tuesday,

1 May 2nd.

2 CHAIRMAN BROWN: Who requested the
3 information?

4 THE WITNESS: This was requested I believe by
5 Staff.

6 CHAIRMAN BROWN: All right.

7 MS. MAPP: The first two exhibits were
8 requested by OPC, and the third was requested by
9 Staff.

10 CHAIRMAN BROWN: Objection overruled.
11 You may continue with your summary.

12 THE WITNESS: Thank you.

13 So there were taxes paid on Tap Fees after the
14 law had changed that they were no longer taxable.
15 The Utility maintains that it was correct to pay
16 the tax because that is what their tax accountants,
17 outside tax accountants, told them to do.

18 However, even though it was paid and the
19 Commission found it should not be paid, it's not
20 just thrown-away money. It's recovered over time
21 because the depreciation expense deduction on the
22 tax return is -- is larger than it would have been.
23 So it would have been ratably recovered as CIAC is
24 amortized. So that's -- in this -- you know in
25 responding to discovery, we realized that that was

1 appropriate.

2 Also, finally, accrued federal taxes were
3 brought to light by Ms. Ramas's review. We agree
4 they should be removed. They were written off by
5 UI. There were no work papers because the entry
6 was just to remove the balance. There was no
7 detail behind it. They had been recorded in 2013
8 and had since been written off.

9 The state accrued taxes should stay on the
10 books because they do reflect the annual year-end
11 entry to accrue state taxes.

12 And that concludes my summary.

13 MR. FRIEDMAN: She's tendered for
14 cross-examination.

15 CHAIRMAN BROWN: Thank you.

16 MS. CHRISTENSEN: Commissioner, we have
17 exhibits to be passed out. Again, since these
18 questions refer to rebuttal, we have two different
19 packages. And hopefully once they pass out, you
20 should receive two different packages: one -- and
21 the first set that I will be referring to is the
22 Deferred Tax Debits - Tap Fees Post 2000.

23 CHAIRMAN BROWN: Thank you and appreciation
24 towards collating these so efficiently. Thank you.

25 MS. CHRISTENSEN: Mm-hmm. All right.

1 Correct. The first one that we'll be
2 referring to is Staff's POD-18, and I believe that
3 was in the ninth -- this is a composite exhibit.

4 CHAIRMAN BROWN: Let's go ahead and mark that.
5 We're going to go mark that 336.

6 MR. FRIEDMAN: Did we mark 335?

7 CHAIRMAN BROWN: We did. Woodcock's. OPC
8 corrected page for Mr. Woodcock.

9 MR. FRIEDMAN: Oh, okay. I thought that was
10 280 -- we didn't just insert it where the old one
11 was?

12 CHAIRMAN BROWN: No, we did not.

13 MR. FRIEDMAN: I apologize.

14 CHAIRMAN BROWN: And then we're going to give
15 336 the title of Composite Exhibit of UIF's --

16 MS. CHRISTENSEN: UIF's Response to Staff's
17 Ninth Request for Production of Document 18.

18 CHAIRMAN BROWN: Thank you.

19 (WHEREUPON Exhibit 336 was marked for
20 identification.)

21 BY MS. CHRISTENSEN

22 **Q Ms. Swain, do you have that exhibit in front**
23 **of you?**

24 A Yes, I do.

25 **Q Okay. I will be asking you some questions**

1 regarding the Company's various positions in this case
2 with regards to -- with regard to the accumulated
3 deferred income tax debt balance associated with the
4 Post-2000 Tap Fees. And in asking my questions, the
5 term I will use is "ADIT" for accumulated deferred
6 income tax. Is that acceptable with you?

7 A Sure.

8 Q Okay. Looking at the response provided to
9 Question 18, Ms. Swain, you will -- do you note that the
10 notice of service says that this response was submitted
11 by the Company on April 15th? Is that correct?

12 A Yes.

13 Q Okay. And this question references the
14 deferred tax debit Post Tap Fees Post-2000.

15 Do you see where in subpart A of the question
16 it's asked for any documents associated with the
17 collection of Tap Fees that gave rise to the deferred
18 tax debit Tap Fees Post-2000 such as contracts and
19 receipts?

20 A Yes, I do.

21 Q Okay. And do you see where subpart B asks for
22 documentation demonstrating that the Utility paid the
23 income tax on the income from the Tap Fees Post-2000 in
24 subpart B?

25 A Yes, I do.

1 **Q And can you please read aloud the written**
2 **response the Company provided to this Request for**
3 **Production of Documents?**

4 A Yes. This is my response.

5 "Although the Company's position is that taxes
6 were correctly paid on the Post-2000 Tap Fees, the
7 Company is in agreement to remove ADITs associated with
8 Post-2000 Tap Fees from the determination of revenue
9 requirement."

10 **Q Okay. Let's move to the next document, Staff**
11 **Interrogatory 228, please.**

12 MS. CHRISTENSEN: And this is also a composite
13 exhibit. Can we get this marked for
14 identification?

15 CHAIRMAN BROWN: We will go ahead and mark
16 that as Exhibit 337. And the title?

17 MS. CHRISTENSEN: The title would be Composite
18 of UIF Response to Staff's 12th Interrogatory
19 No. 228.

20 CHAIRMAN BROWN: Thank you.

21 (WHEREUPON Exhibit 337 was marked for
22 identification.)

23 BY MS. CHRISTENSEN

24 **Q All right. Ms. Swain, on this document, can**
25 **you please reference the notice of service? And do you**

1 see where it states that the Company submitted this
2 response on the 17th of April 2017?

3 A Yes, I do.

4 Q Okay. And this question -- when you flip to
5 the discovery portion, 228, do you see where it
6 addresses ADIT and specifically deferred tax debits Tap
7 Fees Post-2000 for each water and wastewater system?

8 A Yes.

9 Q And do you see where the subpart A -- the
10 question asked for an explanation of from what sources
11 the ADITs were generated?

12 A Yes, I do.

13 Q Okay. And do you see anywhere -- I'm sorry.
14 And do you see where subpart C asked for the
15 corresponding balance, if any, of CIAC associated with
16 the Tap Fees or CIAC?

17 A Yes.

18 Q Can you please read out loud the written
19 response the Company provided to this interrogatory?

20 A Yes. I responded that, "Although the
21 Company's position is that taxes were correctly paid on
22 Post-2000 Tap Fees, the Company is in agreement to
23 remove ADITs associated with Post-2000 Tap Fees from the
24 determination of revenue requirement."

25 Q So based on these responses, at least as of

1 April 17th, the Company had indicated in writing that
2 it agreed to remove the ADITs associated with Post-2000
3 Tap Fees from the revenue requirement in this case; is
4 that correct?

5 A Yes. That's right.

6 Q Okay. Turning to the next document that I
7 handed out in the packet, this would be UIF's Response
8 to Staff's 16th Interrogatory No. 307.

9 CHAIRMAN BROWN: So we're going to go ahead
10 and mark it as 338 just as you stated.

11 MS. CHRISTENSEN: Thank you.

12 (WHEREUPON Exhibit 338 was marked for
13 identification.)

14 BY MS. CHRISTENSEN

15 Q Okay. Again, can you turn to the first page
16 of this document, and it is the notice of service. And
17 would you agree that this response was submitted on the
18 20th of April 2017?

19 A Yes.

20 Q Okay. And this is approximately three days
21 after the previous document we looked at was submitted
22 on April 17th?

23 A Correct.

24 Q Okay. And while the interrogatory is directed
25 to Mr. Deason's rebuttal testimony, is it correct that

1 you were identified as the sponsor of this data
2 response?

3 A Yes, I was.

4 Q Okay. And the question, you would agree,
5 asked in part if UIF agrees that an adjustment to remove
6 the deferred ADIT balance for Tap Fees Post-2000 for
7 taxes paid on plant capacity fees received from
8 developers should be applied to all the utilities
9 addressed in Staff's Audit Finding No. 5. Do you see
10 that?

11 A Yes, I do.

12 Q Okay. And can you please read out loud the
13 response that was provided in this?

14 A Yes.

15 "UIF agrees that an adjustment should be made
16 but only to remove the unamortized balance of ADIT on
17 Post-2000 Tap Fees in all of the systems. This ADIT
18 should be amortized over the tax life of the related
19 CIAC with the debit to ADIT-Depreciation."

20 Q Okay. And you would agree that this is
21 different than the Company's position expressed just
22 three days prior in response to Staff's Interrogatory
23 228 and as expressed in the response to Staff's POD-18;
24 is that correct?

25 A Yes. And it was as a result of this -- of the

1 numerous discovery requests about the ADITs for
2 Post-2000 Tap Fees that it really came to light, and we
3 discussed it with the tax folks at UI and confirmed that
4 they should have been amortized to depreciation.

5 Q Let me -- I'm sorry. Let me refer you to the
6 last document that we passed out.

7 CHAIRMAN BROWN: So we're going to go ahead
8 and mark that as 339, and that's -- the title is
9 Deferred Tax Debits Tap Fees Post-2000.

10 (WHEREUPON Exhibit 339 was marked for
11 identification.)

12 MS. CHRISTENSEN: Correct. Can we -- I think
13 we're on Exhibit 339.

14 CHAIRMAN BROWN: '9. I just said that.

15 MS. CHRISTENSEN: I'm sorry.

16 BY MS. CHRISTENSEN

17 Q Now -- and just to clarify for the record, you
18 have not submitted revised testimony or schedules to
19 your rebuttal testimony in those cases that refers to
20 your change in position on ADITs Post-2000 Tap Fees; is
21 that correct?

22 A I have -- I have made one change to my
23 rebuttal testimony, and that was to strike the lines
24 where I stated that we agreed that they should be
25 removed.

1 Q Okay. All right. Well, let's -- let me
2 address then the handout that I just provided to you.
3 It's a copy of PSC Order 160013 PAA. And as background,
4 these ADITs on Post-2000 Tap Fees are reflected as an
5 ADIT asset on the Company's books; is that correct?

6 A Yes, it is.

7 Q Okay. In other words, you would agree the
8 ADIT on Post-2000 Tap Fees is reducing the amount of
9 ADITs that is included in the capital structure at zero
10 cost; is that correct?

11 A That's correct.

12 Q And we want to make sure we're clear.
13 Including the offset to the ADIT balance in the capital
14 structure associated with the AD -- associated with the
15 ADITs on Post-2000 Tap Fees increases the resulting
16 overall rate of return; is that correct?

17 A Yes, it does.

18 Q Okay. So in the more recent responses, the
19 Company's position is that it should now amortize the
20 ADITs on Post-2000 Tap Fees and only remove the
21 unamortized balance from the impact of the ADIT
22 component of the capital structure; is that correct?

23 A Yes. That's correct. And it's -- again, it's
24 because it wasn't thrown-away money if we get a benefit,
25 and over a period of time, it reduces depreciation

1 expense and that is deducted. So this is to recognize
2 that, yes, maybe we should not recover what was paid up
3 front, but if it had not been paid up front, it would
4 have -- the deferred tax on depreciation would have been
5 a smaller credit equal to the amortization of the
6 deferred -- the ADITs on Post-2000 Tap Fees.

7 Q Okay. I understand that's your position.

8 Can you tell me whether or not the Company has
9 actually amortized the ADIT on Post-2000 Tap Fees assets
10 on its book?

11 A No, it had not.

12 Q Okay.

13 A But I have been told they will. They have
14 assured me that they will.

15 Q But as we speak here today, they have not done
16 it, and they had not done it in the past; is that
17 correct?

18 A I don't believe they have done it as of today
19 because we have not worked out all the calculation
20 details, and they have not done it in the past. That's
21 correct.

22 Q Okay. Now, looking -- I want to refer you to
23 excerpts from the order that we were discussing from
24 January 6, 2016, Commission order that was just provided
25 to you. And this is the most recent Sandalhaven rate

1 case in which Commission addressed ADITs associated with
2 CIAC received from developers that the Company
3 classified as Tap Fees. Are you familiar with this
4 Commission order?

5 A Yes, I am.

6 Q Okay. Now, is it your understanding that in
7 this order the Commission determined that Sandalhaven's
8 plant capacity charges were nontaxable CIAC under IRS
9 Treasury Regulation 1.11 -- or 1.118-2?

10 A Yes.

11 Q Okay. And is it also your understanding that
12 since the Commission determined that the charges were
13 not taxable, the Company was not permitted to include
14 the associated ADIT asset balance in determination of
15 the amount of ADIT to include at zero cost in the
16 capital structure?

17 A Yes. That's correct. And that is consistent
18 with what I'm doing. I'm saying that the unamortized
19 portion should not be included, but we have to recognize
20 that the ADIT on depreciation expense would have been a
21 lower credit. Had the Company not paid the taxes and
22 had they amortized the CIAC over time for their tax
23 return, it would have had the same result. So we need
24 to reduce the ADIT credit on depreciation expense to
25 recognize the proper treatment had the rules laid out in

1 this order and IRS guidelines been followed.

2 **Q We want to -- can I ask for a clarification?**
3 **Are you suggesting that CIAC should be increased because**
4 **of this?**

5 A No. I'm saying that the depreciation
6 expense -- there's a timing difference on the books for
7 deferred -- and a deferred tax associated with
8 depreciation expense because what the Company has on its
9 books for depreciation expense is different than what
10 they use on their tax returns. So there's a deferred
11 tax.

12 Had they not paid the tax on CIAC, the proper
13 treatment would have been to reduce the deduction for
14 appreciation expense by the amount of the amortization
15 of the CIAC, and, therefore, the deferred tax associated
16 with depreciation would have been a smaller credit, and
17 that smaller credit is equivalent to the amortization of
18 the ADIT on CIAC.

19 **Q All right. Well, let's take a look at the**
20 **order on Page 20.**

21 A Okay.

22 **Q Do you see that the Commission disallowed the**
23 **debit -- the debt ADIT balance of \$618,138 associated**
24 **with plant capacity fees?**

25 A Yes, I do.

1 Q Okay. And in that order, the Commission did
2 not indicate that the debit ADIT balance associated with
3 the plant capacity fees or the deferred Tap Fees should
4 be amortized; did it?

5 A No. It didn't come up in the case, and I
6 think that it's because the Company was so focused
7 certainly on defending its position that it should have
8 paid income tax that it did not reflect that it should
9 have been amortized. As a matter of fact, not until
10 this case did we realize that.

11 Q Well, you would agree that in this order the
12 Commission disallowed fully the inclusion of the debit
13 ADIT balance; is that correct?

14 A Yes.

15 Q Okay.

16 A And that is a PAA order that was -- I believe
17 was stipulated, and this is not one of the issues that
18 was included as finally decided. However, we didn't
19 think that we were going to be able to defend it, and so
20 I took it out in the Sandalhaven case, and now I'm
21 saying that we should be deferring and amortizing it.

22 Q I'm going to now refer you to the second
23 packet that I passed out.

24 CHAIRMAN BROWN: Would you like a number?

25 MS. CHRISTENSEN: In one moment I would. I've

1 apparently handed it out to everybody else but
2 myself.

3 CHAIRMAN BROWN: Ms. Christensen, you're the
4 most organized one of all of us.

5 MS. CHRISTENSEN: I know. It seems like there
6 may be no hope after this time of night.

7 Okay. I now have that in my possession.

8 CHAIRMAN BROWN: Great.

9 MS. CHRISTENSEN: And the first document I
10 would like to refer to is UIF's Response to Staff's
11 First Production of Documents No. 4.

12 CHAIRMAN BROWN: All right. We will give that
13 an Exhibit No. 340.

14 (WHEREUPON Exhibit 340 was marked for
15 identification.)

16 BY MS. CHRISTENSEN

17 **Q Ms. Swain, can I refer you to Page 4 of your**
18 **rebuttal testimony, Lines 2 and 6, and please let me**
19 **know when you're there.**

20 A Okay. I'm sorry. Page what?

21 **Q Page 4 of your rebuttal testimony.**

22 A Okay. I'm there.

23 **Q Okay. And we're speaking specifically to**
24 **Lines 2 through 6.**

25 A Okay.

1 Q And this is where you address the unamortized
2 balance of rate case expense associated with Carter
3 dockets; is that correct?

4 A Yes.

5 Q And the company is proposing to combine the
6 unamortized prior rate case expense and the current rate
7 expense in its filing --

8 A Yes --

9 Q Is that --

10 A Yes. That's right.

11 Q Okay. And this combined balance would then be
12 amortized and included in rates resulting from this
13 case. Is that the Company's proposal?

14 A Yes, it is.

15 Q If the Commission agrees with this proposal,
16 do you agree that the unamortized balance for the prior
17 rate cases should be based on the balances as of the
18 rate-affected date of this docket?

19 A Yes, I do.

20 Q Okay.

21 Okay. On Lines 5 and 6 of your rebuttal
22 testimony, still on Page 4, you state, "However, care
23 must be taken to ensure that the interim rates do, in
24 fact, include the prior rate case expense amortization."

25 As you sit here today -- do you have any

1 reason to believe that the interim rates do not include
2 the prior rate case expense amortization?

3 A No. I don't have any reason to think that
4 they do.

5 Q Okay. Now, let me turn your attention to
6 Page 5 of your rebuttal testimony, Lines 13 through 22.

7 A Okay.

8 Q And you indicate that adjustments should not
9 be made to rate case expense for the time spent to
10 revise or supplement responses to discovery requests; is
11 that correct?

12 A Yes. That's correct.

13 Q And on Lines 15 through 16, you state that the
14 Utility did not perform any rework in order to submit
15 additional information; so no adjustment to rate case
16 expense is needed.

17 Is this your position -- or excuse me.

18 Is it your position that no outside attorney
19 fees were incurred for reviewing or filing supplemental
20 or revised responses in this case?

21 A It's my position that my company provided the
22 work papers, and it was added to the documents that the
23 attorney filed with everything else. And I don't think
24 you could find a moment there or a minute that may be --
25 was spent to provide that additional information by the

1 attorney.

2 Q Well, let me turn your attention to what's now
3 been marked as Exhibit 340, and that is Utilities,
4 Inc.'s Response to Staff's First Request for Production
5 of Document -- oh, I'm sorry.

6 CHAIRMAN BROWN: You were right.

7 MS. CHRISTENSEN: No. I'm -- the -- that's
8 Staff's, but the question is referring to Office of
9 Public Counsel -- oh, is it that one?

10 (Pause)

11 Okay. No. That's fine. We can use this one.
12 I just wanted to double check. I have it down here
13 as OPC, and it's really Staff.

14 BY MS. CHRISTENSEN

15 Q So let me -- you have the document in front of
16 you, and it's UIF's Response to Staff's First Request
17 for Production of Documents, No. 4.

18 A Yes.

19 Q And you would agree that this document
20 requested that UIF provide all supporting documentation
21 for adjustments to rate base and net operating income
22 for the test years shown in the MFR schedules for each
23 system, for the A Schedules, B Schedule -- A-3 Schedule,
24 B-3 Schedule, C-3 Schedule, and D-2 Schedule; is that
25 correct?

1 A Yes. That's right.

2 Q Okay. And if you know, do you recall when
3 this request was first served on the Company?

4 A I don't recall.

5 Q Okay. Would you, subject to check, accept
6 that this document request was served -- or -- strike
7 that.

8 Were you aware that OPC had also served a
9 similar document request in September 16th, 2016, that
10 also requested similar information?

11 A Yes. I recall that the -- that OPC requested
12 all work papers. They weren't specific to certain
13 schedules but all the work papers.

14 Q Okay. And you would agree that the response
15 to OPC's Request for Production of Documents and all the
16 work papers was not produced by the Company until
17 January 10th, 2017; is that correct?

18 A I don't recall the date. Is the date on here
19 somewhere?

20 Q I don't believe it's on there. If you have an
21 independent recollection, that's fine.

22 A I think that's -- I would -- I would accept
23 that.

24 Q Okay. Now, let me -- let me ask you this.
25 Would you expect that the supporting documentation for

1 the adjustment contained in the MFRs would be available
2 at the time the MFRs were filed by the Company?

3 A Yes, they were. And I'd like to explain why
4 not all of them were provided. The MFR schedules -- we
5 have a separate schedule, of course, for each of the 16
6 filings, and most of them include all the work papers in
7 that same Excel workbook, and those were all provided.

8 However, there were certain ones that we did
9 not realize at the time we were compiling it that we
10 neglected to include. They were in separate files. So
11 when we responded eventually to the PSC request, we
12 realized that there was a number of work papers that we
13 had not provided to -- in OPC's POD request.

14 Q Well, if you agree with me that those
15 supporting documentation and work papers should have
16 been available when the Company submitted its original
17 MFRs, can you explain why it would take four months to
18 provide an initial response to a question asking for
19 that supporting documentation?

20 A Yes. I answered a question you didn't ask me.
21 So in response to the question you did ask me,
22 no, I don't think that the -- that all the work papers
23 should have been available at the time that we initially
24 filed. The case was not finally accepted until later in
25 November. And upon advice of counsel, we were given a

1 deadline to provide that information, and we met that
2 deadline.

3 Q And what was the deadline you were given by
4 counsel to provide your supporting documentation after
5 the deficiencies were deemed corrected in
6 November 22nd of 2017?

7 A I think it was a date in January, but I don't
8 recall.

9 Q Okay. And did you provide everything then in
10 January?

11 A I think in the first group that we submitted
12 that we were missing some work papers, and then when the
13 PSC requested supporting documents, we realized that we
14 had missed some, and we provided those as well.

15 Q All right. Let me refer you to Page 5,
16 Line 16 through 17, of your rebuttal testimony. In
17 discussing the data responses, you state, "The responses
18 were adequate as made. However, it was at OPC's request
19 that clarification was provided."

20 Is it your position that the supporting
21 documentation for all the adjustments to rate base and
22 net operating income contained in MFR Schedules A-3,
23 B-3, and C-3 were provided in the Company's initial
24 January 10th, 2017, response to OPC POD No. 4?

25 A No. There were some missing, but it was --

1 most of them by far were provided. There were a few
2 that were missing that were associated with some of the
3 proforma expenses.

4 Q So is it your understanding that OPC requested
5 the support for the adjustments that were already
6 requested by POD No. 4 and not clarifications?

7 A No. I'm -- the additional work papers that
8 were provided were in response to the Staff, and we
9 realized that we neglected to include some. But other
10 questions regarding clarification -- we did our best to
11 understand the questions, and occasionally we just don't
12 understand the written words. And so occasionally you
13 all requested some additional follow-up, as did Staff,
14 and we did our best to provide that information as
15 completely as possible and meet the deadlines.

16 Q And do you recall that that conversation was
17 with Ms. Ramas who's with OPC? Do you remember having a
18 conversation with her about the information that was
19 required through the work papers and supplemental to
20 support those schedules?

21 A I don't recall the conversation.

22 Q Okay.

23 A Sorry.

24 Q Let me move on from that and Page 6 of your
25 testimony, Lines 1 through 13.

1 And in this testimony, you indicate that you
2 agree with the impacts of the bonus depreciation should
3 be included and that it would result in an additional
4 credit to ADIT for systems with proforma adjustments to
5 qualify plant; is that correct?

6 A Yes. That's right.

7 Q On Lines 12 through 13, you state that it's
8 your understanding that the water utility property and
9 reuse property qualify for bonus depreciation.

10 Are you aware that Utilities, Inc. also claims
11 bonus depreciation on its wastewater utility property on
12 its income tax returns?

13 A Yes. And I agree for that reason that the
14 bonus depreciation should be calculated on all the plant
15 that's been indicated in -- by UI and in UIF's
16 interrogatory response as to what plant is includable.

17 Q Okay. So you would agree that it should
18 include the appropriate water as well as
19 wastewater plants?

20 A Yes. All the plants that they include on
21 their tax return. Yes, I agree.

22 Q Okay. Now referring to rebuttal testimony,
23 Page 7, Lines 2 through 9, in addressing Ms. Ramas's
24 adjustment to the test year health insurance expense, I
25 believe you stated in your summary that you agreed you

1 misunderstood her adjustment; is that correct?

2 A Yes.

3 Q Okay. And, therefore, you would agree that
4 Ms. Ramas does not state that an adjustment to the
5 health insurance reserve is a nonrecurring -- is not
6 nonrecurring?

7 A That's correct.

8 Q Okay.

9 A She just states that it's too much money.

10 Q Okay. All right. Let me turn your attention
11 to Page 13 of your rebuttal testimony.

12 A Okay.

13 Q Okay. In addressing an adjustment to working
14 capital to remove the accrued taxes, at Line 25 through
15 Page 14, Line 3, you indicate in parentheses, "The
16 Company's revised response to OPC Interrogatory
17 No. 131(b) was incorrect and misunderstood the
18 question."

19 Can you tell me when did the Company realize
20 its response to OPC's data request was incorrect? And
21 let me ask you that question first, and then I have a
22 follow-up.

23 A Well, actually when I -- I had not seen the
24 response to that discovery request, and it was when I
25 reviewed Ms. Ramas's testimony and went back and looked

1 at it that I realized that there had been some confusion
2 about accrued federal taxes versus accumulated deferred
3 income taxes and that the response had been incorrect.
4 So here is where I'm trying to provide the
5 information -- the correct information.

6 Q Do you know whether or not UIF provided a
7 corrected response to that initial discovery response?

8 A No. I don't think that that was revised.

9 Q Okay. And then other than in your rebuttal
10 testimony, do you know whether or not UIF had indicated
11 to OPC that that response was incorrect?

12 A No. I think the Company felt that I alerted
13 them. Remember it was at the time I prepared my
14 rebuttal that -- which was moments before it was due --
15 that we -- that I discovered that.

16 Q Okay. And just to clarify for the record, to
17 the best of your knowledge, has the Company at any time
18 filed a corrected version of that response to OPC in
19 this docket?

20 A I'm not aware of a revision.

21 Q Okay. Let me refer you to Page 14 of your
22 rebuttal testimony beginning at Line 8. You address the
23 treatment of negative accumulated depreciation resulting
24 from the retirement of the Sandalhaven Wastewater
25 Treatment Plant; is that correct?

1 A Yes.

2 Q And in your rebuttal position, you propose an
3 adjustment to amortize the net unrecovered balance
4 associated with the plant in order to make sure that the
5 negative accumulated depreciation does not remain in
6 rate base; is that correct?

7 A Yes.

8 Q And you're proposing a ten-year amortization
9 for the loss on the retirement; is that correct?

10 A Yes, I did. And that was consistent with
11 the -- with the order I state there, but in that order,
12 there was not a loss calculated. What was amortized was
13 the salvage. If a loss is calculated, it should be
14 deferred and amortized over the period dictated by
15 Commission rule, not by ten years.

16 Q Okay.

17 A And then, of course, the point is that the
18 unamortized portion should be in working capital.

19 Q All right. Let me turn your attention to your
20 Exhibit DDS-3 at Page 9.

21 Okay. Now, your proposed adjustment is
22 reflected on this exhibit at Page 9; is that correct?

23 A Yes. And I'm sorry. I'm looking at my -- my
24 revised pages and not the complete set.

25 Page 9. Okay. I'm sorry. Go ahead and ask a

1 question.

2 Q Okay. I am trying to confirm that this -- in
3 this exhibit you have incorporated your recommended
4 adjustment where it says defer and amortize
5 decommissioning the wastewater treatment plant, and this
6 is the summary adjustment for I believe it is -- what
7 system was this?

8 A This was Sandalhaven.

9 Q For Sandalhaven.
10 Is that correct?

11 A Yes.

12 Q Okay.

13 A And the correction, again, would be that, if a
14 loss is determined, certainly ten years may not be the
15 appropriate period. It needs to be calculated under the
16 Commission rule.

17 Q Okay. And I think we agree with that, but I
18 have a different question to ask you.

19 A Sure.

20 Q Okay. Essentially, if you look on your
21 adjustment at the last line entitled AA.

22 A Okay.

23 Q Do you see that? The sewer cap res fee?

24 A Yes.

25 Q Okay. And you have an adjustment of \$51,338;

1 is that correct?

2 A Yes, I do.

3 Q Okay. And I believe we've passed out an
4 exhibit -- and we're skipping a few of the exhibits in
5 that package. The next one that I would like to mark is
6 the Loss on Retirement of Sandalhaven Wastewater
7 Treatment Plant.

8 CHAIRMAN BROWN: Okay. Thank you so much.
9 And we are going to go ahead and identify that as
10 341. Again, Loss on Retirement of Sandalhaven
11 Wastewater Treatment Plant.

12 MS. CHRISTENSEN: Thank you.

13 (WHEREUPON Exhibit 341 was marked for
14 identification.)

15 BY MS. CHRISTENSEN

16 Q Okay. And I wanted to walk you through the
17 MFR schedules, and we have in front of us Schedule A-12,
18 and Schedule A-14. Do you see that?

19 A Yes, I do.

20 Q Now, you would agree that the accumulated --
21 accumulated amortization of -- let me start with this.

22 For the accumulated amortization of CIAC
23 amounts listed, am I correct that these are meant to be
24 the amounts of accumulated amortization of CIAC
25 remaining in the Company's test year for which there is

1 no longer associated CIAC balance on the Company's
2 books?

3 A Yes, it is. And as I'm looking at it, I see
4 that the -- the last AA line, 51,338, is actually
5 associated with an account where there still is a
6 balance in CIAC; so it may not be appropriate to write
7 the entire amount off.

8 Q Okay. So you would agree that the sewer taps,
9 that balance I think -- I believe was zero?

10 A Yes.

11 Q Okay. And you would agree, therefore, that
12 there -- that the sewer cap res fee that's showing on
13 your Schedule DDS-3, Page 9 of 12, that should not have
14 been included in that schedule. Is that correct?

15 A Well, for a different reason. The line that
16 has zero is Line 28 on Schedule A-14, sewer taps, but
17 the one that I'm removing is the line below it, sewer
18 res cap fee, and that does have a balance of 51,338.

19 But if you look at A-12, that same CIAC does
20 still have a balance, and so it doesn't make sense to
21 remove the amortization, the accumulated amortization,
22 at least not in its entirety.

23 Q Okay. I think that may be the end of my
24 questions. Thank you very much, Ms. Swain.

25 CHAIRMAN BROWN: Thank you. Nice job on

1 **cross. All right. Swiftly and effectively.**

2 **Summertree.**

3 MR. ARMSTRONG: No questions.

4 CHAIRMAN BROWN: No questions? Thank you,
5 guys.

6 Staff.

7 MS. MAPP: Thank you. Staff has several
8 questions, and we have a packet of exhibits that
9 we'll be passing out now.

10 CHAIRMAN BROWN: Well, let's be handing them
11 out.

12 All right. So we have a packet of documents
13 that have been distributed to all of us. There's
14 just -- it looks like there are several. I don't
15 know, Ms. Mapp, if you planned on using all of
16 them.

17 MS. MAPP: No. OPC covered several of our
18 questions; so we'll be skipping over a few of the
19 documents within that packet.

20 CHAIRMAN BROWN: All right. Well, Ms. Mapp,
21 you do have the floor, and I believe Ms. Swain has
22 the packet now, but let's just start with some --

23 EXAMINATION

24 BY MS. MAPP

25 **Q Good evening, Ms. Swain. My name is Kyesha**

1 Mapp.

2 First, I'd like to ask the follow-up question
3 that was asked by OPC, and if you could bring back in
4 front of you the exhibit that was marked 337, that's the
5 composite exhibit with UIF of Florida's Response to
6 Staff's 12th Interrogatory No. 228.

7 A Okay.

8 Q If you could turn to Page 4 of that document.

9 A Okay. And it's numbered 1?

10 Q No. 228 -- I'm sorry. The exhibit number is
11 No. 337 --

12 A The fourth page says No. 1, but the next page
13 said No. 4; so I was confused.

14 Q Oh, okay.

15 So my question is: Based on the request
16 listed here that the Utility are to provide -- explain
17 what source the ADITs were generated and why the amounts
18 were not being amortized to reduce the ADIT balance for
19 Deferred Tax Debit Tap Fees Post-2000 and to provide the
20 corresponding balance, if any, of CIAC associated with
21 TAP Fees for CIAC.

22 Do you see that?

23 A Yes.

24 Q Okay. Did the Utility provide Staff with any
25 such documentation?

1 A No. And the -- because the Company admits
2 that it has no defense for the unamortized balance.

3 Q Would you agree that, when applying
4 Commission's leverage formula to determine the cost of
5 equity for water and wastewater utilities, that it's
6 Commission practice to use investor sources of capital
7 to calculate the equity ratio?

8 A Yes, I agree.

9 Q And investor sources of capital recognized by
10 the Commission would include short-term debt, long-term
11 debt, preferred stocks, and common equity?

12 A Yes. That's right.

13 Q Now, could you please refer to -- it's one of
14 the exhibits that was handed out. I believe it would be
15 the third one in the stack labeled MFR Schedule D-2,
16 Page 1 of 1.

17 A I'm sorry. I have two packages. I don't --

18 CHAIRMAN BROWN: It's not the third one.

19 MS. MAPP: I believe your pack would have a --

20 CHAIRMAN BROWN: If you just sift through --
21 if you just sift through it, it will -- as you look
22 at the description, it says, "MFR Schedule D-2."
23 Further down in there.

24 THE WITNESS: Okay.

25 CHAIRMAN BROWN: All right. We're going to go

1 ahead, before Ms. Mapp continues, and mark it for
2 identification purposes as Exhibit 342, and we're
3 going to title it MFR Schedule D-2.

4 (WHEREUPON Exhibit 342 was marked for
5 identification.)

6 CHAIRMAN BROWN: Please proceed.

7 BY MS. MAPP

8 Q Okay. Can you please look at the Line 4 that
9 lists the common equity for UIF's parent company,
10 Utilities, Inc.?

11 A Okay.

12 Q And the corresponding Column 6 --

13 A Okay.

14 Q -- that lists the ratios for investor sources
15 of capital for the UIF parent company?

16 A The prorata percentage is 49.27 percent.

17 Q That is correct.

18 And would you agree that the equity ratio of
19 49.27 percent based on Utilities, Inc.'s actual capital
20 structure as shown here should be used in the
21 Commission's leverage formula to calculate the cost rate
22 for common equity in this rate case?

23 A Yes, it should.

24 Q And would you also agree that the cost of
25 common equity should be consistent for all of UIF's

1 **systems?**

2 A Yes. Even Longwood.

3 CHAIRMAN BROWN: Even what?

4 THE WITNESS: Longwood. One of the systems I
5 did, it was an anomaly, and I -- it got in my
6 brain, and I just couldn't give it up, and I
7 realized that I did it wrong. So I --

8 BY MS. MAPP

9 Q Now could you also turn to one of the exhibits
10 passed out that should be -- it would be the -- it would
11 be the third exhibit labeled -- or description
12 Calculation of Amortization of ADIT - Post-2000 Tap Fees
13 (Late Filed Exhibit No. 3).

14 A Yes.

15 CHAIRMAN BROWN: So we're going to go ahead
16 and mark that as Exhibit 343. And just for the
17 record so that there's clarity, it's Calculation of
18 Amortization ADIT - Post-2000 Tap Fees.

19 (WHEREUPON Exhibit 343 was marked for
20 identification.)

21 BY MS. MAPP

22 Q Now, looking at the adjustments made in the
23 schedule, did you produce any additional documentation
24 during the course of this proceeding supporting or
25 explaining from where you obtained these balances?

1 A No, I didn't, but I -- I did pull them from
2 prior rate cases.

3 Q Okay. Now, I'm going to switch topic areas,
4 and I'd like to speak with you about used and useful
5 adjustments.

6 A Okay.

7 Q Do you believe that any used and useful
8 adjustments, if any, should be applied to prepaid CIAC?

9 A I believe that if -- to the extent that
10 prepaid CIA -- or excuse me. Yes. To the extent that
11 prepaid CIAC is used to calculate nonused and useful
12 plant and is included in used and useful, then there
13 should be no adjustment to prepaid CIAC as nonused and
14 useful, and the converse is true. So if there's prepaid
15 CIAC and those connections are not included in used and
16 useful, then the related CIAC should also be nonused and
17 useful.

18 Q So to be clear, do you believe that the used
19 and useful adjustment, if any, should be applied to the
20 total CIAC balance or only the prepaid CIAC balance?

21 A It should be applied to two things. One is
22 prepaid CIAC, and the other is contributed plant. So,
23 for example, a developer donates a main, and there's no
24 connections on it, and it's deemed to be nonused and
25 useful. Well, the associated CIAC should also be

1 nonused and useful.

2 Q Now, I'd like to turn your attention to Page 4
3 of your rebuttal testimony where you discuss unamortized
4 rate case expense.

5 A Okay.

6 Q Are you familiar with the 2015 Florida
7 Statutes provision Section 367.0816 which discusses --
8 well, which discuss the recovery of rate case expense?

9 A Yes.

10 Q And are you aware that that provision stated
11 that, "The amount of rate case expense determined by the
12 Commission, pursuant to provisions of this chapter,
13 shall be recovered through a public utility apportioned
14 for recovery over a period of four years"?

15 A Yes, I'm aware of that.

16 Q Now, this statutory provision was repealed and
17 replaced effective July 1, 2016.

18 A Right.

19 Q Are you aware of any rate case proceeding
20 resulting in UIF's unamortized rate case expense in the
21 instant docket that occurred after this date of July 1,
22 2016?

23 A No. I don't -- I don't think so. And -- in
24 the preparation of this case, I applied the current
25 statute as it pertains to rate case expense, and there

1 were two things that changed. One is this language was
2 added that a longer period would be allowed if it was
3 determined to be in the public interest. But the other
4 thing that happened is that unamortized rate case
5 expense was no longer allowed in working capital. So we
6 didn't include the unamortized portion of rate case --
7 the old rate case expense in working capital.

8 So if we're going to -- if it's appropriate to
9 apply the older statute, then certainly the unamortized
10 portion of the old rate case expense should be included
11 in working capital.

12 **Q So would you agree that UIF's unamortized rate**
13 **case expense generated -- generated from all previous**
14 **orders addressed by this Commission were done under the**
15 **2015 iteration of the statute?**

16 **A** Yes. And I was under the impression that the
17 new statute applied to everything. And so if it didn't,
18 it didn't. I'm not the attorney.

19 **Q Thank you.**

20 **And if you could turn to Page 20 of your**
21 **rebuttal testimony, Lines 2 through 15.**

22 **A** Okay.

23 **Q Here you describe additional adjustments to**
24 **remove incorrectly booked federal income tax from**
25 **accrued taxes in multiple systems, both debit and credit**

1 **balances; is that correct?**

2 A That's correct.

3 **Q How do you determine that these items have**
4 **been incorrectly booked?**

5 A The -- UI reviewed them. It had been recorded
6 back in 2013, and current accounting staff went back and
7 looked and felt that those should not have been recorded
8 on the system level; that there are not federal accrued
9 taxes down to system level; so they -- they removed them
10 from the books. And it was -- when I look at this, by
11 the time I talked to UI, they had already discovered it
12 and removed it from the books. But, again, not the
13 state portion because the state is correct, and it's
14 recorded every year.

15 **Q What specific source or sources did you --**
16 **were the errors found in?**

17 A I'm sorry. I don't -- I don't understand the
18 question --

19 **Q What specific sources of the general ledger --**
20 **specifically where in the general ledger did you**
21 **discover these errors?**

22 A Sure. The -- there was a -- there's a
23 separate account for accrued federal income taxes, and
24 it had a balance that didn't change through the test
25 year nor the prior two years.

1 When Ms. Ramas pointed it out, we went back
2 and looked at it, and sure enough it had not changed
3 over a number of years. Now, when I talked to UI
4 accounting, they said, no, it had already been removed.
5 It shouldn't have been there to begin with. So that was
6 the -- that was the nature of the discovery.

7 **Q Thank you.**

8 **And I'd like you to turn now to the second to**
9 **last exhibit that was handed out. This is labeled**
10 **Excerpt from Order No. PSC 14-0521-FOF-WS.**

11 **CHAIRMAN BROWN: All right. For**
12 **identification purposes, we'll just go ahead and**
13 **mark that as 344 as you've indicated.**

14 **(WHEREUPON Exhibit 344 was marked for**
15 **identification.)**

16 MS. MAPP: And I would note for the record
17 that all parties were given an excerpt. However,
18 the witness was given the full order should she
19 need it to -- for context in answering any of my
20 questions.

21 CHAIRMAN BROWN: Okay.

22 THE WITNESS: And this is the one -- again,
23 this says PSC-14-0521-FOF-WS?

24 MS. MAPP: Yes. Related to the Phoenix
25 Project. This was the generic docket for UIF -- or

1 UI. Excuse me.

2 THE WITNESS: Okay.

3 CHAIRMAN BROWN: I remember it.

4 BY MS. MAPP

5 Q Can you please turn to Page 9 and 10 of the
6 order?

7 A Okay.

8 Q Have you ever seen these sections before?

9 A Not until recently.

10 Q Would you like a moment to review them?

11 A No. That's okay.

12 Q Okay. Well, based on this order, do you agree
13 that the creation of the regulatory assets related to
14 the Phoenix Project is limited to systems you just
15 read -- the systems listed on these pages and not to all
16 UIF systems?

17 A Yes, I agree.

18 Q And would you -- are you familiar with the
19 Sanlando's last rate case that was Docket Number
20 140060-WS?

21 A Somewhat.

22 Q Okay. If you turn to the last packet in the
23 docket -- I'm sorry -- in the exhibits we handed out,
24 that should be the order related to that particular
25 docket. That's Order No. PSC-15-0233-PAA-WS.

1 A Okay.

2 Q Can you please turn to Page 10 of that order?

3 A Just a second.

4 CHAIRMAN BROWN: Can you please just hold on a
5 second?

6 All right. We're going to go ahead and mark
7 that for identification purposes for the record as
8 345 as you stated.

9 (WHEREUPON Exhibit 345 was marked for
10 identification.)

11 THE WITNESS: Okay.

12 BY MS. MAPP

13 Q Would you agree that the regulatory asset
14 resulting from the UI generic docket is the revenue
15 impact of using acquisitions to offset the divestiture
16 adjustments in the last case for each applicable
17 utility?

18 A Yes.

19 Q And, finally, I'd ask you to turn to the last
20 exhibit handed out that's described as Financial
21 Commercial Paper Rate.

22 A Okay.

23 CHAIRMAN BROWN: So we are marking that as 346
24 with the same title Ms. Mapp just mentioned.
25

1 (WHEREUPON Exhibit 346 was marked for
2 identification.)

3 BY MS. MAPP

4 Q Now, Ms. Swain, do you recall being deposed
5 during the course of this proceeding?

6 A Yes, I do.

7 Q And do you remember this document being
8 provided to you during the deposition?

9 A Yes, I do.

10 Q Based on the orders you've just read, do you
11 agree that the commercial paper rates listed should be
12 used to calculate the average monthly interest rate for
13 the purpose of calculating interests on the regulatory
14 assets?

15 A Yes, I do.

16 Q Are you aware of the Commission using these
17 rates for any other purpose?

18 A I know that they use a commercial paper rate
19 for the -- for refunds. I'm not sure if it's the
20 financial commercial paper rate, but I believe it is.

21 Q And when you say "refunds," are you referring
22 to interim refunds?

23 A Customer refunds, in particular, interim
24 rates.

25 MS. MAPP: Thank you.

1 One moment, please.

2 CHAIRMAN BROWN: Sure.

3 MS. MAPP: We have no further questions for
4 this witness.

5 CHAIRMAN BROWN: Thank you.

6 Commissioners? Sure.

7 Any other commissioners other than
8 Commissioner Polmann?

9 COMMISSIONER POLMANN: I have no questions.

10 CHAIRMAN BROWN: You don't have to have
11 questions.

12 All right. Redirect? No redirect.

13 Exhibits. Okay. We've got 249 through 250.
14 Any objections to moving those into the record?

15 Seeing none, I'm going to give Mr. Friedman an
16 opportunity. You'd like those moved in; correct?

17 MR. FRIEDMAN: You've been taking over on
18 that. You're doing my job better than me.

19 CHAIRMAN BROWN: That's the way I like it.

20 All right. So seeing no objections to 249
21 through 250, we're going to go ahead and move those
22 in.

23

24

25

1 (WHEREUPON Exhibit 249 - 250 were
2 admitted into the record.)

3 CHAIRMAN BROWN: All right. This witness has
4 a few -- OPC.

5 MS. CHRISTENSEN: Yes. We would ask to
6 move -- and I think it's 336 through -- correct me
7 if I'm wrong -- 341.

8 CHAIRMAN BROWN: It's 335 --

9 MS. CHRISTENSEN: Oh, I missed one.

10 CHAIRMAN BROWN: -- through 341.

11 Would you like those moved into the record?

12 MS. CHRISTENSEN: Oh, yes, because that
13 includes the corrected testimony. So, yes, we
14 would ask to move all those into the record at this
15 time.

16 CHAIRMAN BROWN: All right. I'm sorry. 335
17 is Woodcock's.

18 MS. CHRISTENSEN: Correct. But I may as
19 well --

20 CHAIRMAN BROWN: That's fine.

21 MS. CHRISTENSEN: -- if you would like to
22 entertain it at this time, I would --

23 CHAIRMAN BROWN: I'm fine with that.

24 All right. Seeing no objection, we'll go
25 ahead and move in 335 through 341 into the record.

1 (WHEREUPON Exhibit 335 - 341 was admitted
2 into the record.)

3 CHAIRMAN BROWN: And, Staff?

4 MS. MAPP: Yes. Staff would like to move into
5 the record 343 and 346.

6 CHAIRMAN BROWN: All right. We will go ahead
7 seeing no -- what about 342, the MFR Schedule D-2?

8 MS. MAPP: That was included and attached to
9 the witness's testimony.

10 CHAIRMAN BROWN: All right. Sorry.

11 All right. We will go ahead and move in 343
12 and 346 into the record.

13 (WHEREUPON Exhibit 343 & 346 was admitted
14 into the record.)

15 CHAIRMAN BROWN: Would you like this witness
16 excused tonight?

17 MR. FRIEDMAN: I would, yes. Thank you.

18 CHAIRMAN BROWN: Go have a good night.

19 THE WITNESS: Thank you.

20 CHAIRMAN BROWN: Thank you.

21 (The witness was excused)

22 CHAIRMAN BROWN: We have one witness left.
23 Sure. Let's take a five-minute break.

24 (A short break was taken.)

25 COMMISSIONER GRAHAM: Okay. Let's grab a

1 seat.

2 CHAIRMAN BROWN: Commissioner Graham has such
3 a prowess. Thank you for that. I appreciate that.

4 All right. So we are on the last witness on
5 rebuttal, which is Mr. John Hoy, and we've had some
6 exhibits that have been distributed to all the
7 parties as well as the commissioners.

8 Mr. Hoy, welcome back.

9 THE WITNESS: Thank you.

10 CHAIRMAN BROWN: All right. Mr. Friedman.

11 JOHN HOY

12 was called as a witness on behalf of Utilities, Inc. of
13 Florida, and having been first duly sworn, testified as
14 follows:

15 EXAMINATION

16 BY MR. FRIEDMAN

17 Q Would you please state your name?

18 A John Hoy.

19 Q And, Mr. Hoy, did you prefile rebuttal
20 testimony in this case?

21 A Yes, I did.

22 Q And if I were to ask you the questions in your
23 rebuttal testimony, would your answers be the same?

24 A Yes, they would.

25 MR. FRIEDMAN: I would like to ask that

1 Mr. Hoy's prefiled rebuttal testimony be inserted
2 in the record as though read.

3 CHAIRMAN BROWN: We will go ahead and insert
4 Mr. John Hoy's prefiled rebuttal testimony into the
5 record as though read.

6 (Prefiled rebuttal testimony inserted
7 into the record as though read.)
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1 **Q. Please state your name, position and business address.**

2 A. My name is John Hoy. I am President of Utilities, Inc. of Florida (UIF) and my business
3 address is 200 Weathersfield Ave., Altamonte Springs, FL 32714.

4 **Q. Have you previously presented testimony in this case?**

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

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

8 A. The purpose of my rebuttal testimony is to respond to the direct testimony of Office of
9 Public Counsel witnesses Denise Vandiver, Andrew Woodcock, and Donna Ramas with
10 regard to Quality of Service and Infrastructure Investments.

11 **Q. Are you sponsoring any additional exhibits?**

12 A. No.

13 **Q. Ms. Vandiver recommended a finding of marginal or unsatisfactory quality of service
14 for a number of UIF systems. Do you agree with that recommendation?**

15 A. No, I do not. Let me begin by saying that the quality of service that is provided to our
16 customers is a high priority at UIF. It is a major component of the key performance
17 indicators that we measure throughout the company and strive to achieve high levels in that
18 regard. Ms. Vandiver utilized a number of different data points in an attempt to develop
19 an arbitrary measure as a threshold for quality of service. The reasons used for
20 recommending a less than satisfactory quality of service included DEP findings, Prior
21 Commission Orders and customer complaints.

22 **Q. What issues do you see with those measures?**

23 A. First of all, they do not accurately reflect the current situation. The DEP findings included
24 deficiencies that have been corrected and Consent Orders that have been closed. A more

1 accurate portrayal of the current state of UIF environmental compliance is Staff Witness
2 Jessica Kleinfelter's testimony that summarizes the findings of non-compliance and
3 concludes that none are "unusual or excessive". In addition to the outdated DEP findings,
4 the reliance on prior Commission Orders for quality of service does not accurately reflect
5 the work that the company has done to address issues that were raised in those particular
6 cases.

7 Secondly, the number of customer complaints included all of those collected in this docket.
8 The filing of a change in rates, either up or down, can greatly impact the number of
9 complaints that are filed during the proceedings. As examples, in the prior rate cases for
10 both Sandalhaven and Labrador, where a rate increase was being requested, the turnout for
11 the customer meeting was extremely heavy. Contrast that to the current case where the
12 final rates requested are lower than the current rates and virtually no customers showed up
13 for those service hearings. The opposite is true for Sanlando. In prior cases, there was
14 very little customer participation but with the increase requested in this rate case for these
15 customers, the level of participation has been much higher.

16 **Q. What do believe is a better indicator for current Quality of Service?**

17 **A.** The Commissioners, Staff, OPC, UIF and the customers spent a considerable amount of
18 time and effort to hold the eight service hearings around the state. I believe there are a few
19 obvious conclusions to be drawn from those hearings regarding quality of service. Those
20 fall into three categories:

21 First, as I mentioned previously, in cases where the turnout was down considerably from
22 prior cases, the major issues with respect to quality of service and/or rates have been
23 addressed. Second, there are a number of systems that have been deemed satisfactory in
24 the past and few customers participated this time around as well. Lake Utility Services
25 with its large percentage of the total UIF customer base is a good example of that. The

1 final category includes three systems that had a large group of customers attend the hearing
2 and I'd like to address those specifically.

3 Summertree customers voiced concern about the history of water quality issues and
4 opposition to any rate increases. Since the last UIF rate case, the company has worked
5 with the customers and OPC to find a resolution to the water quality issue. That culminated
6 in a customer vote for interconnection with Pasco County which was completed in
7 December of 2016. The testimony by the Summertree customers at the service hearing
8 indicated a virtually unanimous opinion that they were satisfied with the quality of the new
9 water. With respect to rates, the consolidated rates requested would result in a rate decrease
10 for Summertree customers.

11 In Pennbrooke, the issue has been the high level of iron in the water from the underlying
12 aquifer. UIF worked with the customers to develop treatment alternatives and present a
13 recommended option with the associated rate impact. In the end, the cost was deemed too
14 high to spread over the relatively small customer base so a decision was made by the
15 customers not to move ahead. In my opening statement at the Pennbrooke service hearing,
16 I mentioned this effort and the ultimate result but then suggested that the project could be
17 revisited since the rate impact to a Pennbrooke customer would be much lower if the
18 proposed rate consolidation was approved. UIF would be open to moving ahead with the
19 recommended project as a commitment in this proceeding if a mechanism was also
20 approved to include it in rates once completed.

21 For the Sanlando customers, the major concern voiced at the hearing was around the high
22 percentage rate increase. Sanlando currently has the lowest rates of all the UIF systems
23 and, not surprisingly, it also has the highest average consumption per customer. On a
24 percentage basis, the proposed consolidated rates would be significantly higher than the
25 current rates, but competitive with other utilities in the area. From that perspective, we

1 believe that the consolidated rates are justified and in the best interest of all the UIF
2 customers.

3 **Q. With respect to infrastructure investment, Ms. Vandiver stated in her testimony that**
4 **the American Society of Civil Engineer's Infrastructure Report Card, that I**
5 **referenced in opening remarks at the service hearings, was prepared four years ago.**
6 **Do you have an update to that report?**

7 **A.** Yes. The ASCE report is published once every four years and they just released the 2016
8 report card. The assessment for Florida is unchanged with water infrastructure receiving a
9 grade of C+ and wastewater a C. They also reiterated the need in Florida to invest over
10 \$16.5 billion for water infrastructure alone over the next 20 years and the growth in demand
11 which is expected to increase by about 20% by 2030.

12 **Q. Ms. Vandiver also stated that UIF has never "discussed that it has proactively**
13 **developed an improvement plan for its Florida operations". What plans has UIF**
14 **developed to address the infrastructure needs of its systems?**

15 **A.** As I stated in my pre-filed direct testimony, UIF has invested more than \$100 million in
16 capital improvements over the past decade in our Florida facilities. In addition, there is
17 over \$35 million of proforma capital projects included in this rate case. These investments
18 fit into the Asset Management Plan that we have developed to support systematic
19 maintenance and replacement of our assets. We are in the process of developing the tools
20 to automate our mapping and records followed by the implantation of an Operations
21 Management System encompassing all of our field work. We are also adding additional
22 trained personnel to perform the needed maintenance on the facilities as they grow older
23 in order to extend their useful life as much as possible. This additional headcount was
24 requested in the filing but Ms. Ramas removed them as part of the recommendations in her
25 testimony. These new tools and the additional staff to implement and use them will be

critical to the continuation of quality service going forward. The hiring of the additional field staff in the second quarter of 2017 coincides with the implementation schedule of OMS across all Florida systems and facilities later this year.

Q. Are there any adjustments that OPC has made to the infrastructure investments that would discourage those investments going forward?

A. Yes. As I also stated in my pre-filed direct testimony, UIF is committed to providing quality service and has the access to capital in order to make the necessary capital investments to do so. But the utility must also have the opportunity to earn its allowed return on investment in order to continue to attract the capital for the necessary projects in the future. To that end, timely recovery of major capital investments is a key component to that equation. Mr. Woodcock, in his testimony, did not challenge the prudence of the proforma projects but rather excluded the ones that did not have adequate information at the time of his analysis. In the past, the Commission has included proforma projects that are substantiated with contracts and invoices and that are completed within 24 months of the end of the test year. That standard should be continued in this case.

Q. Are there any other adjustments that are of concern?

A. Yes. The Used & Useful rules used in this rate case result in a considerable amount of wastewater plant being excluded from rate base. Of all the states where Utilities, Inc. operates or previously operated, Florida is the only one that applies such a rule in this manner and it unfortunately acts as a deterrent for prudent capital investment to meet the state's future needs. In addition to the presence of the rule itself, it's also the liberal interpretation of it that can be a further penalty. As an example, in Mr. Woodcock's U&U adjustments for the Sandalhaven system, the result is an elimination from rate base of more than 75% of the investment that was made to serve those customers. The bottom line is \$293 thousand of total rate base being allowed. That kind of disallowance would deter any

1 utility from making an investment in that system, or for that matter, in the state of Florida
2 if that's the rule. Mr. Seidman addresses the specific calculations in his rebuttal testimony
3 but I wanted to stress the point here as a policy issue for a state that needs to be encouraging
4 investments to meet the demand from a growing population.

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

6 A. Yes, it does.

1 BY MR. FRIEDMAN

2 Q Mr. Hoy, do you have a brief summary of
3 your --

4 A Very brief. The rebuttal testimony is
5 basically in response to the quality of service
6 testimony by OPC as well as some of the plant
7 adjustments, (indiscernible) plant, and used and useful
8 adjustments. In the interest of brevity, that's it.

9 CHAIRMAN BROWN: Thank you.

10 MR. FRIEDMAN: We tender Mr. Hoy for cross
11 examination.

12 CHAIRMAN BROWN: You know I was gonna just go
13 ahead and jump to Mr. Sayler; right?

14 Mr. Sayler.

15 MR. SAYLER: Madam Chair, we have distributed
16 an exhibit -- actually three exhibits that we would
17 like marked and identified for the record.

18 CHAIRMAN BROWN: Sure. We're at 347.

19 MR. SAYLER: Okay. 347?

20 The first exhibit is OPC hearing exhibit
21 Quality of Service Issues Florida Public Service
22 Commission Correspondence since February 23, 2017,
23 and I think it goes all the way up through
24 May 5th. And these are information that is in
25 the Commission docket file but for -- to be

1 considered by this Commission as part of the
2 evidentiary hearing if we want --

3 CHAIRMAN BROWN: I see what you're doing. All
4 right.

5 So we will go ahead and mark -- and there's a
6 CD that's attached, and that has been provided to
7 the clerk as well as Exhibit 347 which will be
8 entitled OPC Quality of -- pardon me -- Quality of
9 Service Issues FPSC Correspondence through May 5,
10 2017.

11 (WHEREUPON Exhibit 347 was marked for
12 identification.)

13 CHAIRMAN BROWN: Okay.

14 MR. SAYLER: And, Madam Chair, the next
15 exhibit is a very short excerpt of this 957-page
16 document. I've showed both to counsel, and they
17 don't object to those going into the record. The
18 shorter exhibit just contains some quality of
19 service things that customers have voiced and were
20 placed into the record. And so you could say
21 Excerpt from the FPSC Correspondence File since
22 February 23rd.

23 CHAIRMAN BROWN: All right. Thank you for
24 that. And we will go ahead and label that as
25 Exhibit 348 with the title that you just mentioned.

1 (WHEREUPON Exhibit 348 was marked for
2 identification.)

3 MR. SAYLER: And last is a description of
4 something entitled "Ongoing Summertree Issues," and
5 it is a record -- or a letter from the Summertree
6 Recreational Facility. It's already in the record
7 as another exhibit. There's a letter from US Water
8 Services that I believe is also an exhibit to
9 Mr. -- to the exhibit from Commissioner Mariano.
10 But the last one, which I don't believe is in the
11 record, is the most recent actual bacterial
12 sampling from Summertree as of April 6, 2017, and
13 it's basically where they tested for total
14 chloroform and E. coli.

15 CHAIRMAN BROWN: Okay. What we're going to go
16 ahead and do is mark that as 349, and we're going
17 to call it Ongoing Summertree Water Issues
18 Composite.

19 MR. SAYLER: Thank you.

20 CHAIRMAN BROWN: You're welcome.

21 (WHEREUPON Exhibit 349 was marked for
22 identification.)

23 MR. SAYLER: With the agreement of counsel to
24 stipulate this into the record, Public Counsel has
25 no questions for this witness.

1 CHAIRMAN BROWN: Wow. All right.

2 Mr. Friedman, can you get confirmation -- can
3 I get confirmation of your agreement?

4 MR. FRIEDMAN: Yes.

5 CHAIRMAN BROWN: Okay. And we know that
6 Summertree has no questions; so we'll go to Staff.

7 Thank you, Mr. Sayler.

8 MR. SAYLER: You're welcome.

9 EXAMINATION

10 BY MR. TRIERWEILER

11 Q Good evening, Mr. Hoy. How are you holding
12 up?

13 A Losing a little bit of voice. Sort of limping
14 to the finish line here.

15 CHAIRMAN BROWN: Me too.

16 MR. TRIERWEILER: Just a few questions for
17 you.

18 BY MR. TRIERWEILER

19 Q I'd like to direct your attention to an order
20 in Docket Number 150269-WS that had to do with the
21 recent Summertree rate case. The order number is
22 PSC-16-1 -- let me correct that -- 0505-PAA-WS, and it
23 was issued on October 31th, 2016.

24 Are you familiar with that order, sir?

25 A Yes, I am.

1 Q Do you agree that that order requires the
2 Utility provide secondary water quality results for
3 portions of its Summertree distribution system every six
4 months until this Commission finds the water quality to
5 be satisfactory?

6 A Yes, I do.

7 Q Would you agree that the first report was
8 required to be filed no later than 30 days after the
9 completion of the interconnection with Pasco County?

10 A Yes.

11 Q Would you also agree that UIF filed that first
12 report within 30 days of the completion of the
13 interconnection with Pasco County?

14 A Yes.

15 Q Let me direct your attention to the letter and
16 its attachment, which is exhibit --

17 MR. TRIERWEILER: And, Madam Chairman, that
18 is?

19 CHAIRMAN BROWN: 350.

20 MR. TRIERWEILER: Thank you.

21 CHAIRMAN BROWN: So we're going to go ahead
22 and identify that as Letter Dated 1-6-17 Water
23 Quality Sampling with Pasco County.

1 (WHEREUPON Exhibit 350 was marked for
2 identification.)

3 BY MR. TRIERWEILER

4 Q Are you familiar with what's been marked as
5 Exhibit 350?

6 A Yes, I am.

7 Q And does it contain the letter and the results
8 of the water quality sampling?

9 A Yes, it does.

10 Q Has it been six months since the filing of
11 this letter in the initial water quality report?

12 A It has not.

13 Q So Utility has not yet filed the six-month
14 drinking water quality standard test results?

15 A We have not.

16 MR. TRIERWEILER: Thank you. I have nothing
17 further.

18 CHAIRMAN BROWN: Thank you.

19 Commissioners, questions?

20 I do have some questions.

21 EXAMINATION

22 BY CHAIRMAN BROWN

23 Q Mr. Hoy.

24 A Yes.

25 Q I would love to ask you a question about the

1 WSC contract. I've been trying to get my arms around
2 that contract for a number of years, and there was some
3 testimony earlier that addressed on cross -- it was not
4 addressed to you obviously -- that addressed what
5 exactly WSC does. Are they a contractor? What are
6 they, and what benefit do they provide to the rate
7 payer?

8 A WSC is basically all of our shared services --
9 our common services for all of our systems across the
10 country. So it includes -- I think as you heard
11 earlier -- IT, accounting, some HR functions, accounts
12 payable, you know, those kinds of services.

13 They are -- in essence we are all Water
14 Service Corp. employees. Those are the shared ones
15 that -- that allocate services across the country.

16 There's an individual agreement with each of
17 the subsidiaries between WSC and the subs for the
18 services that are provided, and there's a list of those
19 services that are provided, and then there's the
20 allocation methodology that's part of that agreement,
21 and we adopted that allocation methodology based on the
22 RCs -- really it was based on Florida requirement to
23 allocate based on the RCs.

24 Q So is it a requirement from the parent company
25 to retain WSC for all of your -- those services that you

1 **delineated?**

2 A Well, basically they're shared services
3 amongst the -- among the UI companies.

4 **Q All UI companies?**

5 A Correct.

6 **Q Not just Florida?**

7 A Correct.

8 **Q Are they -- is it a related company?**

9 A It is. It is. It's all part of -- WSC is
10 part of UI. It's just that the -- the employees and the
11 services are provided by WSC so they can be allocated.
12 Instead of from the UI corporations, allocate them WS --
13 WSC.

14 **Q But they are employees one and of the same?**

15 A Correct.

16 **Q Why are they not just UI employees?**

17 A I think it's just a separate company. UI is
18 the parent company above that; so WSC is a way to
19 allocate the services and expenses to the subsidiaries.

20 **Q Don't you retain employees that perform**
21 **similar functions to those that are performed by WSC**
22 **though?**

23 A Sorry. I didn't quite understand.

24 **Q Don't Utilities, Inc. -- even UIF. Doesn't**
25 **UIF retain employees that perform similar functions to**

1 **those that are performed by WSC? I mean, we see it. So**
2 **why the duplication of services --**

3 A Well, there isn't a duplication of services.
4 There are only -- we are all -- I'm a WSC employee.
5 That's who pays --

6 Q **Is that your paycheck? WSC?**

7 A Yes, yes.

8 So -- and then the allocations are done
9 through WSC. That's just so all the services are shared
10 within all the UI companies.

11 Q **This is huge clarity for me by the way.**

12 A Okay. Good.

13 Q **So in my understanding of the previous rate**
14 **cases, UIF I believed -- believed, previously**
15 **believed -- contracted with WSC?**

16 A No, no. It's basically a separate subsidiary
17 of UI that all the costs flow through.

18 Q **Why?**

19 A I think it's when we had so many different
20 subsidiaries it was easier to -- you know, to allocate
21 costs that way.

22 Q **So they manage this WSC even though you're an**
23 **employee of WSC --**

24 A Correct.

25 Q **But you're president of UIF.**

1 A Right.

2 Q So that would technically, in my opinion,
3 would be an UIF, not a WSC, if I were differentiating --
4 but I'm not the corporate manager of the company. But I
5 don't -- I don't understand why you would have you, as a
6 UIF president, be an employee of WSC?

7 A I mean, just -- just for ease of payroll, for,
8 you know, common benefits. You know, it's all part of
9 the same organization.

10 Q Okay. Tell me what WSC is.

11 A Water Services Corporation. It's just a --

12 Q No, no, no. Not the name. What is the
13 purpose of WSC?

14 A WSC is basically to house all of the common
15 costs and the salary costs of all of the UI --

16 Q Why is the UF president -- UIF president a
17 common cost of all the Utilities, Inc. companies?

18 A Well, it's just a methodology for -- for
19 having all of the employees part of one organization.
20 And then we are -- a hundred percent of my costs go to
21 UIF. So -- but it's just that we are Water Service
22 Corp. employees for -- for -- it's been like that for
23 years.

24 Q I still don't get it. I don't get it at all.

25 So you are -- you are the UIF president. Your

1 **responsibilities are to head up all the operations of**
2 **Utilities, Inc. of Florida, but you are a WSC employee.**

3 A Right. Again, it's a -- it's a -- the
4 subsidiaries don't have their own -- for example, their
5 own loan facilities. That all happens up at the UI
6 umbrella. WSC, again, was just an entity set up to --
7 to control most of the costs and then to allocate them
8 to the proper organizations.

9 Q It just sounds weird to me, I mean, how the
10 costs are flowed through the subsidiary. I don't
11 understand.

12 Now, if WSC provided accounting --

13 A It does.

14 Q I know. But you're the president. Why is
15 UIF's president a WSC employee?

16 A Again, that's the way it was set up. But all
17 of the costs -- my costs go into UIF. So a hundred
18 percent of my costs are in UIF. It's just a -- it's
19 just a corporate structure that --

20 Q Do we audit -- does the Florida Public Service
21 Commission audit WSC?

22 A As part of the rate case, they audit both the
23 subsidiary, the Utility, and the parent -- and WSC, the
24 affiliate.

25 Q And I apologize for cutting you off earlier

1 about the purpose of WSC, and I'm putting you on the
2 spot, but do you have a mission or a purpose of WSC?

3 I mean, we've heard about WSC for multiple
4 times, but the fact that we have you on the stand, I
5 enjoy the opportunity to ask you questions right now on
6 it because I've been confused about it for a number of
7 years.

8 A Again, because we have subsidiaries across the
9 country and there are shared costs, that was a way to
10 have at least all of the shared costs at one
11 organization, and then we also have all the payroll
12 going through there as well. All of the benefits going
13 through WSC. That's -- that's a way to have all
14 employees in one place and all of the benefits --

15 Q So that's what I thought it was. You're
16 stating what I thought it was.

17 A Okay.

18 Q But then when you said that you're -- all of
19 the Utilities, Inc.'s employees are WSC's employees,
20 that just throws a huge wrench in my understanding.

21 A Well, let me -- technically our paychecks come
22 from WSC just because that's the way it's set up, but
23 the costs go into UIF for me.

24 Q Oh, so -- okay. I'm going to move on in the
25 questions.

1 A Okay.

2 Q I may have some follow-up on that.

3 A Okay.

4 Q But thank you for your indulgence there.

5 So we've talked about with other witnesses --
6 or maybe I talked about with other witnesses -- about
7 Summertree and the quality of service issues surrounding
8 them.

9 Can you give me your opinion about why the
10 Utility -- ultimately -- I mean, were you employed by
11 Utilities, Inc. when you acquired the system?

12 A No.

13 Q You came on later?

14 A Yes.

15 Q What is going on with the negotiations or the
16 discussion surrounding Pasco County?

17 A Oh, sure. I can give you an update on that.

18 We -- we had some discussions first with Pasco
19 County. Then it was transferred over to FGUA because
20 that was going to be the acquirer. Then it was -- the
21 FGUA was out, and it was back to the -- back to the
22 county.

23 In all of that, there was some negotiation
24 back and forth, and really we never got to a place. So
25 there is nothing pending at this time.

1 Q That's it?

2 A Yes.

3 Q That's all we got? There's no more to that
4 discussion?

5 A Well --

6 Q Because in my -- from my view and from
7 listening to the Summertree residents, they want Pasco
8 County. Even though the interconnection has been
9 complete, it seems to me that the Summertree folks, who
10 are very vocal as you know, and the legislators are very
11 vocal, and all of the elected officials, they want Pasco
12 County.

13 Why is Utilities, Inc. not willing to
14 negotiate?

15 A Well, first of all, I'm not the decider on
16 whether --

17 Q Who is?

18 A No, no. Wait, wait. Okay. Just a minute.
19 Sorry.

20 So -- we haven't been willing to negotiate?
21 No, we did. We did enter into some negotiations, and
22 there was some counters back and forth, but we just
23 never got to a place where we thought the value was what
24 was being offered.

25 So that's -- and, again, I have said all along

1 I'd be willing to take any offer to our owners, which I
2 have. But all along the way, I also said our primary
3 objective is to solve the water quality problems that we
4 were directed to do. So that was our primary focus, and
5 we did that over the course of the last few years
6 working with the customers to try to get to a
7 resolution. We've -- like, that's -- that's being
8 accomplished, and we're working out the bugs in the
9 system as we go here.

10 But on the negotiations, they're just -- we
11 just never got close to what -- where we were and where
12 the county was.

13 **Q These Summertree customers, it's clear they --**
14 **they want Pasco County, irrespective of the**
15 **interconnection and the issues that are going on right**
16 **now with that.**

17 **Are you -- are you -- and, again, I'm putting**
18 **you on the spot. But are you interested in continuing**
19 **those negotiations?**

20 **A As I've said, I would take any offer to our**
21 **owners as we talk about a potential sale.**

22 **Q Okay. And obviously we have no -- you know,**
23 **we can't control that by any means.**

24 **A Correct.**

25 **Q And I'm just -- I'm just curious because we --**

1 I get e-mails continuously from Summertree folks, and
2 that's what -- you know, what we're hearing -- I'm
3 hearing at least. So it would be nice to hear from the
4 Utility that they at least have an open ear.

5 A We do. We also would like to continue to work
6 with the customers because we do feel that we provide a
7 service. We provide value. And want to keep that
8 dialogue open for what we're doing and what we're trying
9 to do to get to the solution at least on the water
10 quality that they're ultimately looking for.

11 Q Mr. Hoy, how do you think you can ultimately
12 get them happy?

13 A I think by continuing -- first of all,
14 providing the service without any bugs in it like we've
15 been doing to correct, you know, these issues as we've
16 done the transition. But then also to continue
17 dialogue. I really feel that that's of value to what
18 we're trying to do.

19 Q Well, I'm happy that you've been at every
20 customer hearing, you know. You've been very active in
21 these proceedings, and I appreciate that. I know you're
22 listening. I see you taking notes, and I hope you are
23 hearing us here. So thank you.

24 A Truly I am.

25 Q Thank you for that.

1 Commissioner who? There's a lot. Patronis
2 first.

3 COMMISSIONER PATRONIS: I'll be quick.

4 EXAMINATION

5 BY COMMISSIONER PATRONIS

6 Q I'm -- along with the same line of
7 questioning, I guess, a series of questions that I've
8 asked of -- of when we had the rate hearing there, and I
9 asked it of members of that community was the dialogue
10 and the temperature amongst the county commissioners.

11 If you've got single-member District County
12 Commission, it's obvious Mariano, who is in that
13 footprint, is going to be more passionate about a
14 transaction with UIF than any of the other
15 commissioners.

16 So I'm just kind of curious when is the last
17 time that you recall that the County Commission has --
18 I'm just trying to cull out honesty in the process and
19 the timeline. When's the last time that you recall
20 anybody from the County has reached out to your office
21 regarding a purchase agreement?

22 A The -- I think it was a year ago that the
23 County made -- made a verbal offer, and then there was
24 some dialogue back and -- I think a little bit back and
25 forth. And then finally there was a -- one e-mail from

1 the Utility director that asked if we were still
2 interested in that offer because it was going to go
3 away, but he quoted a price that was much lower than
4 what the verbal offer was. So not a lot of real formal
5 interaction by the County.

6 Q If you were to --

7 COMMISSIONER PATRONIS: Follow-up, Chair?

8 CHAIRMAN BROWN: Absolutely.

9 BY COMMISSIONER PATRONIS

10 Q If you were to -- have you bought and sold
11 many utilities in your career?

12 A In my career?

13 Q Mm-hmm.

14 A Personally, no. While here at Utilities,
15 Inc., some have been bought and sold while I have been
16 here.

17 Q So from your observation, on a scale of 1 to
18 10 -- 10 being most interested -- what scale of interest
19 do you think Pasco County has shown to you?

20 A Showed us on a scale of saying they were
21 interested?

22 Q Just -- actions, you know, gestures,
23 correspondence. Do they -- do you feel like the County
24 wants it or not?

25 A That I can't -- I really can't speak to what

1 their interests are because it did flop back and forth
2 between the County and then FGUA and then back to the
3 County, and the numbers were kind of -- nothing real
4 firm in terms of, you know, written offers. So I can't
5 speak to how they're really interested.

6 Q I've never seen a response by clients like I
7 had in Summertree of any of the hearings we've had, and
8 they're focused, but it's also a community where there's
9 probably a lot of interaction and sharing of knowledge
10 and information and scripting, and lots of signs
11 welcomed us to the facility when we drove in with
12 scripts on the signs.

13 So -- but it's important that -- I want to
14 know -- I can totally -- where there's smoke, there's
15 fire. Even when there's that much smoke, there is going
16 to be some fire. And I just want to know how forthright
17 the County Commission has been in their actions?

18 A Well, one thing I will say is we've tried to
19 be very open in terms of when we're doing things with
20 the customers what the rate impact is going to be
21 because we don't want any surprises. So the whole way
22 along as we're looking at alternatives we laid out the
23 alternatives, and we put forth what we thought was the
24 worst-case scenario for what rate impact could be. And
25 that was if -- if the -- one of the choices was

1 selected, and if the -- this Commission decided that the
2 costs were going to be borne by just Summertree instead
3 of spread over all Pasco County. So that was -- that
4 was the rate impact we gave to the customers.

5 What I wonder is as the county has talked
6 about wanting to acquire the system whether they've been
7 forthright in what the rate impact would be if they were
8 the owners.

9 Q Sure. But --

10 A Because they have said in a couple -- yeah.
11 They have said in a couple of places that, A -- that, A,
12 any purchase price transaction fee would have to be
13 recovered from the customers. Any -- there's no
14 purchase price that may have to be recovered from the
15 customers. We just saw where the county is implementing
16 a five-year annual rate increase, you know, starting --
17 starting now. So our rates that we're proposing, the
18 consolidated rates that we're proposing in this case are
19 about even with the County's. So if the purpose is for
20 the County, if they're going to come in and have, you
21 know, more competitive or lower rates, I don't know if
22 they've actually put that out there or are committed to
23 that.

24 COMMISSIONER PATRONIS: Thank you.

25 CHAIRMAN BROWN: Thank you, Commissioner

1 Patronis.

2 Commissioner Brisé.

3 COMMISSIONER BRISÉ: Thank you, Madam Chair.

4 EXAMINATION

5 BY COMMISSIONER BRISÉ

6 Q And good evening.

7 A Good evening.

8 Q So sort of a high level, 30,000-foot question.
9 What is the value that the customers are going to see or
10 gain, if any, from your prospective through whatever
11 improvements that the Company is seeking through this
12 rate case?

13 So, in other words, what -- what change are
14 they going to see if we approve this? And moving
15 forward, what tangible things are the customers going to
16 be able to say, look, I'm paying more in some cases or
17 I'm paying less in some cases, but the decision was
18 made, and so, therefore, as a result of this date, I'm
19 beginning to see this or these things?

20 A I can answer that question down two parallel
21 tracks. One is all of the investment we're making and
22 what the benefits of that is when you go through
23 probably every one of these proforma projects and talk
24 about a potential service benefit, and that -- the
25 biggest piece of that is the \$12 million we're spending

1 on pipe replacement. Old piping you heard Mr. Flynn
2 talk a bit about, you know, the benefits of that. So
3 old, possibly tuberculated pipe, you know, restricting
4 flow, pressure problems, you know, all that in the
5 communities that are getting that will be a benefit.

6 So there are other benefits. We're taking one
7 regional small water -- wastewater plant and
8 regionalizing it and moving into another one. So that's
9 a benefit to the community of a wastewater plant going
10 away and being consolidated into another one. I could
11 go through, you know, a list of others that are like
12 that.

13 But I think then down the other parallel track
14 is the consolidation and the consolidation of rates, and
15 I think that's a benefit not only to those that are
16 going down. That's an obvious benefit. So the folks in
17 Sandalhaven whose bills will come down dramatically.
18 Labrador, same thing. We heard from a customer here
19 who -- we haven't heard a customer in Labrador set foot
20 in a customer hearing in quite a while; so that was nice
21 to receive support for the consolidation.

22 So -- but we feel those customers will
23 definitely benefit because they -- they have been
24 impacted by a small system having to incur large costs.
25 But, I think, even those that are going up will have the

1 benefit of being part of a larger group and ultimately
2 down the road stabilization of rates.

3 Q Okay. So, you know, this set of questions was
4 coming in terms of the communications aspect, the
5 contract that you all have with Tucker/Hall.

6 So what benefit or what value are customers
7 getting from the contract that the Company has with
8 Tucker/Hall?

9 A I felt like we would get to that question.

10 Q Mm-hmm.

11 A But when -- when we started this case and we
12 filed it, it was obviously very complex. And then when
13 we got into after the filing and we saw the schedule
14 that was coming out, we were going to have eight service
15 hearings and wound up with nine -- you know, a technical
16 hearing, a lot of communications. And even out the back
17 end, the communications will be -- will be, I think,
18 important. With whatever we decide on consolidated
19 rates, some other rate structure, communication is
20 really important.

21 We have not been through a full -- full case
22 like this in -- I haven't been through this with UI. So
23 this was a big case for us with a lot of moving parts
24 and a lot of communication issues, potential issues. So
25 what we decided to do -- and it was a recommendation

1 from one of our other consultants -- was because we
2 don't have in-house communications, media, teams -- you
3 know, we don't have those people. We got half -- we
4 got, like, one part-time person that helps all of UI on
5 some communications.

6 So what was recommended to us was, not because
7 they're crisis management or anything, but Tucker/Hall
8 was somebody who could get up to speed quickly on a
9 complex issue and could help us at least in some of our
10 communications and review them with us and talk about
11 strategy and where we want to add communications. So --
12 and they also had some familiarity at least with the
13 utility industry.

14 So we thought starting off with them -- at
15 least that's the way it was represented -- that, you
16 know, there was one person there that could work with
17 us, and we decided to engage them just to help us at
18 least have a sounding board for communications that we
19 had at the -- at the service hearings. We put a letter
20 in with all the notices that went out trying to -- on
21 top of the notice to try to, in more customer-friendly
22 language, try to explain what was going on.

23 As we come out, as I said, out the back end,
24 we'd like to do another communication on top of the
25 formal notice that goes out just letting people know

1 what's happening. So we were just looking for some
2 outside skill set in the communications to help us
3 through this.

4 **Q Okay. So that still doesn't tell me what the**
5 **value to the customer is there.**

6 A I think as we -- whether you perceive it or
7 believe it or not, what we did on the front end was --
8 and the letter that went with the formal notice is an
9 example of that. It was a page and a half I think that
10 went on top of the notice that tried to explain to
11 people what the -- what the rate impact was going to be
12 to them individually because it was impacting a number
13 of people differently. So that was just one example.

14 **Q Okay. So the WSC, which is part of the larger**
15 **organization --**

16 A Correct.

17 **Q -- why couldn't they provide that service?**

18 A We don't have communications people. We
19 have -- as I said, we have one part-time communications
20 person at W -- at our shared services WSC.

21 **Q I find that difficult to understand that a**
22 **company that is as large as UI couldn't contract within**
23 **itself to manage communications.**

24 A We've done the communications ourselves. So
25 down at the regional level, we're responsible for our

1 own communications. So we'll draft things ourselves.
2 I've drafted letters. Mr. Flynn has drafted letters.
3 You know, that's the communications that we typically do
4 is within our own regions.

5 But we don't have -- we don't have a formal
6 communications department or a media relations
7 department. We're an organization of about -- for UI
8 about 450 to 500 employees. So we don't -- spread out
9 all over the Company; so we don't have a communications
10 group.

11 **Q Okay. So the larger UI entity does not have a**
12 **communications group?**

13 A As I said, we've got -- I think we've got one
14 part-time person and maybe another person that helps out
15 in the communications, but it's part of our shared
16 services. But that supports, you know, 15 states around
17 the country. So --

18 **Q So --**

19 A Sorry.

20 **Q So with saying that, how -- what percentage of**
21 **the UI market across the country is Florida?**

22 A Of UI in terms of ERCs, about 25 percent.

23 **Q 25 percent.**

24 **So I'm thinking if I'm looking at my markets**
25 **across the 15 states that I service as an entity,**

1 25 percent of my market is within one state, and there
2 are some -- there's a big case coming. I'm trying to do
3 a consolidation. It probably makes sense to me and my
4 shareholders to employ a communication strategy at a
5 rate that could be split between the actual costs of the
6 communication in terms of getting the information out
7 but me taking on some of the costs as a parent because I
8 want to get a certain message across to my customers,
9 and I suppose that the entity is large enough to be able
10 to absorb that.

11 CHAIRMAN BROWN: That's a question.

12 THE WITNESS: Well, as --

13 BY COMMISSIONER BRISE

14 Q Is that not true?

15 A Well, as I said, we recognized the complexity
16 of this case and looked to the outside for that help.
17 We do that typically at UI and a lot of places. We
18 don't have a full-time legal staff; so we employ outside
19 counsel when we need to. That's -- we run fairly thin
20 in terms of resources, and we require them when needed
21 and not necessarily have them full time on staff.

22 Q But that's the whole point of being part of a
23 larger entity; right? And to me that's part of the
24 benefit of being part of a larger entity that you may
25 pay for -- you may passively pay for resources that you

1 may not use continuously, but you have those resources
2 available on demand.

3 A Well, that's what most of that shared services
4 is. We just don't have a large communications group is
5 what I'm saying in that organization.

6 Q Okay. So the Company doesn't communicate with
7 its shareholders?

8 A That's not -- well, we don't have
9 shareholders. We're privately held.

10 Q That's -- that is -- you're absolutely right.
11 You're absolutely right. All right. So we'll stop that
12 at this point.

13 But in terms of -- in terms of that portion in
14 terms of the value of the communications there, I think
15 we probably could do a little bit better in terms of how
16 we went through this process in terms of who we employed
17 and how we managed that. And so I hope that that's food
18 for thought, and we'll be thinking about it here --

19 A Thank you.

20 Q -- as we go through this process.

21 CHAIRMAN BROWN: Thank you, Commissioner
22 Brisé.

23 Commissioner Polmann.
24
25

1 EXAMINATION

2 BY COMMISSIONER POLMANN

3 Q Guess what we're going to talk about.

4 CHAIRMAN BROWN: Tucker/Hall.

5 COMMISSIONER POLMANN: No. We're going to
6 start with WSC. We're going to get to Tucker/Hall.

7 BY COMMISSIONER POLMANN

8 Q I just wanted to get some clarification on
9 water shares court. I think -- well, I'm not going to
10 presume I know what's going on.

11 Good evening, Mr. Hoy.

12 A Good evening.

13 Q Nice to see you again.

14 A Thank you.

15 Q For discussion purposes, let me ask you please
16 give me a couple of examples just so we can talk about
17 sister entities to UIF that also provide water and
18 wastewater services.

19 A Oh, there are a number of them around --

20 Q Yeah. Just give me a name.

21 A Carolina Water Service.

22 Q Okay. So -- and then a number. How many are
23 there across the country? Do you know?

24 A Oh, there has been some consolidation going
25 on; so we're --

1 Q I don't know. 2, 3, 10?

2 A Oh, total? No. 20-some.

3 Q Okay. So there's 20-some utility companies
4 that are --

5 A Correct.

6 Q -- parallel to you in this organization?

7 A Correct.

8 Q Is that -- is that reasonable?

9 A Yes.

10 Q Now, at that level -- there's some
11 organizational chart, and there's a parent company up
12 here at the top. And how many layers are there until
13 you get down to the utility companies where you are?
14 Just --

15 A Right above -- you mean layers from?

16 Q From the corporate company --

17 A There's Utilities, Inc., and then there's --
18 there's UIF.

19 Q Okay.

20 A And the Water Service Corp. and those others
21 are peer companies.

22 Q Okay. So Water Services Corp. is in your peer
23 group?

24 A Correct.

25 Q There are other water and wastewater companies

1 in your peer group?

2 A Correct.

3 Q Are there any other type of companies in your
4 peer group besides what you just mentioned?

5 A Oh, we have one small little unregulated water
6 company here in Florida that just provides small
7 irrigation service.

8 Q Okay. Thank you.

9 So from a business perspective in your peer
10 group, they're essentially the same. They're utility
11 companies or they provide --

12 A Correct --

13 Q Water --

14 A -- just different size.

15 Q Water -- they're different scales. Some are
16 larger; some are smaller. But they're similar because
17 your parent is Utilities, Inc.

18 A Correct.

19 Q So it's -- okay.

20 You said you're an employee of Water Services
21 Corp.; is that correct?

22 A Correct.

23 Q Is that the same case for all the sister
24 companies?

25 A Yes.

1 Q So the executive staff are employees of WSC?

2 A Correct.

3 Q How far down in your organization is -- are
4 there managers or senior managers, or are they also
5 employees of WSC?

6 A Yes. All employees are WSC employees.

7 Q All employees?

8 A Yes.

9 Q So all of the costs, the expenses, all of the
10 staff expense, benefits, whatever it is, in concept is
11 paid to the employees where the benefits roll down from
12 WSC?

13 A The benefits, like employee benefits?

14 Q The salary and benefits come from WSC?

15 A Yes, yes.

16 Q Now, the revenue goes up or sideways to WSC as
17 an expense on your books in some regard. So there's
18 money going back and forth laterally within your peer
19 group as an accounting exercise.

20 A Yeah. Now we're getting into the
21 accounting --

22 Q I mean --

23 A -- I'm not getting into the accounting. I'm
24 at a loss a little bit here.

25 Q Here's my key point. I don't need the

1 details. I'm just trying to conceptualize. Because
2 what we talked about earlier in the earlier testimony
3 was this notion that -- on the allocation tables and the
4 discussion about ERCs. You may have been here about
5 that.

6 A Yes, I was.

7 Q There are 12 utilities currently in UIF. Is
8 that --

9 A There were twelve companies that were merged
10 into UIF --

11 Q Okay. There was a list that --

12 A Correct.

13 Q -- that had 12 --

14 A Correct.

15 Q Whether -- they're no longer individual
16 companies, but there are twelve utilities listed?

17 A Yes.

18 Q And there was a table of ERCs, and there was a
19 percentage, and I believe there was some discussion
20 about an allocation table. Is that allocation table
21 useful in terms of allocating expenses?

22 A Yes.

23 Q Is that an example of how expenses for you,
24 for example, are assigned among the different utilities
25 from a revenue requirement?

1 A Correct. So a hundred percent of my costs go
2 into UI -- into Florida, which then gets allocated -- or
3 did when they were separate companies -- allocated to
4 the separate companies there based on those ERCs, which
5 is a formula that Florida put forth years ago, and we
6 adopted across the country because of the Florida rule.

7 Q So at one point in time, there was a cost
8 allocation requirement among the various companies under
9 consolidated structure. The particulars have changed.

10 A Well, we're still doing it because we haven't
11 consolidated rates yet.

12 Q Yes. That's the point.

13 A Right.

14 Q Thank you. I'm just going to leave that
15 there.

16 COMMISSIONER POLMANN: I have other questions.
17 May I?

18 CHAIRMAN BROWN: Absolutely.

19 COMMISSIONER POLMANN: Thank you.

20 BY COMMISSIONER POLMANN

21 Q You were here for Mr. Flynn's rebuttal; is
22 that correct?

23 A Yes.

24 Q Do you recall testimony regarding -- in fact,
25 I asked him questions regarding the proforma project

1 schedule and funding, and I asked a particular question.
2 I'd like to ask you the same question.

3 If funds were collected for the proforma
4 projects and they're not expended, how does UIF deal
5 with those funds, the leftovers --

6 A Well --

7 Q -- is what I called them.

8 A Right. There aren't really any leftovers
9 because the proforma projects that we've got in this
10 rate case are only a portion of what we're spending in
11 this calendar year. So there's more capital being
12 expended than what we're seeking recovery of today.

13 For example, the -- you know, the asset
14 management program or the CMS program, we're not seeking
15 recovery, but we're already spending dollars on that as
16 we speak.

17 Q You know, I hear what you're saying. My
18 immediate interpretation of that -- and I don't mean to
19 be negative about it, but it sounds to me like your
20 projects are underfunded. How do you respond to that?

21 A No, I don't think so.

22 Q Well, of course not. I mean, I expect you to
23 say that. But can you give me a little bit more?

24 A But when you say "underfunded," I'm not sure
25 what you mean. The estimates --

1 Q May I rephrase?

2 A Pardon?

3 Q May I rephrase that?

4 A Please.

5 Q And see if I can get to a question.

6 In your proforma project list, you have an
7 assigned dollar value to each one, estimated costs, and
8 your revenue requirement is generated based on those
9 dollars as capital. And at the end of the day, a rate
10 is set that will generate a certain revenue stream, and
11 then you implement the project, an actual project, and
12 there's an expenditure of funds.

13 A Correct.

14 Q And I think what I heard Mr. Flynn and you
15 indicate is the experience has shown that the actual
16 costs of the project is above the estimate, which that
17 estimate was used to come up with a revenue requirement
18 from which you asked for a rate increase, and then you
19 received that, and now you're gaining revenue, but the
20 project costs more than you anticipated. So it seems to
21 me that there's a disconnect between what was the
22 estimated cost, what were the actual costs, and then now
23 you're receiving revenue, but it's not enough money.

24 A Okay.

25 Q So things are out of balance.

1 A Yes.

2 Q And if they're way out of balance, there's
3 something wrong. So you're causing me some concern, and
4 I'm simply raising that.

5 So as the executive can you explain is that a
6 good business practice? Is it the normal business
7 practice? Is it a problem?

8 A I think what you're saying is the revenue
9 requirement that we're seeking may not cover the costs
10 of the projects because of the --

11 Q Well, it doesn't look like that. It turns out
12 that you didn't have enough money to pay for the
13 project.

14 A Well, we're paying -- we're funding the
15 projects. The question is whether we're getting enough
16 to recover the costs of those projects including the
17 return on the capital that's been invested. So -- and
18 that's -- that is, you know, a challenge of all
19 utilities is as you -- as you spend money on capital
20 improvements trying to have the regulatory recovery keep
21 up with it, and there are mechanisms in place to do
22 that. Other states like Pennsylvania, a number of
23 others, have implemented distribution system improvement
24 charges that allow you to keep up with the capital
25 expenditures.

1 Q I understand. But we're in Florida, sir.

2 A Okay.

3 Q I just want to make sure that the Utility and
4 all the systems within it are sound. I think that's
5 part of our evaluation process.

6 A I appreciate that, and what we are trying to
7 do with this group of projects is get full recovery of
8 them, and that's one of the reasons why in my rebuttal
9 testimony I had some concern about the disallowance of
10 projects that didn't have enough support because now
11 we're going to have to delay that recovery for another
12 year or whenever the next rate case is in order to get
13 that --

14 Q Thank you. I appreciate your response.

15 Regarding the relationship between UIF and
16 Tucker/Hall, can you please tell me who are the
17 individual professionals at the firm that are working on
18 this docket?

19 A Yes. We have one individual that was working
20 with us primarily. You want the name?

21 Q If you don't mind, could you please tell me?

22 A Keith Rupp was the representative there.

23 CHAIRMAN BROWN: Rupp? R-U-P-P?

24 THE WITNESS: Yes.

25 COMMISSIONER POLMANN: Thank you.

1 BY COMMISSIONER POLMANN

2 Q My next question: Is that person billing
3 individually for services by the hour?

4 A Yes.

5 COMMISSIONER POLMANN: And my final question
6 on that subject, but certainly not my final
7 question, Madam Chairman, if I may continue?

8 CHAIRMAN BROWN: Yes.

9 BY COMMISSIONER POLMANN

10 Q Has UIF established -- your company, have you
11 established a dollar limit at which you will cap your
12 requested cost recovery in this case for Tucker/Hall?

13 A Yes, we already have. I think what was in the
14 exhibit for communications for this project was in the
15 rate case expense, and that's, I think, the line of
16 questioning that was answered before.

17 Q Okay. So there's a dollar limit, and if you
18 have a need of your own choosing to spend additional
19 funds with Tucker/Hall, that's your cost? That's not
20 going to come back as an expense back on the rate case?

21 A No, no. We've capped it.

22 Q Thank you, sir.

23 If we can turn back for a few questions on
24 what was identified as Exhibit 324, I'll give you a
25 minute to find that. That was put forth by

1 Mr. Armstrong, and this appears to be a document from
2 Utilities, Inc. It was handwritten on the front, "Year
3 Over Year O&M cost savings from use of CMMS."

4 I don't know if Mr. Friedman can assist or
5 Staff can assist Mr. Hoy. It's Exhibit No. 324.

6 There is an overview document. At the front
7 there's a blank page. There are a number of other
8 things. I'm going to look at the front of that, sir.

9 A I think I have it. I think I have it.

10 Q Okay. If we'll look at the top of the page,
11 there are some numbers there, and I'll start on --

12 A I'm sorry. Which page are we on?

13 Q Well, that's what I'm trying to get to. It's
14 actually the -- if you go in several pages, at the top
15 there's a numbering system that says Page 6 of 43.

16 A Okay.

17 Q All right. This appears to be a UIF document
18 based on the logo at the top. Do you recognize this
19 document as being a Company document?

20 A It's got the logo on top. I don't know if we
21 prepared it or not. I was not part of the project team.

22 Q Well, that was one of my questions; so we'll
23 skip that part.

24 Can you share with us what you believe was the
25 purpose of this document? Is this familiar to you?

1 Have you seen this document?

2 A I have not reviewed this full document, no.
3 Because --

4 Q Do you recall having seen this at all
5 during -- this concerns the operations management system
6 and the computerized maintenance management system.

7 A Yes, yes. I'm aware of that. I'm just trying
8 to remember if I've seen this particular document.

9 Q Okay. All right. Well, let me -- let me try
10 to move on and see if I can --

11 CHAIRMAN BROWN: I do just want to note that
12 Commissioner Graham does have a question.

13 COMMISSIONER POLMANN: On this?

14 CHAIRMAN BROWN: He has a question, just so
15 you know.

16 COMMISSIONER POLMANN: Well, cut me off when
17 you want to.

18 CHAIRMAN BROWN: I'll cut you off real quick
19 and come back to you. I know Commissioner Graham
20 is always brief.

21 You sure?

22 All right. Go ahead.

23 COMMISSIONER POLMANN: Thank you for your
24 patience, Commissioner Graham.

25

1 BY COMMISSIONER POLMANN

2 Q Okay. Look specifically on that first page.
3 In the middle of the page, there's a heading that says,
4 "Future State." Do you see that, Mr. Hoy?

5 A In the first paragraph?

6 Q In the middle of the page.

7 A Oh, yes. The heading "Future State," yes.

8 Q In that first sentence, "With the appropriate
9 tools in hand, UI would be able to," and that suggests
10 to me that the notion of this tool is enabling or
11 prospective. So at the time that no decision had been
12 made, it would appear to me that this was a document
13 talking about the CMS -- CMS or CMMS before there was a
14 purchase. So I'm just trying to set up the time frame
15 of this at that time. But I'll skip over questions
16 about the dates and so forth.

17 You said you were not part of the team that
18 put this together.

19 A Correct.

20 Q So I'll leave that.

21 COMMISSIONER POLMANN: Maybe it's a good time
22 for Commissioner Graham because I've got to skip a
23 few questions here, Madam Chairman.

24 CHAIRMAN BROWN: Sure. Commissioner Graham,
25 you're up.

EXAMINATION

BY COMMISSIONER GRAHAM

Q Most of my questions have already been asked, but I have one quick question. When did you contract with Tucker/Hall?

A I think it was in November, December time frame.

Q So when -- I don't know if you recall. I'm sure you do recall. We had a meeting at Summertree April 12th that was -- I'm trying to remember the purpose of the meeting. We had some big vote that was going on. It was, like, the first -- we had two big meetings at Summertree.

A '16 or?

Q 2016.

A I think that was a limited proceeding; wasn't it?

Q Yeah. Do you remember that?

A Yes.

Q And prior to that meeting, you had sent out a letter. I guess it was letting people know what to expect, what was going to happen.

A Correct.

Q And do you remember all the push-back --

A Yes.

1 Q -- and the bad understandings that came out of
2 that letter?

3 A Yes.

4 Q So that's one of the reasons why you hired
5 Tucker/Hall?

6 A I think because we were doing the
7 communications ourselves, yeah, we could use somebody
8 else to balance it out.

9 Q I was going to say I'm probably in a little
10 different position than some of my colleagues because I
11 remember how poorly received that letter was. So the
12 fact you went to go seek help was probably a step in the
13 right direction.

14 A Thank you.

15 CHAIRMAN BROWN: All right. All right.

16 Commissioner Polmann, we're back to you.

17 COMMISSIONER POLMANN: Thank you, Madam
18 Chairman.

19 EXAMINATION

20 BY COMMISSIONER POLMANN

21 Q Mr. Hoy, if we can -- within the same
22 document, couple of pages back, I think at the top it
23 says Page 13 of 43 at the top.

24 A I'm there.

25 Q Thank you.

1 If you could please review the last paragraph
2 where it starts, "while it is difficult to quantify."
3 If you can just read that just to familiarize yourself
4 with that, and it carries over to the top of the next
5 page.

6 A Okay.

7 Q In Mr. Flynn's testimony earlier in response
8 to Mr. Armstrong, part of Mr. Flynn's explanation was
9 that this paragraph -- it was part of the justification
10 that supported the decision for funding and implementing
11 the operations management system. Do you recall that
12 testimony, sir?

13 A Yes.

14 Q Okay. Do you agree with Mr. Flynn's
15 characterization that this type of information was
16 supportive of that decision?

17 A That --

18 Q The characterization that this -- the
19 information in this paragraph supported the corporate
20 decision to move forward with implementing the
21 operations management?

22 A Yes.

23 Q Were you -- were you involved in that
24 decision-making process?

25 A To move ahead?

1 Q Yes, sir.

2 A Yes.

3 Q Okay. Thank you.

4 Looking at the next paragraph there on Page 14
5 of 43, the summary.

6 A Yes.

7 Q I'd like you to just take a brief look at
8 that, sir.

9 A Okay.

10 Q I'll bring your particular attention to use of
11 the word "will," and it strikes me in this paragraph
12 there are, by my count, five occurrences, and it's on
13 Lines 2, 3, 4, 5, and 6. It occurs throughout the
14 paragraph. It says, "Will improve, will enable, will
15 streamline, will provide, and will enhance."

16 And you've indicated that you had a major role
17 or had a role as an executive in the decision to move
18 forward, and I see this is a summary paragraph of this
19 document. As a member of the executive team, do you
20 at -- and Utilities, Inc. -- do you as UIF and the team
21 at Utilities, Inc. corporation, that management team, do
22 you have a high expectation that the five actions here
23 that I just cited -- will improve, enable, streamline,
24 provide -- do you have a high expectation that those
25 actions actually will come to fruition? Is that a

1 management expectation --

2 A Yes.

3 Q -- that this will be achieved?

4 A Yes.

5 Q Thank you, sir.

6 COMMISSIONER POLMANN: Just a few more
7 questions, Madam Chairman?

8 CHAIRMAN BROWN: Okay.

9 BY COMMISSIONER POLMANN

10 Q Mr. Hoy, for clarity of my next question, you
11 will recall my discussion with Mr. Flynn. In the use of
12 this tool, I had inquired about reporting on the use of
13 this, and we had a discussion about the Company's
14 history in responding to data requests and things of
15 that nature. He said that that was typical, had no
16 issue. When the Commission requested data and
17 information, that was kind of a normal course of
18 business. I perhaps have used that phrase. I don't
19 know if you recall that.

20 A No. I'm not sure what you're referring to.

21 Q Let me set the predicate here, sir, if I may.

22 The Public Service Commission often interacts
23 by way of our Staff with Utility staff and makes
24 information requests or requests for data, and the
25 Utility, at the staff level, will normally respond to

1 that. And it's my understanding that's a very -- that's
2 an ease of flow of information data back and forth, and
3 that's not necessarily a standard -- those kinds of
4 requests don't appear in an order. It's not a
5 regulatory issue. It's not necessarily a compliance
6 issue. It's a rather informal process. So I'll just
7 state that as a typical activity.

8 Can you accept that that would occur?

9 A I do. We take that very seriously, that flow
10 of information.

11 Q Yes. Well, thank you. We appreciate your
12 response on that.

13 Now, I'd like to go a step beyond that, and
14 I'm asking you here as a company executive, and in the
15 context of this CMMS, which your company is making a
16 commitment to, and you're -- by way of this document, I
17 see you're anticipating better operations and a lot of
18 things are going to happen.

19 Do you believe that UIF will commit to a
20 reasonable level of required periodic reporting on your
21 use of this tool?

22 A We'll comply with whatever the Commission
23 orders. I'm not sure what -- what you're looking for in
24 that. Go ahead.

25 Q Well, I think you've -- I think you've

1 answered the question.

2 A Okay. If I could say, we are in the early
3 stages of rolling this out. We shared these documents,
4 and we're not seeking recovery of the costs in this
5 case. We shared these documents I think in response to
6 requests for information about whether we had planning
7 in place, and this was evidence of what we are putting
8 in place for the future.

9 Q Thank you, sir.

10 COMMISSIONER POLMANN: Madam Chairman, I know
11 you want me to be done. All right.

12 CHAIRMAN BROWN: What are you talking about?
13 I have the patience of Job.

14 COMMISSIONER POLMANN: I think you just -- you
15 granted my permission to ask -- this is my last set
16 of questions.

17 BY COMMISSIONER POLMANN

18 Q And this is -- these were questions I was
19 going to ask Mr. Hoy the other day, and we ran out of
20 time, but you're sitting right there --

21 A I am.

22 Q -- so I can either look back on your direct
23 testimony, or I can simply -- I can simply reference it
24 in concept, and perhaps you can trust me unless your
25 counsel objects.

1 But in your -- in your direct testimony in
2 Line 6 and 7 on Page 4, the words appear -- you state
3 you will have the opportunity to spread the risk of
4 large investments over a broader customer base. This is
5 in your direct testimony, Page 4. And I'm sorry. I
6 don't know if it's the fourth page or it's the fifth or
7 the third because there's a -- there's a front page and
8 then -- they weren't numbered.

9 A Sorry about that.

10 Q But somewhere on the 6th and 7th line on
11 one of those pages --

12 A I've got it.

13 Q Thank you, sir.

14 The opportunity to spread risks of large
15 investments over a broader customer base. Now, my
16 question to you, Mr. Hoy, is when you say "spread the
17 risk," what is the nature of that risk? Can you clarify
18 that?

19 A Sure. The nature of the risk is large
20 investments that have to be made to provide service. So
21 the risk to the rate. So, for example, we are already
22 partly consolidated today. So we've got systems that
23 aren't connected that share the same rate. Summertree,
24 for example, shares the same rate with Orangewood.

25 Q I understand. I'm not sure that you're

1 **answering the question about the risk. What is the**
2 **nature of the risk?**

3 A The risk would be making huge capital
4 investments that may impact the customers in a -- in a
5 traumatic way.

6 Q So the risk concerns acquiring the capital --
7 the investment capital on the markets? Or --

8 A No, I think -- I'm sorry. I may have been
9 misreading this.

10 Q I mean, I understand the concept of the larger
11 customer base. There's more money -- more people in the
12 aggregate who are paying the bills. Now that looks more
13 attractive when you're trying to sell debt. I think
14 that's the concept.

15 A Well --

16 Q In your business maybe I just don't understand
17 when you try to finance a project where the financing
18 comes from. We're talking about debt management risk?

19 A No. What I was talking about here was the
20 risk of the customers, the risk of the customers of
21 large rate impact due to investments. So spreading the
22 risk of a large rate increase over a broader part of the
23 customers. So spreading the risk --

24 Q Okay. So that's one type of risk, the rate
25 impact risk. But then at the end of this sentence, I --

1 there's a reference to the Company. So what's the risk
2 to the Company? Or maybe there isn't.

3 A Yeah. That wasn't --

4 Q So that was my question. Is the risk to the
5 customer or the Company?

6 A The intent was risk to the customer.

7 Q So it's a rate impact risk?

8 A Correct.

9 Q All right. All right. That's what I didn't
10 understand. Investment -- so thank you.

11 All right. Just a moment.

12 On that same page, Lines 12 to 15, if I'm
13 quoting this correctly, it says, "All systems would
14 benefit from a consolidation of the rates into one
15 uniform rate."

16 A I see that.

17 Q Okay. When it says all systems would benefit
18 by consolidation, single rate, I don't understand the
19 nature of the benefit. And that question's been asked
20 of various people in different forms. I don't -- I
21 don't see -- what is the nature of the benefit of the
22 financial consolidation, the single rate? It's all
23 systems. And I get the long-term thing. Over the
24 long-term. So that's not my question.

25 What is the nature of the benefit? How does

1 **everybody benefit?**

2 A That was the intent was for the long-term the
3 benefit is for all customers to share the risk with a
4 broader customer group.

5 Q **Is there a benefit in the shorter term?**

6 A To some customers, yes.

7 Q **And those some customers are when their rate**
8 **goes down? Is that their benefit?**

9 A Yeah.

10 Q **I'm just trying to understand. But it's --**
11 **the actual benefit in the short-term is to some**
12 **customers?**

13 A Right. But over the long-term, the intent is
14 is that it averages out.

15 Q **Okay. Thank you.**

16 So -- I'll leave that question.

17 As a follow-on -- and this doesn't have
18 anything to do with Tucker/Hall I promise. It really
19 has to do with the customer.

20 So can you explain with regard to
21 communications and in the context of the benefits, what
22 communication efforts has the Company made? What
23 communications to the customers have you made on the
24 specific issue of who benefits and who pays?

25 A I think in the initial letter -- I don't have

1 it in front of me. The initial letter that we tried to
2 craft that went with the initial customer notice and the
3 initial customer notice is very complicated because it
4 was a notice for all customers and trying to let them
5 know what the rate impact would be for them. We tried
6 to put a cover letter on top of that explaining what the
7 benefits would be to having a consolidated rate.

8 So we also are looking for, as we come out of
9 this case with whatever rate structure that's decided,
10 that we communicate in a better way than just sending
11 out the notice that's required by the Commission.

12 Q I profess to you, Mr. Hoy, I'm a customer. I
13 received that notice. I knew what it was without
14 opening it. I suspect many people didn't open it
15 because it looked like it was a form from the Utility,
16 and it's, like, what is this? It's not a bill. I
17 opened it and looked at it, and I was, like, I don't
18 understand this. And trust me, I'm pretty good at
19 understanding things. But my point was I doubted any --
20 many people wouldn't.

21 So beyond that -- and I'm talking about
22 communication to the common reader -- what efforts
23 specifically -- and the issue is in the immediate
24 future, a year or two, there are some folks -- who you
25 heard many customers. They don't see a benefit. They

1 just don't.

2 So the issue is how do you communicate that in
3 terms of some benefit; some don't? Some pay, some
4 don't. And I'm trying to understand the level of effort
5 the Company has made. And where is that? Where is the
6 evidence that?

7 A Right. I think one of the things we're trying
8 to do with the consolidated rate -- and granted, it will
9 impact different customers differently. The
10 consolidated rate will make that communication easier
11 because it's not having twelve different rate structures
12 across the state that we're trying to communicate why
13 one group of customers rates are \$150 and why another
14 group of customers is only 20. So there's a real effort
15 here to try to simplify the rate structure so it is
16 easier to communicate.

17 Q Okay. My last question.

18 CHAIRMAN BROWN: I was just going to say this
19 is a good time --

20 COMMISSIONER POLMANN: This is my last
21 question.

22 CHAIRMAN BROWN: -- to wrap it up.

23 BY COMMISSIONER POLMANN

24 Q In proposing this single rate for all
25 customers in all systems, how did the company consider

1 equity and affordability across the diversity of all of
2 your tens of thousands of customers? How did you
3 consider equity and diversity?

4 A I think you heard from our rate analyst,
5 Mr. Guastella, that the -- the concept of single tariff
6 pricing is one that's accepted and one that's basically
7 informed on the concept of -- or the premise of same
8 service, same rate. And what we looked at was is the
9 rate, the overall rate that we're coming up with, is
10 that fair? Is that fair to all? You know, to
11 customers, to investors, to the company. And is it
12 competitive with the service that we're providing? And
13 when we came up with a rate that was -- we thought was
14 reasonable, we felt that that was a good alternative.

15 COMMISSIONER POLMANN: Thank you, sir. I
16 appreciate your testimony. Thanks for being here.

17 THE WITNESS: Thank you.

18 CHAIRMAN BROWN: Thank you.

19 Redirect?

20 MR. FRIEDMAN: It won't take more than 30
21 minutes.

22 CHAIRMAN BROWN: Mr. Friedman, I thought your
23 bedtime was 9 o'clock.

24 MR. FRIEDMAN: No. 10.

25 CHAIRMAN BROWN: Oh, we still have exhibits

1 and post hearing matters to address.

2 EXAMINATION

3 BY MR. FRIEDMAN

4 Q Mr. Hoy, in speaking of the cost of the
5 proforma projects, do you remember Commissioner Pollman
6 mentioning that it's based upon estimated costs?

7 A Correct.

8 Q At this point in the proceeding, are the
9 proformas based on estimated costs or actual contracts
10 that have been signed?

11 A They're all based on contracts that have been
12 signed.

13 Q So they've been -- am I correct they've been
14 vetted from that original estimate to something that's
15 more firm and concrete?

16 A Correct.

17 MR. FRIEDMAN: That's all I have.

18 CHAIRMAN BROWN: Thank you. Good job.

19 All right. We have Exhibits 327 and 28
20 associated with this witness -- I lied. There's no
21 exhibits associated with this witness except for
22 Public Counsel and Staff.

23 Staff -- I mean OPC. Would you like to move
24 347 through 349?

25 MR. SAYLER: Yes, ma'am.

1 CHAIRMAN BROWN: All right. Seeing no
2 objection, we will go ahead and move 347 through
3 349.

4 (WHEREUPON Exhibit 347 - 349 was admitted
5 into the record.)

6 Staff. 350?

7 MR. TRIERWEILER: Yes, ma'am.

8 CHAIRMAN BROWN: All right. We, seeing no
9 objection, will go ahead and move 350 into the
10 record.

11 (WHEREUPON Exhibit 350 was admitted into
12 the record.)

13 CHAIRMAN BROWN: And now let's deal with all
14 of the other exhibits associated with this rate
15 case.

16 Mr. Hoy, you are excused from the witness
17 stand.

18 THE WITNESS: Thank you.

19 (The witness was excused)

20 CHAIRMAN BROWN: All right. So I'm going
21 through them right now and seeing what has not been
22 entered into.

23 MS. CRAWFORD: Chairman, if I may, Staff would
24 like to request to move into the record at this
25 time Staff's cross-examination exhibits. They're

1 marked as Nos. 142 through 205 on the Comprehensive
2 Exhibit List.

3 CHAIRMAN BROWN: All right.

4 MR. SAYLER: And, Madam Chair --

5 CHAIRMAN BROWN: Hold on, please. Let me get
6 there because there are exhibits before that.

7 MS. CRAWFORD: Oh, my apologies.

8 CHAIRMAN BROWN: Yes. So I would like to take
9 them up in order. If you guys will just bear with
10 me. Let me do it my way so that we go
11 systematically.

12 All right. We are at 138, Ms. Dobiac, through
13 141, Ms. Daniel. Are these the exhibits that you
14 were requesting to move in?

15 MS. CRAWFORD: They are not. These were the
16 prefiled -- the ones you mentioned are the prefiled
17 direct for those Staff witnesses. I had thought
18 they'd been moved in prior, but I may have been
19 mistaken about that.

20 MS. HELTON: Madam Chairman, my notes show
21 that those exhibits have also been moved into the
22 record.

23 CHAIRMAN BROWN: Okay. I don't have them
24 moved in.

25 MR. SAYLER: Mine do as well.

1 CHAIRMAN BROWN: Okay. Then I'm wrong.

2 What about 142 --

3 MS. CRAWFORD: Through 205. Those are the
4 Staff cross-examination exhibits.

5 CHAIRMAN BROWN: Okay. Are there any
6 objections to 142 through -- go ahead. 200?

7 MS. CRAWFORD: 205.

8 MR. SAYLER: Yes, ma'am.

9 CHAIRMAN BROWN: I know. I see yours. I
10 highlighted them.

11 So if you want to go through them and raise
12 the objections specifically to each exhibit.

13 MR. SAYLER: Madam Chair, if it'll speed
14 things along, I would just incorporate my
15 objections by reference to our Exhibit 276 which
16 states which particular exhibits, and they all
17 relate to responses sponsored by Mr. Flynn related
18 to these proforma projects, and our objection is
19 that these were received too late in the process.
20 We couldn't provide responsive testimony, and we
21 cannot stipulate to them. And, therefore, we
22 object to them, and that would be for the -- all
23 the exhibits identified on our Exhibit 276. I can
24 read all the numbers.

25 CHAIRMAN BROWN: Yes, please. For the

1 clarification of the record, I would appreciate
2 that.

3 MR. SAYLER: All right. We object to portions
4 of Exhibit 155, 159, 160, 161, 163, 165, 166, 168,
5 169, 170, 171, 189, 191, 192, 193, 194.

6 And then to the extent that -- if you turn to
7 the next page, there's an Interrogatory No. 289,
8 tax bills that I believe came in late on
9 April 30th. We're objecting to that. We're also
10 objecting to some information that was produced on
11 May 1st in response to PSC POD No. 39. It's
12 identified in the e-mail attached to our exhibit.

13 MS. CRAWFORD: And for clarity, that first
14 e-mail, I believe, would go to the Comprehensive
15 Exhibit No. 168. The second e-mail would be
16 Comprehensive Exhibit List No. 162.

17 MR. SAYLER: Thank you very much.

18 And then we were objecting to the admission of
19 the general ledger, but I don't believe the general
20 ledger is being attempted to be admitted into the
21 record. Is that correct?

22 MS. CRAWFORD: That's correct.

23 MR. SAYLER: All right. And then we have an
24 objection as it relates to Staff Interrogatory 296,
25 the Project Phoenix Regulatory Asset. There's an

1 Excel spreadsheet, and I believe that's in a Staff
2 exhibit, but I don't know the number.

3 MS. CRAWFORD: 168.

4 MR. SAYLER: 168. Thank you.

5 And then finally there's a further explanation
6 of Interrogatory No. 272 provided at Staff's
7 request, and I don't know that exhibit --

8 MS. CRAWFORD: 192.

9 MR. SAYLER: 192. Thank you.

10 And with that, Madam Chair, those are all the
11 exhibits that we object to in the Comprehensive
12 Exhibit List.

13 CHAIRMAN BROWN: Okay. Any response before I
14 render my ruling that was similar in nature to the
15 earlier ruling?

16 MR. FRIEDMAN: My argument is similar in
17 nature to my earlier argument.

18 CHAIRMAN BROWN: All right.

19 MR. ARMSTRONG: And, Madam Chair, before your
20 response, Summertree just wants to note too that we
21 join in the Public Counsel's --

22 CHAIRMAN BROWN: Similar -- yes.

23 MR. ARMSTRONG: -- objection. Thank you.

24 CHAIRMAN BROWN: So with all that being noted
25 for the record, we will go ahead and enter those

1 into the record.

2 And we stopped at 202; is that correct?

3 MS. CRAWFORD: It's 142 through 205.

4 CHAIRMAN BROWN: Pardon me. I am off. Sorry.
5 205. Thank you.

6 (WHEREUPON Exhibits 142 - 205 were
7 admitted into the record.)

8 CHAIRMAN BROWN: Okay. I just want to make
9 sure we have everything else entered into the
10 record that needs to be before we address
11 post-hearing matters.

12 And, please, Staff, point out any -- or any of
13 the parties -- any exhibits that you would like
14 entered into the record that we have not entered
15 into. Please note them at this time or forever
16 waive that right.

17 I've looked through it all. I think
18 everything else has been entered properly into the
19 record pursuant to our ruling, my ruling.

20 And with that, we have to address some
21 post-hearing matters; is that correct, Staff? Yes?

22 Before we get to that, are there any other
23 procedural matters outside of the post-hearing and
24 motion for reconsideration that we will address in
25 the post-hearing matters?

1 Mr. Sayler.

2 MR. SAYLER: Yes, ma'am. With your rulings
3 are you closing the hearing record at this time?

4 CHAIRMAN BROWN: Not right now.

5 MR. SAYLER: Okay.

6 CHAIRMAN BROWN: Any other discussion points
7 before we get to the post-hearing? Seeing none.
8 All right.

9 Public Counsel filed a motion for
10 reconsideration today, this morning, pursuant to
11 its statement earlier, and we are in receipt of
12 that, and that has caused a little bit of shuffling
13 around, but we can't do that shuffling around
14 without the consent of the Utility pursuant to
15 Florida statutes.

16 So by law, as you all know, the Utility has
17 seven days to respond to the motion which we
18 absolutely will abide by, and that shifts things
19 around with regard to the motion for
20 reconsideration.

21 So I'm going to turn to Staff who can better
22 address this in terms of dates and schedules,
23 et cetera. Mr. Hetrick.

24 MR. HETRICK: Thank you, Madam Chairman.

25 As you noted, based on recent unique

1 developments in this case today, we have a
2 procedural recommendation for you on how to handle
3 the motion for reconsideration that also
4 necessarily requires adjustments to the remaining
5 schedule in this case.

6 We've handed out to you and all the parties
7 Staff's proposed recommendation for this. We can
8 go through and explain why the dates are changed,
9 but I think you sort of summarized it, and I think
10 it's self-explanatory. I think it might be useful
11 to hear from the parties.

12 But before we do hear from the parties on
13 this, I would note -- and I've had some
14 conversations with our technical staff -- that
15 because we will have to go beyond the July 22nd
16 current deadline filing requirement, go outside the
17 eight-month clock, Staff -- Technical Staff feel
18 strongly that the special agenda for the revenue
19 requirement, which may consider some rate structure
20 recommendation, be kept separate from the special
21 agenda rates. But I think that Marty at UIF
22 certainly has some comments, and we would like --
23 you need to hear from those comments what the
24 impacts are.

25 CHAIRMAN BROWN: Absolutely. And it's my

1 understanding that that's preferable anyway to
2 begin with.

3 So with that, Mr. Friedman?

4 MR. FRIEDMAN: Well, let me start out by
5 saying that OPC's motion was filed a good bit of
6 time after the testimony it was directed to; so I
7 don't necessarily feel like we're responsible for
8 sticking everybody into this situation. If they
9 had filed that motion earlier, we could have argued
10 it earlier. If they'd have filed their
11 consideration earlier, we could have filed a
12 response earlier.

13 And I think that I filed a response to that
14 motion to strike actually earlier than the seven
15 days that I was - that I had to in order to hope to
16 expedite the Commission's ruling on that motion.
17 So I was doing everything I could to expedite that
18 because I know how important it is to my client to
19 hit that July 22nd deadline or whatever it was.
20 So in light of that, I was trying to expedite my
21 responses.

22 And so now we find ourselves where not only
23 are we going to push it, but now we're going to
24 have two agendas instead of one. So whereas before
25 everything was going to be done on July 12th, now

1 all of a sudden we have August the 3rd and then
2 punting to another week to do the rate structure.
3 And so that just delays it even further. I mean,
4 if you did everything on August the 3rd, then
5 we're really only two weeks off the deadline.

6 CHAIRMAN BROWN: Okay.

7 MR. FRIEDMAN: And while that's still a
8 substantial amount of revenue, it is more
9 palatable, assuming that, you know, the Company can
10 implement those rates as quickly after that agenda
11 conference as the numbers can be crunched and the
12 rates can be calculated.

13 CHAIRMAN BROWN: Thank you for that. I asked
14 the exact question to Staff.

15 Before I hear from Office of Public Counsel, I
16 would like to turn to Staff on that suggestion. I
17 agree with Mr. Friedman 100 percent in terms of the
18 filing time. As I've noted previously, it's
19 very -- it's been very inconvenient for everybody.
20 I don't know if it's deliberate. I don't know if
21 it's a tactic. It makes -- it makes the Utility be
22 put in a position where they have to waive their
23 eight-month deadline, and that's not very fair,
24 especially when you all had notice of this way in
25 advance.

1 All of that being said, I had to state that
2 because I've been frustrated with the timing of the
3 motion for reconsideration quite frankly. We have
4 to address it nonetheless.

5 So let's talk about the special agenda revenue
6 requirements that are proposed for August 3rd.
7 Can we combine the rates and the revenue
8 requirements that we did previously? We had them
9 previously together to accommodate the Utility's
10 request since they would be inclined -- is what I'm
11 hearing -- to waive the statutory time frame.

12 Is that correct?

13 MR. FRIEDMAN: That's correct. If it were all
14 done on the 3rd and we could, you know, get
15 whatever comes out of that.

16 CHAIRMAN BROWN: I'm in support of that as we
17 had previously on the calendar for this rate case.

18 MR. HETRICK: Madam Chairman, if we could just
19 hear from Adam Maurey on this and get his view from
20 a --

21 CHAIRMAN BROWN: Adam Maurey. How are you
22 doing, Adam?

23 MS. HELTON: Andrew. I meant Andrew. I
24 apologize.

25 CHAIRMAN BROWN: That's a good name for him.

1 MS. HELTON: It's not material --

2 CHAIRMAN BROWN: It's a good name.

3 MR. MAUREY: No -- as you know, it's quite
4 common for us to have two agendas, particularly on
5 a case like this where rate structure is such an
6 important issue, but it's also true that we had
7 agreed to have one agenda for both topics. So
8 Staff can do whatever is your pleasure.

9 CHAIRMAN BROWN: That's -- well, that's my
10 pleasure. If we can accommodate the Utility's
11 request and also achieve the time frames pursuant
12 to the motion for reconsideration, Commissioners, I
13 think that should be the preference, and it doesn't
14 deviate from what we previously were scheduled for.

15 So seeing no objection, we'll go ahead and set
16 that schedule that I believe you all have in front
17 of you, and we will put the special agenda rates
18 from August 15th, we'll move that to
19 August 3rd.

20 Do we want this marked as an exhibit so that
21 it's in the record since we don't have a revised
22 OEP?

23 MS. HELTON: Are you talking about the
24 schedule, Madam Chairman?

25 CHAIRMAN BROWN: Yes.

1 MR. HETRICK: Yes.

2 CHAIRMAN BROWN: Yes, I think that would be
3 smart.

4 All right. We will go ahead and mark this as
5 Exhibit 351, and it's been distributed to all the
6 parties; right?

7 (WHEREUPON Exhibit 351 was marked for
8 identification.)

9 MS. CHRISTENSEN: You have it, Mr. Armstrong?
10 Okay.

11 We'll go ahead, and we'll just put it as a
12 Staff Revised Schedule.

13 MR. HETRICK: As amended.

14 CHAIRMAN BROWN: As amended.

15 And seeing no objection, we'll go ahead and
16 move that into the record at this time.

17 (WHEREUPON Exhibit 351 was admitted into
18 the record.)

19 CHAIRMAN BROWN: Again, we will revise the
20 August 15th date for rates. We'll combine it as
21 a special agenda revenue requirement. We'll put a
22 slash with rates, and that will all be considered
23 on August 3rd.

24 Is that acceptable? Everyone's nodding.
25 Utility?

1 MR. FRIEDMAN: Yeah. I mean, obviously we
2 also would like to get as good a commitment as we
3 can that as expeditiously as possible after those
4 calculations are made that the Staff will be able
5 to work its magic and get us the numbers.

6 CHAIRMAN BROWN: You're asking a lot right
7 there. You're asking way too much.

8 But, Staff?

9 MR. HETRICK: We always work as expeditiously
10 as possible, Madam Chairman.

11 CHAIRMAN BROWN: See. That's the right
12 answer.

13 All right. Are there any other post-hearing
14 matters that we need to address?

15 Staff? Record?

16 MR. TRIERWEILER: Post-hearing briefs are
17 due --

18 CHAIRMAN BROWN: No, no, no. We don't need to
19 do that. That's all in Exhibit 351.

20 MS. HELTON: Madam Chairman, I would recommend
21 that you close the record at this time.

22 CHAIRMAN BROWN: Okay. Any objection?

23 All right. Seeing no objection, we will close
24 the record at this time.

25 MR. SAYLER: We have no objection to closing

1 the record.

2 CHAIRMAN BROWN: A little late.

3 MR. SAYLER: Sorry. No, we have no objection
4 to closing the record. We just understand that,
5 depending upon how the Commission rules on our
6 motion for reconsideration, that potentially has
7 the effect of --

8 CHAIRMAN BROWN: Reopening the record.

9 MR. SAYLER: Either reopening or limiting the
10 record. So --

11 CHAIRMAN BROWN: We can -- all of the above.
12 We have the ability to do all.

13 MR. SAYLER: All right. Thank you.

14 CHAIRMAN BROWN: So for cleanness, I think we
15 shall close the record at this time.

16 I want to take the opportunity to thank each
17 of you here in this room: Our court reporter, our
18 court reporters, our commissioners for asking very,
19 very poignant questions, our Staff who has
20 worked -- oh, my gosh, traveling around the state
21 for months upon months and putting so much time and
22 effort into this case, all of the parties that have
23 been here. A lot of you are doing it for free, and
24 I want to thank you all for being here today.

25 If there are no other closing --

1 Commissioners, do you have any closing comments?

2 They want to get out of here.

3 Mr. Sayler?

4 MR. SAYLER: And, again, thank you for
5 indulgence of just allowing us to renew our
6 objections for the record.

7 CHAIRMAN BROWN: Ah, the objection again.

8 MR. SAYLER: Yes. For the final objections
9 for the purposes of the appellate record.
10 Hopefully we won't need it. Thank you.

11 CHAIRMAN BROWN: Good.

12 Thank you. Thanks for coming up here. We'll
13 see you in a few weeks or not.

14 (Whereupon the hearing was adjourned at
15 10:12 p.m.)

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1 CERTIFICATE OF REPORTER

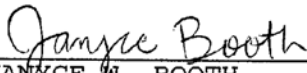
2 STATE OF FLORIDA)
3 COUNTY OF LEON)
4

5 I, JANYCE BOOTH, 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 15th day of May, 2017.

19
20 
21 JANYCE W. BOOTH
22 NOTARY PUBLIC
23 COMMISSION #FF 953203
24 EXPIRES January 20, 2020
25