

BEFORE THE PUBLIC SERVICE COMMISSION

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

Docket No. 20200139-WS

UTILITIES, INC. OF FLORIDA'S
POST HEARING STATEMENT OF ISSUES AND POSITIONS

Utilities, Inc. of Florida, pursuant to Order No. PSC-2021-0064-PHO-WS, and Rule 28-106.215, F.A.C., files this Post Hearing Statement of Issues and Positions.

ISSUES AND POSITIONS

Quality of Service

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

POSITION *The quality of service is satisfactory for all systems.*

ARGUMENT - The Commission held five telephonic/virtual customer services hearings. References to testimony in the service hearings are chronological and referenced in parentheses as follows: SH1 is December 3, 2020; SH2 is December 10, 2020 at 2pm; SH3 is December 10, 2020 at 6pm; SH4 is January 6, 2021 and SH5 is January 7, 2021, followed by the page number. Forty-three customers testified broken down by system as follows: Sanlando-19; Summertree-6; Pennbrooke-3; LUSI-1; Cross Creek-13 and Sandalhaven-1. Most of the comments addressed the increase in rates and not the quality of service.

OPC only contests satisfactory quality of service determinations for the LUSI, Sanlando (Wekiva Hunt Club) and Mid-County system. (Tr. 495)

Quality of service is evaluated by the Commission from three components – quality of the utility's product, operating conditions, and attempts to address customer satisfaction, each of which will be addressed separately. OPC did not break out its argument in these three categories, but it appears that all of its arguments are directed to the systems with current or past Consent Orders with DEP, which would be the operational category, and not water quality that customers receive. This Commission in UIF's last rate case, at the suggestion of Commissioner Graham, further explained that customer service and quality of service are those matters that directly affect

the customers, and not technical deficiencies. (Agenda Transcript in Docket No. 20160101-WS at page 22-23)

Thirteen customers of the Cross Creek wastewater-only system uniformly complained only about the flat rate billing structure since many customers were seasonal.

Quality of the Utility's Product

Summertree. This is the system with the most improvement in water quality from the last rate case when it was the system with the predominant customer water quality complaints. Since completing the interconnection with Pasco County in 2016 those complaints have virtually disappeared, with the only Summertree customer comment (other than general opposition to the rate increase) being that she had to purchase a water softener. (SH2 p.46) DEP has received no water quality complaints since the system was interconnected with Pasco County. (Ex. 178, Bates 00416) Periodic sampling by UIF disclose no material issues with the water quality. (Ex. 147) OPC does not contest the satisfactory quality of service for this system.

LUSI. There were no customer complaints about water quality in the LUSI system. OPC's concerns with the quality of service appear only to be related to a 2016 Consent Order with DEP regarding TTHM and HAA5 exceedances (Tr. 495; Ex. 84 & 86), as addressed under Operating Conditions below. The LUSI water system was previously under a Consent Order in connection for TTHM and HAA5 issues. (Ex. 86) In UIF's prior rate case the Commission, based upon the fact that there was an open Consent Order, determined the quality of service for this system to be marginal. That Consent Order has been closed by DEP, and DEP considers this system to be in compliance (Ex. 178, Bates 00416), thus it should now be considered satisfactory.

Sanlando. The major complaint of the nineteen customers who testified involved the magnitude of the increase in light of the large increase they had in the last rate case. While there were some customer comments about water quality, there was nothing to indicate that there were systemic water quality issues. Several customers commented that the water quality has not changed (SH1 pp.20 & 26; SH3 p.19), and it should be noted that in the last rate case Sanlando water was considered satisfactory. The other customer comments were varied: chlorine in the water (SH1 p.17; SH3 p.29); hardness (SH1 p.17; SH4 p.74); black or rust in toilets (SH2 p.53-54; SH2 p.70) and one customer commented on rotten egg smell (SH4 p.34) although she admitted to never complaining to UIF about the issue (SH4 p.36-37). Other customers testified there was nothing wrong with the water (SH2 p.70) and that it was safe (SH2 p.20) and good (SH2 p.29). Thus, the quality of the water provided to Sanlando customers is satisfactory. DEP records do not reflect any water quality complaints since 2017, and only half a dozen before that. (Ex. 178, Bates 00416-00417) OPC witness Lewis recounts in her testimony her contact with one Sanlando customer who took issue with a chemical smell in the water. (Tr. 492) This 20-year customer has never raised that complaint with UIF. (Tr. 558)

Pennbrooke. Only three customers of the Pennbrooke system testified and the complaints were with aesthetics (SH1 p.59; SH2 p.48) and with hardness. (SH2 p.59; SH3 p.23-3-24) A customer also commented on low water pressure when irrigation systems in the community were being run during the same time. (SH2 p.48) DEP records reflect only one water quality complaint,

which was about color and hardness in 2017, and DEP has determined this system to be in compliance. (Ex. 178, Bates 00416) OPC witness Lewis recounts in her testimony her contact with two residents in Pennbrooke who did not like the water quality and purchased water filtration systems. (Tr. 491-492) Neither of these customers had ever complained to UIF about water quality. (Tr. 557-559)

Operating Conditions

The Florida Department of Environmental Protection (“DEP”) is the primary State agency with jurisdiction over the operational conditions of water and wastewater systems. The staff entered as Exhibits documents received from DEP addressing the compliance status of the various UIF facilities. (Ex. 178, 179 & 180) A summary of the compliance of the UIF systems is set forth in Ex. 178, Bates 00416-00417. All systems are in compliance except the Mid-County wastewater system, and the Sanlando (Wekiva Hunt Club) wastewater system. (Ex. 178, Bates 00417)

Mid-County. OPC witness Lewis recommends that the quality of service of this system be found to be marginal or unsatisfactory due to current or past Consent Orders and if the Commission finds it unsatisfactory that a 50 to 100 basis point return on equity be imposed. (Tr. 495; Ex. 84) The Mid-County out of compliance was only related to not having submitted final paperwork in connection with a Consent Order. (Ex. 178, Bates 00417) DEP considers that Consent Order closed as of December 21, 2020. (Ex. 170)

Sanlando (Wekiva Hunt Club). OPC witness Lewis recommends that the quality of service of this system be found to be marginal or unsatisfactory due to current or past Consent Orders and if the Commission finds it unsatisfactory that a 50 to 100 basis point return on equity be imposed. (Tr. 495; Ex. 84) This out of compliance is being resolved through one of the pro forma projects. (Tr. 775; Ex. 117) Since UIF is taking adequate steps to meet the requirements of the Consent Order the Commission should follow its precedent and not impose any penalty. (Order Nos. PSC-2014-0626-PAA-WU, and PSC-2017-0361-WS)

LUSI. OPC witness Lewis recommends that the quality of service of this system be found to be marginal or unsatisfactory related to a Consent Order with DEP regarding TTHM and HAA5 exceedances and if the Commission finds it unsatisfactory that a 50 to 100 basis point return on equity be imposed. (Tr. 495; Ex. 84 & 86) According to DEP, those issues have been resolved and this system is currently in compliance. (Ex. 178, Bates 00416; Ex. 170)

Attempt to Address Customer Satisfaction

UIF created the position of Director of External Affairs which Mr. Snow holds after its last rate case to improve customer service, communications and stakeholder relations, and Mr. Snow has overseen customer service complaints in this rate case. (Tr. 178, 561) From October 5, 2015 through October 5, 2020 the Commission logged only 194 complaints regarding UIF from its over 34,000 water customers and 32,000 wastewater customers (Tr. 504; Ex. 91) which is less than the Commission logged during the five-year period addressed in UIF’s last rate case. Sixty-nine percent of the complaints involved billing issues and the remainder involved quality of service issues. (Tr. 504) As would be expected, the two largest water and wastewater systems, Sanlando

and LUSI received virtually all of the complaints. (Tr. 505) Commission staff does not record complaints related to secondary water quality complaints such as water quality and pressure as those are sent to DEP to assist DEP in determining if the systems meet secondary water quality standards. (Tr. 505) Twelve of the eighteen water quality complaints sent to DEP were regarding the Sanlando and LUSI systems, as would be expected because of the large number of customers in those systems. DEP has determined that there are no water systems out of compliance due to secondary water quality standards. (Ex. 178, Bates 00416-00417) Secondary water quality is addressed in the first quality of service component above. The Bureau of Consumer Assistance does not make any determination of any Rules violations, but merely points out potential ones. (Tr. 506) None of what Ms. Hicks termed as potential violations occurred in 2019 or 2020. (Tr. 560) There were very few billing complaints among the forty-three customers who testified at the customer service hearings. (SH2 p.56; SH4-45) Several customers testified as having no customer service issues (SH3 p.32; SH4 p.62; SH5 p.40) with one customer volunteering that the UIF customer service representatives were “courteous and kind in every way.” (SH2 p.68) UIF has a team that handles PSC complaints as they are received and UIF has reorganized its Customer Experience department to better respond to issues raised by customers. Additionally, UIF strives to provide information to the customer using their preferred method. To that end, UIF now provides customer information and feedback on Facebook, Twitter, Google and through its app/webportal MyUtilityConnect. (Tr. 178-179, 560) MyUtilityConnect has a 43% participation rate and has been a great tool during COVID to give customers an easy way to sign up for payment arrangements when they have difficult financial situations. (Tr. 568) It is clear from the record that UIF addresses customer service issues in a timely manner, and thus UIF’s attempts to address customer satisfaction are satisfactory.

OPC witness Lewis commented on the number of billing complaints. (Tr. 491) OPC witness Snow testified how UIF works with each customer individually to address high bill complaints. Similarly, when customers contact UIF, it responds via phone, email, or social media messages. UIF is happy to respond to each customer concern brought to it. (Tr. 557)

Ms. Ryan, a vocal critic of UIF in the last rate case, thanked UIF for the improvements it has implemented and the testing it has done without being asked. (SH5 p.19) As it relates to this issue, Ms. Ryan’s only complaint was UIF implementing a chlorine dioxide study to improve water quality without any prior survey of the customers. (SH4 p.21) She believed there should have been more communication. (SH3 p.22) UIF’s president, Gary Rudkin, pointed out that the quality of the water UIF receives from Pasco County fluctuates, requiring UIF to spend time and resources monitoring and flushing to be compliant with DEP Rules. Chlorine dioxide is a proven and successful treatment for preventing the formulation and accumulation of biofilm in the pipes that may otherwise negatively affect water quality. (SH5 p.12-13)

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

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

ARGUMENT - The only adjustments to test year plant balances are to allocate common plant between water and wastewater and to correct an accounting error in classifying intangible plant. (Ex. 48, p. 3) OPC presented no testimony disputing those adjustments.

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

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

ARGUMENT - UIF witness Flynn identified forty-five pro forma project additions. All of the pro forma projects are fully supported with either actual invoices or signed contracts. (Ex. 95-139) Further, all of the pro forma projects will be completed by December 31, 2021 (Tr. 210, 767-778, 782), which is within the 24-month statutory deadline, even though the estimated completion dates for 15 projects changed. (Tr. 193-199, 205-206) A summary of the current project costs and completion dates is set forth in Exhibit 140, and totals \$30,042,556. OPC attempted to point out technical issues with the documentation; however, UIF witness Flynn pointed out documentation varies among projects and that in the real world the lack of perfect documentation does not affect project completion. (Tr. 160, 162-165, 209-210) In fact, Mr. Flynn pointed out a specific project where a Notice to Proceed was not issued, yet the project has been completed. (Tr. 166)

UIF provided OPC's witness with an opportunity to visit all of its water and wastewater systems and to evaluate the pro forma projects. (Tr. 443, 464) He did not question the reasonableness or prudence of any of the proforma projects. (Tr. 477-480) OPC originally sought to exclude eleven projects that it contends lack sufficient support information (Ex. 62, Tr. 447), and another six projects that OPC asserts should be CWIP and not plant in service because they are studies or engineering services. (Tr. 447-448; Ex. 63) The OPC witness subsequently agreed that another two projects (PCF-13 & PCF-29) had been fully supported, and (PCF-16) was partially supported. (Tr. 469) It should be noted that the projects that are studies are not unlike those to which OPC did not take exception, and that the Commission approved in UIF's last rate case. (PSC Order No. 2017-0361-FOF-WS p. 42-47) For the sake of brevity, UIF will only address those projects contested by OPC.

UIF witness Flynn addressed in detail each of the six projects that OPC asserts should be CWIP explaining why including them in rate base is consistent with Commission precedence as established in UIF's last rate case. (Tr. 783-784, 790-791) To the extent any pro forma projects OPC asserts are CWIP, if not included in plant in service, they must be included in working capital. (Tr. 791; PSC Order No. 2017-0361-FOF-WS p. 106)

PCF-6 (Ex. 100) is a planning document describing in detail the condition and life expectancy of the Labrador WWTP's tanks, equipment, treatment process and ancillary components. As such, it

will provide guidance to UIF staff regarding the timing and extent of capital improvements to the facilities that must be made to ensure compliance with its operating permit. In other words, the information contained in the master sewer plan will be applied to the plant's operating strategy as well as guide capital investment decisions. This supports construction projects that will follow in 2021. (Tr. 788)

PCF-21 (Ex.115) comprises a video inspection of an older portion of the Sandalhaven collection system, primarily where the gravity sewer mains are made of clay pipe. As an alternative to including this expenditure in rate base, it could be deferred and amortized over a reasonable timeframe, say five years. Although UIF has as a goal to video inspect 10% of the gravity mains each year on average, essentially a 10-year inspection cycle, it is prudent to inspect Sandalhaven's clay pipe more frequently. This reflects the historical reality in Sandalhaven that clay pipe is more prone to failure compared to PVC pipe and without warning. Due to older sections of the system having clay pipes, it is expected that this study will result in a capital project. (Tr. 201)

PCF-26 (Ex. 120), the design, permitting and solicitation of bids to replace three critical force mains in Sanlando in their entirety reflects UIF's analysis that they are at the end of their useful life. Optimally, UIF would have included construction of the three force mains as proforma in this docket, but that would have unduly delayed the filing of our petition. Nevertheless, the engineering services covered in this project are a prerequisite to the construction of the replacement force mains and the force main failure history indicates clearly that replacing the force mains is an immediate need. Therefore, UIF must move forward with the construction activity in 2021 for all three future projects. (Tr. 789)

PCF-30 (Ex. 124) The computer modeling of Sanlando's force main network, has been used extensively to identify, for example, bottlenecks in the piping network. UIF staff have used this information to modify how wastewater is routed through the collection system during both normal and peak demand conditions. Consequently, the Utility has substantially reduced the risk of sanitary sewer overflows during and after rain events, which benefits the customers, the environment, and the Utility. Similarly, UIF has incorporated the information provided by the analysis into an asset management plan that is the basis for planning capital investments, to identify and optimize the timing and extent of capital spending in a proactive manner. In other words, UIF is applying the work product of this project on an ongoing basis to support capital investment decisions. In that context, this proforma project is in use and should be included in rate base.

PCF-39 (Ex. 133) The scope of this project was originally limited to a video inspection of the Pointe West collection system in Summertree. However, it was readily apparent that the system contained some severe pipe deficiencies that needed to be addressed. Therefore, this project's budget has been substantially increased to allow for the Utility to fix those deficiencies rapidly. Therefore, this investment ought to be fully recovered. Deficiency corrections are underway. (Tr. 202)

PCF-45 (Ex. 139) is the replacement of a water main crossing the Northwestern Ave. bridge over the Little Wekiva River, and is no longer limited to engineering activity. Due to the accelerated construction timeframe dictated by Seminole County, the construction of a temporary bypass initially followed by a permanent connection once the bridge is replaced makes this project well qualified for recovery in full in this docket.

OPC witness Flynn also addressed in detail each of the nine projects that OPC asserts do not have sufficient documentation, or which OPC believes will not be completed by December 31, 2021, explaining why they meet the Commission's requirements, and confirming completion before December 31, 2021. (Tr. 767-778, 782):

PCF-14 (Ex. 108), Mid-County Master Lift Station, is an open project with construction under way at the Mid-County WWTP site. The project is on schedule to be completed by the end of June 2021. The scope of work includes: engineering design, permitting, bidding and construction inspection services; construction of a new master lift station, gravity sewer main, manholes, force main, pumps, and control panel; demolition of the original lift station; and integration of the new pumping equipment with the plant's SCADA system. The project's engineering and construction budget totals \$2,103,578. The projected IDC amount is \$73,696 and projected cap time is \$38,866. To date, \$282,018 has been spent with approximately 15% of the work completed. The wet well, four manholes, and most of the 18" gravity main has been installed already, the two submersible pumps have been delivered, and the control panel is being fabricated. The relocation of underground utilities from the future headworks pad will be completed in February in advance of the start of construction of the headworks facilities in March. The project workflow is currently ahead of schedule.

PCF-16 (Ex. 110), Mid-County Curlew Creek I&I Remediation, is an open project that will be completed by January 31, 2021. Construction and engineering services expenditures total \$230,671 to date. Including IDC and cap time, the total spent to date is \$234,906. The project scope entails engineering design; permitting and coordination with Pinellas County, FDEP, and FDOT; bidding; construction inspection services; cleaning, video inspection and lining of 6,500 LF of gravity sewer main; refurbishing three brick manholes and 36 standard manholes; and installing sheeting around MH 2 to protect it from erosion on the creek bank. The total project cost will be \$719,049 inclusive of IDC and cap time. As of early December, three of the four manholes have been completed, most of the lining installation has been done, and the project workflow is on schedule.

PCF-17 (Ex. 111), Mid-County Headworks, is an open project that will be completed by November 2021. The project's scope includes the installation of drum screens and grit removal equipment; relocation of odor control equipment; pipe work; installation of washdown pumps, and demolition of the current headworks. The engineering design, permitting, bidding and bid award steps have been completed. The prime contractor, TLC Diversified, will soon order the screening and grit removal equipment following approval of applicable shop drawings currently under review by our engineer. The Pinellas County site plan approval, habitat permit, and building permit processes are well under way. FDEP has issued its construction permit. Once the master lift station contractor completes the relocation of underground facilities in February, TLC will mobilize on site and commence work. To date, expenditures have been limited to engineering services totaling \$169,994, IDC of \$3,296 and cap time of \$2,279 for a total of \$174,568.58. The project's total budget is \$2,424,782. In questioning whether this project could be completed by December 31, 2021, OPC witness Radigan was incorrect in believing the Mid-County lift station project (Ex. 112) had to be completed prior to beginning this project as explained by UIF witness Flynn. (Tr. 782)

PCF-18 (Ex. 112), Mid-County Lift Station 10 FM Relocation, is an open project that will be completed by the end of December 2021 in coordination with FDOT's road improvement project in the US 19 North road corridor in Clearwater. Portions of a 4" force main that crosses US 19 at Curlew Road must be relocated away from FDOT's planned flyover. The project scope is to design the relocation of segments of the pipe, coordinate with FDOT to avoid conflicts with their plans, then obtain a FDEP construction permit, solicit bids, and provide construction inspection services. UIF must adjust its facilities before FDOT's contractor mobilizes late next year to avoid any delays on our part to FDOT's schedule. To date, engineering expenditures have totaled \$31,640 out of a total budgeted amount of \$55,750. The project's total cost is budgeted at \$57,451.

PCF-20 (Ex. 114), Sandalhaven Lift Station RTU Installation, is an open project with a planned completion date of March 2021. The contractor, Barney's Pumps, formerly Sanders Company, Inc., was authorized to proceed with the work in mid-November. Once the equipment is in hand in January, the contractor will begin installing the units. The project scope includes the installation of 13 remote telemetry units at each Sandalhaven lift station, solar arrays to recharge battery packs so that the RTU's provide real time information during extended loss of power at stations that have no dedicated emergency generator on site, and integration with UIF's existing SCADA system. The contractor identified that he would need a couple of months to obtain the equipment followed by installation of the RTU's at a rate of two per week. No expenditures have been made yet. The project budget is \$135,406. The workflow is on schedule.

PCF-23 (Ex 117), Wekiva WWTP Headworks, is an open project that will be completed in November 2021. The project scope includes engineering services including design, permitting, site plan approval, bidding, and construction services. Additionally, UIF will construct an expanded plant headworks structure; install twin center flow screens; install a fourth surge pump; install a 30" DIP connection between the new headworks and the surge tank; install instrumentation and connect it to the existing SCADA system; and build a bypass channel to the surge tank in the event both screens fail. The project will take nine months to complete and the contractor is already mobilized on the site as he is currently completing the Wekiva Plant improvements project. Shop drawing reviews have been underway for weeks. The engineering services budget amount is \$186,715 and the construction component is \$2,580,912. Projected IDC of \$124,913 and projected cap time of \$16,126 generates a total capital budget amount of \$2,908,666.

PCF-28 (Ex. 122), E. E. Williamson Utility Relocations, is an open project that is scheduled to be completed by December 2021. The start of the project is dependent on Seminole County's road improvement schedule, which currently identifies the county's intent to let their contractor proceed in the fourth quarter of 2021. UIF must adjust the location of segments of water main and force main within the E. E. Williamson road right-of-way in advance of and in coordination with the county's contractor. The plans have been drawn up, permits are in hand, bids were opened weeks ago, and the contract awarded to the low bidder. The project's budget is \$462,535 including IDC and cap time. The project cost is allocated between water (25%) and wastewater (75%) based on bid amounts.

PCF-31 (Ex. 125), Sanlando GST Rehabilitations, is an open project. The contractor began work in April 2020 but had to postpone the work until late autumn or winter at the Utility's direction. This will facilitate the removal from service of each of the tanks in sequence without unduly reducing storage capacity or negatively impact the delivery of service to UIF's Sanlando customers. The project cost will be at least \$194,003. As each tank is emptied and inspected, the scope of work may change if the interiors of the tanks require additional remediation effort. Any capital expenditures in excess of \$194,003 will be recovered in a future rate proceeding. The project workflow is on schedule.

PCF-33 (Ex. 127), Tierra Verde FM and GSM Relocations, is nearly complete. One manhole ring and cover requires adjustment in coordination with FDOT's contractor constructing a roundabout at Pinellas Bayway and Madonna Blvd. This project included the replacement of Lift Station 4's entire length of FM reflecting an increase in pipe failures caused by severe corrosion after 40 years of service. The project's budget is \$593,368 inclusive of IDC and cap time with only \$5,500 worth of work yet to be completed, which is scheduled to occur in the first quarter of 2021.

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

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

ARGUMENT - This is a fallout from the determinations of Issue 3.

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

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

ARGUMENT - Type 2 Stipulation

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

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

ARGUMENT - Type 2 Stipulation. UIF witness Swain pointed out that an adjustment to Summertree's operating expenses (since the adjustment should not be made to the other Pasco County system), is a reduction of \$29,828 in purchased wastewater and a reduction in purchased power of \$432. (Tr. 212)

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

POSITION *All water treatment and related facilities are 100% used and useful*

ARGUMENT - Type 2 Stipulation

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

POSITION *All water storage and related facilities are 100% used and useful*

ARGUMENT - Type 2 Stipulation

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

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

ARGUMENT - Used and useful is an issue that is largely stipulated. UIF witness Mr. Frank Seidman is an expert on the issue, with over 50 years' experience in utility regulation, including used and useful, in Florida and particularly before the PSC. (Tr. 131-132; Ex. 58) OPC called Mr. Frank Radigan, who had never testified on the issue in Florida. (Tr. 441-442; Ex. 61). OPC witness Radigan only offered testimony on four systems: Mid-County, Labrador, Lake Placid, and LUSI – Lake Groves wastewater treatment plants. (Tr. 450-455)

Mid-County. UIF witness Seidman disagreed with Mr. Radigan's conclusion that used and useful for Mid-County should be 93.67%, noting that used and useful for the system was determined to be greater than 100% using the Commission's own rules, and that Mr. Radigan had apparently assumed that the fact that the 2019 test year was a wet year was an anomaly when in fact data shows that it is quite common. (Tr. 752-753) Mr. Seidman also demonstrated that Mr. Radigan did not understand the consideration of I&I in making the calculation, and Mr. Radigan in fact appeared to be in agreement with Mr. Seidman's calculations. (Tr. 753) Mr. Seidman concluded that the Mid-County wastewater plant is clearly fully utilized and should be considered 100% U&U. (Tr. 753)

Labrador. As with Mid-County, Mr. Radigan has proposed that the used and useful percentage for the Labrador wastewater treatment plant remain at 79.94% as was determined in the last rate case. (Tr.451-452) Mr. Seidman pointed out that in previous cases UIF has argued that the Labrador wastewater treatment plant be considered 100% U&U because the service area is built out. In those cases, the Commission concluded that the service area was not built out because a remaining 11.6-acre parcel had potential for development. (Tr. 754) Mr. Seidman testified that the

developer has now signed an agreement with UIF that establishes that the parcel will be developed to its full potential within five years. (Tr. 754). Mr. Seidman also rejected as unprecedented Mr. Radigan suggestion that the Commission should consider land outside of UIF's certificated territory when determining used and useful (Tr. 452) and also explained that Mr. Radigan's opinion did not appear to appreciate that even if the calculated used and useful for Labrador fell well below 100%, the Commission's Rule expressly provides that the Commission will consider "the extent to which the area served by the plant is built out". (Tr. 754). The plant is properly sized to serve the community, (Tr. 754), and the Labrador service area is built out. The plant should be considered 100% used and useful.

Lake Placid. Although Mr. Radigan again proposed that this system remain at the percentage allowed in the last rate case, (Tr. 452-453) Mr. Seidman pointed out that for reasons similar to those applicable in Labrador, the system is built out. (Tr. 755) As Mr. Seidman explained, after the existing wastewater treatment plant was designed, permitted and constructed, a portion of the service area planned for future development subsequently was designated as a protected Scrub Jay habitat that permanently eliminated customer growth that would otherwise have occurred in that area. (Tr. 755) The Lake Placid wastewater treatment plant should be considered 100% used and useful because of this environmental limitation, and the ability of UIF to earn on the improvements necessary to maintain this plant, built in the 70s, are severely hampered by the calculation of a used and useful adjustment that fails to recognize that the service area is effectively built out. (Tr. 756) The PSC, as early as 1996, recognized that the "area is completely built out" and that "future growth will most likely be limited due to environmental concerns" because "an endangered bird and an endangered plant have been discovered on the land and in the area". (Order Number PSC-96-0910-FOF-WS, p.4). The Lake Placid wastewater plant should be considered 100% used and useful.

LUSI – Lake Groves. In addressing the used and useful calculations for this client, Mr. Seidman calculated a five-year growth based on the linear regression of historical data for the test year and four previous years, in accordance with Commission Rules. (Tr. 757) Mr. Seidman addressed Mr. Radigan's conclusion that UIF's calculation of used and useful was overstated because of the inclusion of lots for which CIAC had been prepaid, pointing out that UIF's method of calculation was consistent with prior Commission Orders, (Tr. 756-757), and also pointing out Mr. Radigan's error in inferring that UIF's calculations involved double counting. (Tr. 757) Mr. Seidman revisited his calculations, taking into account all of Mr. Radigan's criticisms, and thereafter made a single change to his initial calculations in which he retested his anticipated five-year growth against the 5% per year limit, which caused him to reduce his calculated using useful from 72% to 70%. (Ex. 94)

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

POSITION *All water distribution and related facilities are 100% used and useful*

ARGUMENT - Type 2 Stipulation

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

POSITION *All collection lines are 100% used and useful*

ARGUMENT - Type 2 Stipulation

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

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

ARGUMENT - The only adjustments to test year accumulated depreciation are due to the allocation of common plant between water and wastewater and to correct an accounting error in classifying intangible plant. (Exhibit 48, p. 5) OPC presented no testimony disputing those adjustments.

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

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

ARGUMENT - This is a fallout from the determinations of Issue 3.

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

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

ARGUMENT – This is a fallout from the determinations of Issue 3.

ISSUE 15: Dropped

ISSUE 16: What is the appropriate working capital allowance?

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

ARGUMENT -

Adjustment to include an estimated cash balance in working capital.

UIF included a reasonable cash balance in the working capital allowance in place of intercompany receivables and payables, which are a substitute for cash accounts since UIF does not maintain its own cash accounts other than petty cash. (Tr. 231, 795) Even OPC's witness admitted that every company needs cash to operate. (Tr. 318) The cash balance included by Ms. Swain is 2% of gross plant based upon the ratio of allowed cash to allowed gross plant allowed in prior PSC cases. These cases were selected because they are recent cases where the cash balance to be included in working capital was an issue in those cases, there was testimony on the issue in the hearings, and the Commission made a ruling based on testimony from all parties as to the appropriate cash balance. (Tr.

216-217, 248-249) In both of those prior cases, the Commission allowed a cash balance substantially less than the actual cash balance on the Utility's books, further evidence the approach of using these cases to estimate a cash balance is conservative. (Tr. 228-229, 248-249, 795-796; PSC Order No. PSC-17-0091-FOF-SU p.32, 88; and PSC Order No. PSC-2018-0446-FOF-SU p.31, 99) OPC Witness Crane rejected UIF's argument claiming that it is inconsistent with UIF's prior case where cash was not included, and the perceived difference between this case and the cases cited by UIF witness Swain. (Tr. 271-272), Ms. Swain explained that UIF could have included the full intercompany receivable and payable balances in working capital since they meet the requirements of inclusion in working capital, as they are not interest bearing, and not otherwise included in rate base. Instead, UIF proposed a more conservative approach by estimating a reasonable cash balance. (Tr.795-796) UIF was able to review the intercompany accounts and determine that they do replace cash on UIF books, which currently only includes \$3,000 of petty cash. (Tr. 231) It should be axiomatic that for a company the size of UIF, with substantial ongoing capital projects, that a reasonable cash requirement would be greater than \$3,000.

Adjustment to Include Certain Studies in Working Capital.

Several of the pro forma projects that OPC witness Radigan determined should be CWIP were included as adjustments added to test year working capital by Ms. Swain as "Proforma Studies and Preliminary Investigation" (Ex.48, p 7). OPC witness Crane recommended that those pro forma studies that are called CWIP by OPC witness Radigan should also be excluded from working capital. (Tr. 271) This is inconsistent with Commission practice. In UIF's last rate case, all proforma studies were included in rate base after adjustments to update costs, and were all agreed to by OPC. Further, UIF Witness Flynn explains that one such study alternatively could be deferred and amortized over a reasonable timeframe, such as five years. (Tr. 783) Thus, to the extent any pro forma projects that OPC asserts are CWIP, they must be included in rate base directly, or in working capital. (Tr. 791; PSC Order No. 2017-0361-FOF-WS p. 106)

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

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

ARGUMENT – This is a fallout from the determinations of Issues 3 and 16.

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

POSITION *\$7,156,450, plus \$5,353,825 in TCJA*

ARGUMENT - See, Schedule D-1 (Ex. 48. P. 99)

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

STIPULATION - *\$248,501*

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

STIPULATION - *\$4.04%*

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

STIPULATION - *5.78%*

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

POSITION *11.75%*

ARGUMENT - In support of UIF's position that in this case the use of the Florida Leverage Formula (the "FL ROE Formula") does not accurately reflect the return on equity necessary to afford the utility an opportunity to earn a fair return, UIF presented detailed testimony on the point through its expert, Mr. Dylan D'Ascendis. Noting that in his opinion the 9.69% produced by the FL ROE Formula understates the current investor required return for both water and wastewater utilities generally and UIF specifically, Mr. D'Ascendis' conclusion was that the appropriate return on common equity ROE which UIF should be afforded in order to have the opportunity to earn a fair return on its property used and useful in the public service was 11.75%. (Tr. 51-52)

When forming his opinion on the issue, Mr. D'Ascendis carefully analyzed both business risk and financial risk; capital structure and debt cost rates; applied several well-tested common equity cost rate models; performed a comparison of relative risk between UIF and a proxy group of publicly traded water utilities; and appropriately adjusted common equity cost rate per company specific risk. His recommended common equity cost rate of 11.75% is summarized on page 2 of Schedule 1. (Ex. 51) Because UIF's common stock is not publicly traded, Mr. D'Ascendis concluded that a market-based common equity cost rate cannot be directly observed for the utility. Consequently, he assessed the market-based common equity cost rates of companies with relatively similar, but not necessarily identical risk, *i.e.*, a proxy group, for insight into a recommended common equity cost rate applicable to UIF. It was Mr. D'Ascendis' opinion that using companies of relatively similar risk as proxies is consistent with the principle of fair and reasonable rates of return required by the *Hope* and *Bluefield* decisions, as cited in his testimony, adding reliability to the informed expert judgment necessary to arrive at a recommended common equity cost rate.

However, Mr. D'Ascendis noted, no proxy is completely identical in risk to any single entity. Accordingly, he performed a comparison of relative risk between UIF and a proxy group of publicly traded water utilities ("Utility Proxy Group"), discussed in detail in his testimony, to determine whether any adjustments to the Utility Proxy Group's indicated common equity cost

rate are justified or necessary.

In determining a recommended common equity cost rate, he applied several well-recognized cost of common equity models (*i.e.*, Discounted Cash Flow (“DCF”) Risk Premium Model (“RPM”), and Capital Asset Pricing Model (“CAPM”)) to the market data of a Utility Proxy Group. In addition, he applied the DCF model, RPM, and CAPM to a proxy group of non-price regulated companies comparable in total risk to the Utility Proxy Group. Mr. D’Ascendis used multiple measures of the cost of common equity for UIF because empirical financial models for determining the cost of common equity are subject to limiting assumptions or other constraints; most finance texts recommend using multiple approaches to estimate the cost of common equity. Because of this, generally, regulatory commissions rely on multiple financial models in determining the allowed ROE for regulated utilities. As a practical matter, no individual model is more reliable than all others under all market conditions. The use of multiple common equity cost rate models adds reliability to the estimation of the investor-required return. (Tr. 56) The results Mr. D’Ascendis’ analysis derived from each model are summarized as follows:

Summary of Common Equity Cost Rate

	<u>Utility Proxy Group</u>
Discounted Cash Flow Model	9.07%
Risk Premium Model	10.91%
Capital Asset Pricing Model	10.90%
Cost of Equity Models Applied to Non Price Regulated Proxy Group	<u>11.47%</u>
Indicated Common Equity Cost Rate before Adjustment	10.75%
Business Risk Adjustment	<u>1.00%</u>
Recommended Common Equity Cost Rate	<u>11.75%</u>

After reviewing the cost rates based on these models, he concluded that the indicated common equity cost rate is 10.75% before any adjustment for business risks arising from UIF’s greater unique business risks relative to the Utility Proxy Group as he discussed in greater detail in his direct testimony. (Tr. 65) As a result of his comparison of UIF with the Utility Proxy Group, it was his opinion that the indicated common equity cost rate of 10.75% based solely on the Utility Proxy Group must be adjusted upward by 1.00% to reflect UIF’s increased unique business risk,

as noted above. Mr. D'Ascendis provided detailed support for his proposed adjustment (Tr. 54) and notes that in the FL Leverage Formula, there are risk premiums added to the indicated common equity cost rate for size differences. After adjustment, his recommended Company-specific risk-adjusted common equity cost rate applicable to UIF is 11.75%. (Tr. 53-54)

It was Mr. D'Ascendis' conclusion that given the Company's 13-month average balances of investor-supplied capital ending December 31, 2019, which consists of 45.58% long-term debt at an embedded debt cost rate of 5.78%, 5.03% short-term debt at an embedded debt cost rate of 4.04%, and 49.39% common equity at his recommended ROE of 11.75%, that an appropriate return on investor-supplied capital for the Company is 8.63%. Mr. D'Ascendis' analysis concluded that a common equity cost rate of 11.75% is consistent with the *Hope* and *Bluefield* standard of a just and reasonable return which ensures the integrity of presently invested capital and enables the attraction of needed new capital on reasonable terms, and also ensures that UIF will be able to continue providing safe, adequate and reliable water service to the benefit of customers, thus balancing the interests of both customers and the Company. (Tr. 89)

In his rebuttal testimony, Mr. D'Ascendis further supported his opinion and responded in great detail to the criticisms of OPC witness Garrett who, although he believes UIF's "true" Cost of Equity is 6.00%, recommends an ROW of 9.50%. (Tr. 514-515) It was Mr. D'Ascendis' opinion that there are several areas in which Mr. Garrett's analyses and conclusions are incorrect or unsupported, as discussed below:

(1) Mr. Garrett's choice to select a hypothetical capital structure for UIF:

In response to Mr. Garrett's selection of a hypothetical capital structure for UIF, Mr. D'Ascendis noted authority in support of his opinion that a hypothetical capital structure is used only where a utility's actual capitalization is clearly out of line with those of other utilities in its industry or where a utility is diversified. In Mr. D'Ascendis view – UIF's parent capital structure is in line with the capital structures in place at the Utility Proxy Group. Further, UIF's parent, Corix Regulated Utilities, Inc., solely operates regulated water utilities. Mr. D'Ascendis concluded that the use of UIF's parent company capital structure reflects the risk of the Utility Proxy Group and that the industries which Mr. Garrett uses in his assessment of the UIF's capital structure are not comparable to UIF. Notwithstanding Mr. Garrett's contention, Mr. D'Ascendis maintained that UIF's proposed capital structure is reasonable compared with the range of equity ratios maintained by the Utility Proxy Group from which he derived his recommended common equity cost rate. (Tr. 518)

(2) Mr. Garrett's recommended ROE has no empirical basis:

It is the opinion of Mr. D'Ascendis that although Mr. Garrett believes UIF's "true" Cost of Equity is 6.00%, and recommended an ROE of 9.50%, that Mr. Garrett's recommended ROE of 9.50% is fundamentally disconnected from his own analyses and conclusions. (Tr. 519) Noting that a fundamental assumption of Mr. Garrett was that the decision of most utility commissioners has been significantly and consistently wrong, but that to move all the way to the "true" cost of equity could significantly increase UIF's risk profile and perhaps run contrary to legal authority on point; Mr. D'Ascendis opined that while judgment might be appropriate to an extent in developing ROE recommendations, that there must be some empirical basis for them. (Tr. 519) Mr. D'Ascendis

noted that Mr. Garrett seemed to contradict his own analysis and that the models utilized seemed to have no correlation with his recommendation. (Tr. 520)

(3) Mr. Garrett's incorrect assessment of the relationships between returns and their applicability to the Company's ROE:

Mr. D'Ascendis notes that Mr. Garrett's views regarding the relationship between allowed and investor-required ROEs for utilities change throughout the course of his testimony, pointing out that Mr. Garrett states that awarded ROEs and Cost of Equity (*i.e.*, investor-required returns) are very different concepts because of the regulatory process and may be influenced by a number of factors other than objective market drivers, although just one page earlier in his testimony Mr. Garrett appears to posit the opposite. (Tr. 521-522) Mr. D'Ascendis thereafter explained at length that in his opinion Mr. Garrett is unnecessarily complicating a simple relationship. For regulated utilities, the ROE equals the investor-required ROE which equals the allowed ROE, as reflected in the *Hope* and *Bluefield* Supreme Court decisions cited in both his Direct Testimony and Mr. Garrett's testimony. This relationship holds because utility regulation by regulatory commissions acts as a substitute for competition as Mr. Garrett clearly understands and accepts. (Tr. 522)

(4) Mr. Garrett's incorrect observation that authorized ROEs have exceeded the investor-required return on the market for 30 years:

Mr. D'Ascendis noted that Mr. Garrett estimates the investor-required return on the market by adding the annual average 10-year Treasury bond yield to a market risk premium ("MRP") calculated by the New York University School of Business for the period 1990–2019. He then compares that return to the average annual authorized returns for electric and gas utilities over that same period to support his argument that "awarded ROEs have been consistently *above* the market cost of equity for many years." Mr. Garrett also presents the authorized returns for water utilities as compared to electric and gas utilities, arguing that because the three are similar, authorized ROEs for water utilities have also exceeded the market cost of equity. Mr. Garrett further argues that the excess returns awarded to utilities result in a transfer of wealth from customers to shareholders. (Tr. 525)

Mr. Garrett also refers to a published article, suggesting that utility stocks have outperformed the broader market and will continue to do so in the future.

It was the opinion of Mr. D'Ascendis that Mr. Garrett's observations and resulting conclusions are misplaced. As a preliminary matter, Mr. Garrett's conclusion that allowed returns for utility companies exceed the required return on the market is driven by the inputs he has chosen to then estimate the required return on the market. Applying more reasonable models and inputs demonstrate allowed ROEs average about 70.00% of the required return on the market, consistent with utility betas over the period from 1990-2019. (Tr. 525-526)

Regarding the *Public Utilities Fortnightly* article, Mr. D'Ascendis notes that it was published in August 2016, shortly after the 30-year Treasury yield fell to its prior cyclical low of 2.11% on July 8, 2016. Between July and December 2016, the utility sector, as represented by the proxy group, lost 8.55% of its value as the broader market (measured by the S&P 500) increased by 5.11%. That is, despite the article's conviction that utilities would continue to outperform the market,

shortly after its publication, utility stocks meaningfully underperformed the broad market. From August 2016 through mid-November 2020, the utility sector (measured by the XLU and the Dow Jones Utility Average) significantly underperformed the S&P 500. (Tr. 526)

Finally, regarding Mr. Garrett's required return on the market, Mr. D'Ascendis disagreed with Garrett's calculation of the implied MRP because reasonable changes in his assumptions have considerable effects on the calculation, a point Mr. D'Ascendis discussed at length in his rebuttal testimony. (Tr. 526)

(5) Mr. Garrett's misapplication of the DCF model:

Mr. D'Ascendis expressed several concerns about Mr. Garrett's utilization of the DCF model. One was that Mr. Garrett's assumption that one growth rate applies to all companies, even though dividend yields vary across those companies, has no basis in theory or practice. A second was that Mr. Garrett's 3.90% growth rate is not based on any measure of company-specific growth, or growth in the utility industry in general. Third and finally, Mr. Garrett incorrectly assumes perpetual growth rate of 3.90% for all his proxy companies. (Tr. 529)

Mr. D'Ascendis testified at length as to his opinion regarding other faulty inputs and assumptions regarding the DCF model by Mr. Garrett. It was the opinion of Mr. D'Ascendis that Mr. Garrett's concerns in that regard should be dismissed.

(6) Mr. Garrett's misapplication of the Capital Asset Pricing Model:

Mr. D'Ascendis presented a highly detailed basis for his rejection of Mr. Garrett's sole reliance on historical Treasury yields to estimate the risk-free rate and the various methods he uses to estimate the Market Risk Premium. Mr. D'Ascendis testified that just as important as their methodological differences, however, is their difference regarding the reasonableness and reliability of an analysis that produces ROE estimates of 6.10%. (Tr. 535) He was also critical of Mr. Garrett's use of the 30-year treasury yield and Mr. Garrett's use of an expected MRP estimate, noting that given Mr. Garrett's correct view that expected returns have nothing to do with the investor-required return, and the lack of use by practitioners, the Commission should therefore dismiss Mr. Garrett's use of expected MRPs. (Tr. 536) Likewise, it was his opinion that the surveys referenced by Mr. Garrett do not provide reasonable MRP estimates for the purpose of estimating UIF's cost of equity. Mr. D'Ascendis provided a chart in his testimony demonstrating that the surveys used by Mr. Garrett were not a reasonable reflection of the expected MRP going forward, (Tr. 537), and provided academic literature that supports his conclusion that MRP's using surveys are not widely used by practitioners. (Tr. 539) Mr. D'Ascendis then laid out why reasonable changes to certain assumptions Mr. Garrett made have a considerable effect on Mr. Garrett's calculated expected market return. (Tr. 541) Noting that he felt Mr. Garrett's analysis is flawed based on the use of risk-free rate in MRP's based on expected returns, Mr. D'Ascendis opined that Mr. Garrett achieved unrealistic results by utilizing flawed inputs, and that given Mr. Garrett's dismissal of the results of his CAPM, the Commission should likewise dismiss Mr. Garrett's CAPM analysis. (Tr. 544)

(7) Mr. Garrett's refusal to consider a small size premium in his ROE recommendation:

Noting that Mr. Garrett lists several reasons why he has not included a size premium in his recommendation, including: (1) numerous studies show that “small cap stocks do not consistently outperform large-cap stocks, and (2) that the “discovery of the size effect phenomenon likely caused its own demise”, Mr. D’Ascendis opined that smaller companies face increased business risk as they are less equipped to cope with significant events that affect sales, revenues, and earnings, as the loss of a few larger customers will have a greater effect on a small company than a larger company, and that this is further evident when one considers that increasing capital costs (*i.e.* risk) for one set of securities will put downward pressure on those securities as investors transition to securities with lower risk. Under this premise, the underperformance is directly tied to the increase in risk. As such, Mr. Garrett’s premise that smaller companies’ underperformance indicates a decreasing level of risk is in fact the opposite – underperformance indicates an increasing level of risk. (Tr. 545)

Mr. D’Ascendis, noting that he had performed a study comparing the size of UIF with the average proxy company in Mr. Garrett’s proxy group, and an additional study for utility companies that links size and risk, laid out his data and academic support and concluded there is a need for a small size adjustment, all else equal and that consistent with the financial principle of risk and return discussed previously, upward adjustment must be applied to the indicated cost of common equity derived from the cost of equity models of the proxy groups used in this proceeding. (Tr. 548)

Finally, Mr. D’Ascendis testified that the Commission’s ROE formula allows for adjustments for increased risk for small utilities, and that based on the analysis he provided his 1.00% size premium applicable to UIF is reasonable and conservative. (Tr. 549)

Mr. D’Ascendis’ testimony concluded with a response to critiques of his direct testimony made by Mr. Garrett. As to each, he methodically laid out the support for his opinion and the reasonable basis for his conclusion. (Tr. 550) It was Mr. D’Ascendis’ opinion, after addressing those arguments in detail, that the arguments made by Mr. Garrett should not persuade the Commission to lower the ROE it approves for UIF, based on the analyses discussed throughout his testimony. Given the current capital market conditions, Mr. D’Ascendis was firm in his opinion that an ROE of 11.75% continues to be a reasonable, although conservative, estimate of the Company’s Cost of Equity and would provide UIF with sufficient earnings to enable it to attract necessary new capital efficiently and at a reasonable cost. (Tr. 553)

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

POSITION *7.889%*

ARGUMENT - This is a fallout from the determinations of Issues 18 to 21.

ISSUE 24: What are the appropriate test year revenues?

POSITION *Water - \$16,603,928; Wastewater - \$20,305,882*

ARGUMENT – See, Schedules B-1 and B-2 (Ex. 48, P. 49, 50)

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

POSITION *The appropriate amount of rate case expense is \$743,084. Pursuant to Order No. PSC-2019-0363-PAA-WS, \$39,727 of the total rate case expense is appellate and remand rate case expense related to Docket No. 20160101-WS, with 52.17% allocated to water revenues and 47.86% allocated to wastewater revenues*

ARGUMENT - Type 2 Stipulation

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

POSITION *Yes.

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

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

ARGUMENT - The change in chemical expenses is related to the Lake Groves water and wastewater treatment plants as explained in response to Staff Interrogatory No. 99 (Ex. 150, Bates 00151), and the change in telephone expense is due one of the new full-time employees currently being part-time and thus no additional cell phone is need for that employee. (Tr. 150, Bates 00154) OPC had some confusion regarding the annualization of salaries which Ms. Swain explained in her rebuttal testimony and in cross-examination. (Tr. 797, 801-802) The pro form adjustment to salaries due to salary increases required two adjustments. The first was to annualize the 3% salary increase effective April 1, 2019 by increasing an additional .75% so that the full year of salary expense was included. The second was to increase the salaries another 3% for the annualized salary increase to take place in 2020. (Tr. 797, 801-802) OPC did not challenge the salary increase in the prior rate case. (PSC Order No. 2017-0361-FOF-WS p. 137)

OPC witness Crane does not believe it is appropriate to include new post-test year employees: “it is inappropriate to reflect additional “unit” costs, such as cost for additional employees, unless other adjustments are made.” (Tr. 778-279) Thus, whether or not UIF has actually hired all of the new employees is irrelevant to her position. Although she claimed to have read the last UIF Order, (Tr. 309) she apparently overlooked the fact that the Commission approved new but not yet hired employees as a pro forma adjustment in UIF’s last rate case. (PSC Order No. PSC-2017-0361-FOF-WS p.138)

ISSUE 27: Should any further adjustments be made to the Utility’s test year O&M expenses?

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

ARGUMENT - OPC has taken exception with the amount of severance pay, incentive compensation, and lobbying expenses.

Severance Pay.

It has long been recognized by the Commission that “a utility may legitimately include severance payments to employees as part of its base rate calculation.” PSC Order No. PSC-1992-0708-FOC-TL (July 24, 1992). OPC witness Crane seeks to remove those costs due to her erroneous belief that detail was not provided and that such costs only incurred in the Test Year. (Tr. 280) The details were provided to OPC in a discovery response. (Ex. 157, Bates 00223). Recognizing that severance costs are variable, it is common Commission practice to use a three- year average for ratemaking purposes. However, although the three-year average was higher than the actual test year amount, UIF used the actual test year amount. (Tr. 591; Ex.169)

Incentive Compensation.

This Commission has frequently approved costs related to incentive compensation plans in ratemaking and UIF witness Deason cited to several PSC Orders to that effect in his testimony. (Tr. 593-595) Due to OPC witness Crane’s inexperience with water and wastewater regulation in Florida (Tr. 325) she recommends an arbitrary reduction to that expense of 50% because some other jurisdictions disallow such expense. (Tr. 282-283) She made no attempt to evaluate whether the total compensation to such employees was excessive. This is just the sort of arbitrary action that the Court struck down in *Florida Bridge Company v. Bevis*, 363 So.2nd 799 (Fla. 1978). In stark contrast, UIF witness Elicegui presented the results of a study of such compensation and comparison to show its reasonableness. (Tr. 44-45; Ex. 55, 56 & 57)

OPC sought to rely upon PSC Order No. 2010-0153-FOF-EI (FPL) as authority for this Commission denying the incentive compensation plan, even though the Commission had approved such plans in the same timeframe. Notably, in the FPL case the parties “conducted extensive discovery and cross-examination to evaluate the prudence of these projected expenses, *as well as the prudence of the overall amount of salaries and benefits included in O&M expenses.*” (at p. 147, e.s.) In the FPL case “several witnesses provided us with comparative compensation information, comparing FPL employees to the market” (at p. 148) and there was an extensive analysis of that information (at p. 147-150) that is nonexistent in the instant record. No such “extensive discovery” was conducted, nor “comparative compensation information” provided by either OPC or staff on the issue of incentive or overall compensation. As pointed out above, such comparison made by UIF witness Elicegui, concluded that compensation amounts compared favorably to the market. Incentive compensation is appropriate so long as the total compensation is reasonable, and UIF has made such a showing.

Lobbying.

OPC seeks to reduce test year expenses by \$45,827 (Tr. 287-288, 322-323; Ex. 88, 89) However, the lobbying activities of UIF were related to the passage of Fair Market Value legislation which will provide benefits to customers, and would provide the Commission with another option in determining rate base. (Tr. 563) First, the acquisition of underfunded systems would benefit the customers of those systems by virtue of UIF offering robust financial and operational resources. Additionally, the legislation, if enacted, would help our current customers by allowing UIF to spread individual system costs over a larger customer base thus achieving economies of scale for the systems acquired. This would reduce the cost to each individual customer. (Tr. 559) Due to the unique nature of the lobbying activities, it is appropriate to include such expense in the revenue requirement.

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

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

ARGUMENT - Type 2 Stipulation

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

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

ARGUMENT - This is a fallout from the determinations of Issues 3, 16 and 27.

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

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

ARGUMENT – This is a fallout from the determinations of Issues 2, 3 and 16.

ISSUE 31: Should any adjustments be made to test year amortization of CIAC expense?

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

ARGUMENT – This is a fallout from the determinations of Issue 3.

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

POSITION *Water - \$909,274; Wastewater - \$1,433,944*

ARGUMENT – Consistent with prior Commission decisions, UIF amortized the unprotected ADITS over ten years. (Tr. 217-218, 597-598, 722-724) OPC witness Crane while recognizing that other jurisdictions use longer and shorter amortization periods, argues that the unprotected ADITS should be amortized over five years since it is a liability, and the shorter amortization period would provide rate relief during “these difficult times.” (Tr. 294) However, if the ADITS were an asset she would have recommended a longer amortization period since that would be most favorable to the customer. (Tr. 328-329) UIF witness Deason pointed out that whether the amount is an asset or a liability it should be amortized over the same period of time in order to treat customers and the company equally. (Tr. 723-724) The shorter period of time suggested by OPC would make the Utility’s inferior cash position more inferior. (Tr. 725) This is Ms. Crane’s first water rate case in Florida, and she admitted not reviewing prior Commission Orders, other than the last UIF Order, so it should not be surprising that she was unaware of the Commission precedence. (Tr. 308-309) The fact that Gulf Power Company, in a settlement with OPC agreed to return unprotected excess deferred income taxes over a one-year period is irrelevant. (Tr. 638) There are many factors that motivate parties to agree to something in the context of a settlement. In fact, the Commission noted that one-year was “more rapidly than normally done.” (PSC Order No. PSC-2018-0180-FOF-EI at p. 3) The Commission has normally returned unprotected excess deferred income taxes over a ten-year period as explained by Mr. Deason.

Effective January 1, 2022, the state corporate income tax rate will revert back to 5.5%. (Tr. 246, 640, 727; Ex. 186) This is a known and measurable change and as such should be applied to UIF’s income in this case. (Tr. 598, 728) OPC’s suggestion to use the 4.458% tax rate (Tr. 295) ignores this longstanding Commission ratemaking principle. Any attempt to average the old and new tax rate also runs afoul of that principle (Tr. 728). When the rate increase is going into effect and when UIF will file another rate case are far from known and measurable. (Tr. 245-247, 728) This timing is akin to nearing the end of an asset amortization period, which this Commission, recognizing the prospective nature of ratemaking, does not include in the revenue requirement calculation when the asset will be fully amortized within a year of when the rates go into effect. PSC Order No. PSC-2013-0197-FOF-WU at p. 27.

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

POSITION *Water - \$19,416,373; Wastewater - \$26,827,568*

ARGUMENT - This is a fallout from the determinations of all other Issues

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

POSITION * The appropriate rate structure is a continuation of the existing rate structure and the percentage increase should be applied as an across-the-board increase to service rates at the time of filing. To determine the appropriate percentage increase to apply

to the service rates, miscellaneous revenues of \$363,563 should be removed from the test year revenues.*

ARGUMENT - Type 2 Stipulation

ISSUE 35: What are the appropriate private fire protection charges?

POSITION * The appropriate private fire protection charges for UIF should be calculated based on one-twelfth of the respective base facility charge pursuant to Rule 25-30.465, F.A.C.*

ARGUMENT - Type 2 Stipulation

ISSUE 36: What are the appropriate rate structures and rates for the wastewater systems?

POSITION * The appropriate rate structure is a continuation of the existing rate structure and the percentage increase should be applied as an across-the-board increase to service rates at the time of filing. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues of \$333,719 should be removed from the test year revenues.*

ARGUMENT - Type 2 Stipulation

ISSUE 37: What are the appropriate reuse rates?

POSITION *The appropriate rate structure is a continuation of the existing rate structure and the percentage increase should be applied as an across-the-board increase to reuse rates at the time of filing. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues of \$333,719 should be removed from the test year revenues.*

ARGUMENT - Type 2 Stipulation

ISSUE 38: What are the appropriate customer deposits?

POSITION * The appropriate customer deposits for UIF should reflect an average of two month's service for residential customers with a 5/8" x 3/4" meter and two times the average customer bill for all other meter sizes.*

ARGUMENT - Type 2 Stipulation

ISSUE 39: What are the appropriate guaranteed revenue charges?

POSITION *The guaranteed revenue charges should remain unchanged*

ARGUMENT - Type 2 Stipulation

ISSUE 40: Should a new Allowance for Funds Used During Construction (AFUDC) rate be established? If yes, what is the appropriate AFUDC rate and when will it be effective?

POSITION *No. The current AFUDC rate should remain unchanged*

ARGUMENT - Over the years, the cost of capital, which is used to establish AFUDC rate, at times has been higher than the current AFUDC rate and sometimes it has been lower. (Tr.807, 809) Since the cost of capital varies from year to year it is not necessary to continuously change it. (Tr. 807) If the AFUDC rate is changed, it must be based on cost of capital of 7.889%.

ISSUE 41: Should the Utility's request for a Sewer and Water Improvement Mechanism (SWIM) be approved? If yes, what is the amount of the first year revenue requirement?

POSITION *Yes. The implementation of SWIM does not impact the current rate case revenue requirement. UIF proposes to implement SWIM in conjunction with its annual index filing in 2022, and annually thereafter*

ARGUMENT –

The SWIM Program

The Sewer & Water Infrastructure Mechanism (SWIM) is a new infrastructure replacement program for UIF that will enable it to recover costs, inclusive of an appropriate return on investment, associated with the replacement of aging and deteriorating water and wastewater infrastructure. This program is modeled after and is similar to the GRIP (Gas Reliability Infrastructure Program), which was first approved by the Public Service Commission in 2012 for Florida Public Utility Company, as a way to provide reliable natural gas infrastructure to the customer while reducing health and safety risks.

The GRIP Order and the PSC's broad authority to approve SWIM

The PSC has broad ratemaking authority under Sections 367.011(2) & (3), 367.081 and 367.121(1)(a) Florida Statutes (F.S.) which provides the necessary legal authority to implement the SWIM program. The legislature could not have been more expansive in stating legislative intent behind the Commission's enabling statute when it declared that "(t)he provisions of this chapter shall be liberally construed for the accomplishment" of the purposes delineated therein. Section 367.011(3), F.S. In promoting the public health, safety, welfare, and regulation of utilities referenced in that statutory subsection, the legislature clearly therein declared that it is the

prerogative of the PSC to assume that it does have the power and authority to meet those ends, as opposed construing the limits of its authority restrictively.

In addition, Section 367.121(1)(d) F.S. specifically grants the FPSC the authority to require repairs and improvements if reasonably necessary to provide adequate and proper service. The PSC previously had addressed the need to replace aging gas distribution infrastructure in a proactive manner through approval of the Gas Reliability Infrastructure Programs (GRIP) in 2012, after which the SWIM Program is patterned. (Tr. 93-94; 584-587). The following determination by the PSC regarding the GRIP Program is equally applicable to the need for the SWIM Program:

“Replacement of bare steel pipelines is in the public interest to improve the safety of Florida’s natural gas infrastructure, thereby reducing the risk to life and property. Given the length of time these pipelines have been installed and the leak history due to corrosion, we find that it is appropriate to approve the proposed replacement program. Without the GRIP surcharge, it is reasonable to expect that Chesapeake will have to file for more frequent base rate proceedings to recover the expenses of an accelerated replacement program. The annual filings will provide us with the oversight to ensure that projected expenses are trued-up and only actual costs are recovered. Chesapeake’s GRIP and its associated surcharges will terminate when all replacements have been made and the revenue requirement has been rolled into rate base.” Order No. PSC-2012-0490-TRF-GU, page 19. In addition, The PSC had jurisdiction to approve GRIP Programs based upon the broad ratemaking powers in 366.04, 366.05 and 366.06 F.S.: “It is clear to us that we have the authority under the broad ratemaking powers found in Sections 366.04, 366.05, and 366.06, F.S., to establish this type of surcharge to recover a discreet set of costs incurred in response to unusual, urgent circumstances. For example, in *Action Group v. Deason*, 615 So. 2d 683 (Fla. 1993), the Florida Supreme Court upheld our approval of a 15-year rate rider charged to customers in a specific service area to retire the existing debt of a bankrupt system that Florida Power Corporation (now Progress Energy Florida, Inc.) had purchased. The Court stated that we had the authority under Section 366.04(1), F.S., to fix “just, reasonable, and compensatory rates, charges, fares, tolls, or rentals”, and the authority under Section 366.05(1), F.S., to prescribe “fair and reasonable rates and charges [and] classifications,” which authority, the Court stated, was to be construed liberally. See also Section 366.041(2), F.S., which provides that the “power and authority herein conferred upon the commission shall... be construed liberally to further the legislative intent that adequate service be rendered by public utilities.” In Docket No. 041291-EI, *In re: Petition for authority to recover prudently incurred storm restoration costs related to 2004 storm season that exceed storm reserve balance, by Florida Power & Light Co.*, we approved a surcharge to cover FPL’s unanticipated storm restoration costs for a period of three years. Likewise, in Docket No. 041272-EI, *In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.*, we approved a two-year temporary surcharge to recover Progress’s storm costs. Here, we are approving a similar surcharge, for a discreet period, in response to unusual circumstances.” *Id.* Pages 18-19. Those same broad ratemaking powers are afforded the FPSC with regard to water and wastewater systems under Sections 367.011(2) & (3), 367.081 and 367.121(1)(a), F.S. and more specifically in Sections 367.121(1)(d) F.S and 366.05(1)(a) F.S.

At the hearing, Mr. Deason highlighted the similarities between the issues that were intended to be addressed by the GRIP program and the issues intended to be addressed by the proposed SWIM program.

Mr. Deason highlighted in his testimony the similarities between the Commission's basis for issuing the GRIP Order and UIF's request for implementation of the SWIM program. (Tr. 739). In requesting the GRIP program be implemented, the company's primary goal was to proactively respond to public concern regarding aging infrastructure reliability and safety. (Tr. 740). Mr. Deason felt that was analogous to UIF's motivation in proposing this SWIM program. (Tr. 740). In the GRIP Order, the company was under a federal regulation to assess the risk of its pipelines; Mr. Deason opined that this was analogous to what UIF was proposing in the SWIM program, to proactively review facilities for safety and environmental impact. (Tr. 740). That is why UIF worked with a consultant to help identify and assess its assets as to when they need to be replaced, which is an ongoing process and has been ongoing for some time. (Tr. 741). The GRIP Order noted that the company asserted that the appropriate evaluation in response to maintaining aging facilities was in the public interest. Mr. Deason felt, analogously, that it was just as important for UIF to vigorously maintain its facilities, and that investigation was ongoing now and that UIF was proposing a superior method for recovery of the funds expended on those replacements that may occur. (Tr. 741). The GRIP Order noted that the companies that were proposing the program felt there were safety concerns that would be met by the implementation of the program, and Mr. Deason agreed that this was also UIF's motivation proposing the SWIM program. (Tr. 742). In the GRIP Order the companies that were proposing the program asserted that the charge would obviate the need for a full rate case which they describe as a more costly mechanism that the customers will otherwise have to bear; Mr. Deason opined that UIF also thought the program would be best for its customers, for the same reason. (Tr. 742-743). In the GRIP Order, the companies noted that the program would be an economic development of the service territory because you are spending more money to have pipes and associated infrastructure replaced on an ongoing and continuous basis; Mr. Deason again felt that that was analogous to UIF's proposal of the SWIM program and that the same result would be achieved. (Tr. 743). The company's proposed GRIP gave details about how they assess the facilities and decide which ones needed to be replaced. Mr. Deason testified that this was analogous to what UIF is doing now and proposes to continue to do under SWIM. (Tr. 744). The PSC noted in the GRIP Order that staff would have the opportunity to thoroughly review and conduct a financial analysis of the actual revenues and expenses. Mr. Deason testified that it was important to note that UIF would not be using estimated costs, it has proposed that staff would timely audit the actual invoices and the actual expenditures associated with each SWIM project prior to a change in rates so that the impact on rates could be accurately calculated. The customers will only pay on a going forward basis for recovery of the capital actually invested by UIF to replace existing infrastructure after the new assets have been placed into service for the benefit of the customers and environment. (Tr. 745; Ex. 155)

Why the SWIM program is needed and in the public interest

Cost savings for UIF customers if the SWIM program is approved

It was Mr. Deason's opinion that UIF's customers stand to receive significant cost savings in the form of reduced rate case expense. Further, it provides for a more judicious use of PSC staff time and resources. The SWIM program is designed to reduce the regulatory lag associated with rate proceedings by allowing for the inclusion of PSC-approved capital expenditures in rates on an

annual basis. Thus, the need for UIF to formally petition the PSC for recovery of its capital investments will be greatly reduced and occur less frequently due to the timeliness of those capital investments being added to rate base under the SWIM program. It is well known that rate proceedings are a costly endeavor. In UIF's last rate proceeding, Docket No. 20160101-WS, the PSC approved total rate case expense of \$1,040,038 and in the current rate proceeding, rate case expense is on pace to exceed \$700,000. These expenses are born entirely by UIF's customers over a four-year timeframe. (Tr. 587)

Mr. Deason further detailed the benefits UIF customers will perceive if the SWIM program was approved. The current method of incorporating capital investments into rates requires a formal rate proceeding in the form of a fully litigated rate case, a file and suspend rate case, or limited proceeding. These proceedings are not only very expensive, as stated above, but are also a very time-consuming process. Because of the regulatory lag that is created, it can take several years before some capital investments are reflected in rates. Due to UIF's need to replace a significant amount of its aging infrastructure that is at or beyond its useful life in a timely manner, it has spent and will continue to spend millions of dollars each year on these replacements. When these several years of investments are reflected in rates at the end of a rate proceeding a significant amount of rate shock will occur. By approving the SWIM, large increases every four to five years will be replaced with nominal increases on an annual basis. This allows for a more efficient method of including capital investments in rates while gradually phasing in the new rates associated with the capital investments. Additionally, by replacing assets in a programmatic manner, UIF will achieve better unit pricing through its bidding process that will accrue to the benefit of the customers. There will be fewer unplanned interruptions of service by virtue of replacing assets prior to their failure. By proactively scheduling pipe replacements, for instance, UIF will be able to utilize a wider variety of construction methods and technologies, such as horizontal directional drilling, that reduce restoration costs and the impact of construction on the community. (Tr. 588)

Mr. Deason also pointed out that the PSC and its staff would have an opportunity to review and approve the projects associated with the program. (Ex. 155) All infrastructure replacements associated with the SWIM will be subject to PSC review and approval to ensure their prudence and cost-effectiveness. For each SWIM project, UIF will demonstrate not only that each project is necessary, but that the costs for components, engineering and construction are reasonable by conducting competitive bids to ensure that it is obtaining the most favorable terms with its qualified contractors. If any of the SWIM projects are not shown to be prudent and cost-effective, the PSC has the authority to deny or defer the inclusion of SWIM projects in rate base. Additionally, UIF has identified that the majority of the SWIM related projects will be associated with the replacement of horizontal assets, i.e., water and sewer pipes, valves, meters and appurtenances. UIF would be willing to limit SWIM related projects to those that are solely related to the replacement of its linear infrastructure if the FPSC believes that this constraint will optimize the value to the customer. (Tr. 590)

As to OPC witness Radigan's assertion that any change in rates requires a full rate case, Mr. Deason pointed out that there are several capital investment recovery mechanisms already approved by the PSC that are analogous to SWIM. None of these other mechanisms require a full rate case to be filed each time the capital investments are completed. (Tr. 590)

Disagreeing with a further Radigan opinion, Mr. Deason noted that it is not anticipated that the SWIM together with the annual index would result in a 5-8% increase per year, as Mr. Radigan had suggested. First, Mr. Radigan states, “increases attributable to the annual index filing... has been increasing at a rate of between 1% - 3% per year”. Mr. Deason pointed out that this statement is misleading. The annual PSC approved index percentage has been variable over the last ten years. And only twice over the last 10 years has it exceeded 2% with the other years being less than 2%. The total average index percentage over the last ten years has been only 1.69 percent. Additionally, the index for 2021 is expected to be only 1.17 percent and with the decreased economic activity associated with the COVID-19 virus, the index is more than likely to remain low for the next few years. Thus, given these factors, the index will be approximately 0.5% for the next few years. Also, OPC witness Radigan does not completely understand how the index percentage is reflected as a percentage increase in rates. The index applies to only certain Operating and Maintenance expenses and not to a Utility’s total revenue requirement on which rates are based. In the case of UIF, the percentage increase in rates is almost always less than the index percentage that is applied to Operating and Maintenance expenses. For the past four years, since UIF has had consolidated rates, the average percentage increase for its index increase, including pass-through items, has only been 0.94%. If you combine the 0.94% increases from indexes and pass-throughs, with another 4% for capital investments associated with SWIM, the increase would be a maximum of 4.94% and not a maximum of 8% as Mr. Radigan has suggested. (Tr. 592)

Mr. Deason testified that UIF is willing to agree to a cap in the amount of annual increase in rates associated with SWIM projects on an annual basis, based on UIF’s sensitivity to how rate increases affect customers and the company’s desire that no increase be overly burdensome. Therefore, UIF is amenable to a cap on the annual increase in rates associated with SWIM projects if the capped rate is reasonable. (Tr. 592). Mr. Deason also noted that UIF is willing to agree to a stay out provision for a rate proceeding if SWIM is approved because the SWIM program will result in less frequent rate cases being filed. In other words, UIF would agree to a stay out provision if the time frame is reasonable. (Tr. 592)

OPC expressed some concern that SWIM was open-ended whereas GRIP was for a specific period of time. If the Commission shares that concern, then UIF would propose an initial implementation period of five years, consistent with UIF’s planning horizon, (Tr. 206) which would afterwards give the Commission an opportunity to evaluate the program’s effectiveness.

ISSUE 42: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

POSITION *Any refund should be calculated in accordance with Commission policy*

ARGUMENT - Pursuant to Section 367.082, F.S., any refund shall be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period that interim rates are in effect are removed. Any refund shall be made with

interest in accordance with Rule 25-30.360(4), F.A.C., in which case the Utility shall be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. Any unclaimed refunds should be treated by the Utility as Contributions in Aid of Construction (CIAC) pursuant to Rule 25-30.360(8), F.A.C. Further, the Corporate Undertaking of UIF and the Corporate Guarantee of Utilities, Inc. shall be released upon Commission staff's verification that the required refunds have been made, or if no refund is required, upon the issuance of the Final Order.

ISSUE 43: **What is the appropriate amount by which rates should be reduced after the established effective date to reflect the removal of the amortized rate case expense?**

POSITION *\$185,771.*

ARGUMENT - Pursuant to Section 367.081 (8), F. S., rate case expense is recovered over four years unless a longer period is justified and is in the public interest. There was no evidence presented to warrant a variance of the four-year amortization period; thus, based upon the stipulation of total rate case expense in Issue 25, UIF's rates should be reduced after four years to reflect an annual decrease in revenues of \$185,771.

ISSUE 44: **Should the Utility be required to notify, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?**

POSITION *Yes*

ARGUMENT - Consistent with Commission policy, UIF should make the Commission approved adjustments and advise the Commission accordingly within 90 days of the Final Order being effective.

ISSUE 45: **Should this docket be closed?**

POSITION *Yes, after confirmation that adjustments have been made*

ARGUMENT - Consistent with Commission policy, once the refunds, if any, have been made, the final rate case expense schedule pursuant to Rule 25-30.436(6), F.A.C. has been filed, and the Commission Ordered Adjustments have been confirmed to have been made, this Docket should be closed.

Respectfully submitted this 23rd day of February,
2021, by:

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by E-mail to the following parties this 23rd day of February, 2021:

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