

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for an increase in water and)
wastewater rates in Charlotte, Highlands, Lake,)
Lee, Marion, Orange, Pasco, Pinellas, Polk,)
and Seminole Counties by Sunshine Water)
Services Company)

Docket No. 20240068-WS

DIRECT TESTIMONY

OF

DEBORAH D. SWAIN

on behalf of

Sunshine Water Services Company

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. State briefly your educational background and experience.**

6 A. I have a Bachelor of Science degree in Accounting from Florida State University. I have over
7 35 years of experience in utility management, accounting, finance, rate regulation, rate design
8 and system development. I have prepared and supervised cost of service studies for over 300
9 water and wastewater systems, calculated revenue deficiencies and revenue requirements,
10 and designed rates.

11 **Q. Have you previously appeared and presented testimony before any regulatory bodies?**

12 A. I have prepared and presented expert testimony in the areas of regulatory accounting, rate
13 regulation and utilities in general, before various federal, state, county, courts and regulatory
14 agencies, including the Florida Public Service Commission, Collier, Hillsborough, St. Johns
15 and Washington Counties, the Circuit Court in Palm Beach County, the Town of Jupiter, the
16 City of Miami, and the US Bankruptcy Court.

17 **Q. On whose behalf are you presenting this testimony?**

18 A. I am presenting this testimony and appearing on behalf of Sunshine Water Services Company
19 (Sunshine), the applicant for rate increase in the present docket.

20 **Q. What is the purpose of your direct testimony?**

21 A. The purpose of my direct testimony is to present information supporting the financial basis
22 for Sunshine's request to increase its rates and charges as presented in the MFRs, to provide
23 supporting schedules to show the basis for the requested rates and charges.

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

25 A. Yes, I am sponsoring two exhibits. Exhibit DDS-1 contains MFR Volume I – Financial,

1 Rate and Engineering (except the E-14 schedule contained in Volume II, prepared by Dante
2 DeStefano, and the F schedules that were prepared and sponsored by Mr. Seidman) which
3 is being filed simultaneously in the Docket as required by PSC Rules. Exhibit DDS-2 is the
4 reconciliation schedule which is being filed with the Application, filed simultaneously in
5 the Docket as required by PSC Rules.

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

7 A. Yes, they were. As is customary, they were prepared from financial information provided
8 to my staff and me by Sunshine.

9 **Q. Are there any particular explanations you want to make with regard to the MFRs?**

10 A. Yes, I will point out several about which I would like to elaborate.

11 Rate Base Adjustments – Utility Plant in Service

12 (1) Allocation of Common Plant: As in prior cases, I show combined book balances in the
13 water utility plant as the starting point for general plant, then apply an allocation adjustment to
14 the general plant accounts based upon number of ERCs. The result is an equivalent reduction
15 in water utility plant and an increase in wastewater utility plant.

16 (2) Sandalhaven Intangible Plant: This adjustment moves the cost of the intangible plant
17 associated with the payment to the Englewood Water District (EWD) from a tangible plant
18 account to an intangible plant account.

19 (3)(a) Pro-forma Plant Adjustments: The adjustment to utility plant associated with the pro-
20 forma projects comprised several parts. The first is to reflect the additions to plant by NARUC
21 account.

22 (3)(b) Pro-forma Plant Retirements: Certain pro-forma plant additions required retirement of
23 replaced plant. We calculated the original plant cost for retirements applying the Handy
24 Whitman index, which is consistent with the methodology used by Sunshine when it records
25 the retirement on its accounting records.

1 (4) Non-Used and Useful (NUU): Although the MFRs present consolidated financial
2 information, adjustments for NUU required system-based calculations. These adjustments
3 pertained to Plant, Accumulated Depreciation, CIAC, Amortization of CIAC, Depreciation
4 Expense, and Property Tax Expense. The applicable MFR schedules include sections reflecting
5 the pertinent information by system for those plant accounts to which a NUU adjustment was
6 made. The percent used and useful for each system is consistent with the findings of Sunshine’s
7 witness Frank Seidman.

8 Rate Base Adjustments – Construction Work in Progress (CWIP) As we are including the full
9 cost of pro-forma projects in utility plant in service, it is appropriate to remove CWIP from
10 inclusion in rate base.

11 Rate Base Adjustments – Accumulated Depreciation – Test Year

12 (1) Allocation of Common Plant: As was done for common plant, the associated
13 accumulated depreciation for common plant was shown fully in water, and then allocated from
14 water to wastewater based upon ERCs.

15 (2) Correct Over-Amortization of EWD: As the intangible asset associated with the
16 payment to EWD had been included in the incorrect account, it was depreciated over 10 years,
17 rather than the 40 years associated with intangible plant, requiring an adjustment.

18 (3) Reclassification of Summertree Retirement entry: The retirement entry was incorrectly
19 charged to Accumulated Depreciation for Organization Costs, and was therefore moved to
20 Accumulated Depreciation for Wells and Springs.

21 Rate Base Adjustments – Accumulated Depreciation – Pro-forma

22 (1) Annualization Adjustment: Each of the test year additions to plant was identified and
23 the accumulated depreciation was adjusted to reflect a full year. An equivalent adjustment to
24 depreciation expense was also made.

25 (2) Pro-forma Project Additions: Depreciation for one year was calculated for pro-forma

1 projects and included in accumulated depreciation as an adjustment.

2 (3) Adjustment for Retirements: As adjustments were made for retired plant in utility plant
3 in service, accumulated depreciation was adjusted by an equal amount.

4 Rate Base Adjustments – Contributions in Aid of Construction (CIAC)/ Amortization

5 (1) Over-amortization of CIAC: In Order No. PSC-2017-0361-FOF-WS, it was
6 determined that the company was over-amortizing certain CIAC accounts. The books continue
7 to include this over-amortization, and an adjustment was made to correct this balance.

8 (2) Pro-forma Retirement of CIAC: The retirement of contributed plant associated with
9 the pro-forma projects required an adjustment to reduce CIAC and also to reduce the
10 amortization of CIAC in an equal amount.

11 Rate Base Adjustments – Acquisition Adjustment

12 Acquisition adjustments on the books of the company were removed from rate base. Had these
13 adjustments been approved by the Commission, they would have been included in rate base.

14 Working Capital

15 Working capital was calculated using the balance sheet approach, including all appropriate
16 components.

17 **Q. Please elaborate on your adjustments to revenues and expenses.**

18 A. Revenues – Test Year

19 Two test year adjustments were made. One adjustment is to exclude revenue components that
20 are not pertinent to revenues included in the revenue requirement, for example accrued
21 revenues, guaranteed revenues and AFPI. The second adjustment to revenue components is to
22 reflect the annualized test year revenues calculated based upon current rates having been in
23 effect during the full test year.

24 Revenues – Pro-forma

25 An adjustment was made equal to the revenue increase needed to achieve the revenues

1 required.

2 Operating Expenses – Test Year

3 (1) Chemicals: An adjustment was made to reflect the analysis of chemical dosages the
4 company performed. The result is that the adjusted chemical expense for water and
5 wastewater is based upon the chemicals used during the test year.

6 (2) Excess Unaccounted for Water (EUW) and (3) I&I Adjustments: Adjustments for
7 systems experiencing EUW and excess I&I were made, using details for each applicable
8 system for purchased water, purchased wastewater, chemicals and power.

9 (4) and (5) Lobbying Expenses: Test year lobbying expenses including dues paid to NAWC
10 attributable to lobbying were removed.

11 (6) Regulatory Commission Expense: An adjustment was made to reflect the amount
12 allowed in the Order No. PSC-2021-0206-FOF-WS.

13 Operating Expenses – Pro-forma

14 (1) Purchased Water / Sewer Expense: Adjustment were made to reflect the impact of
15 rate increases imposed by providers of water and wastewater treatment. This is based upon
16 flows reflected in DDS-1 schedules F-1 and F-2, and the rates in effect at the end of the test
17 year.

18 (2) Purchased Sewer – EWD (Sandalhaven): An adjustment to reflect the volume of
19 purchased wastewater treatment was made. This is consistent with the testimony of
20 Sunshine witness Dante DeStefano, that it is appropriate to use the average flow in 2020
21 and 2021 as the basis to estimate test year flows, times the EWD gallonage rate.

22 (3) Amortization of Rate Case Expense: The adjustment reflects the current estimated
23 rate case expense amortized over four years.

24 (4) Other Pro-forma Adjustments:

- 25
- Sludge hauling – this adjustment reflects the sludge hauler’s price increase

- 1 • Chemicals – this adjustment reflects the increased cost of sodium hypochlorite
- 2 • Contractual Services corporate allocations – this adjustment reflects a reduction in
- 3 allocated cost consistent with the testimony of Sunshine witness Dante DeStefano,
- 4 • Contractual services - credit card processing – this adjustment reflects the estimated
- 5 annual cost of processing fees for online payments by customers, consistent with
- 6 the testimony of Sunshine witness Dante DeStefano,
- 7 • Insurances – these adjustment to all insurances reflects the increased cost imposed
- 8 by the insurance companies consistent with the testimony of Sunshine witness Dante
- 9 DeStefano,
- 10 • Sewer Rodding – This adjustment reflects the increased cost imposed by the sewer
- 11 rodding contractor, consistent with the testimony of Sunshine witness Dante
- 12 DeStefano.

13 (5) Salaries and Benefits: An adjustment was made to reflect the estimated cost of

14 salaries and benefits, consistent with the testimony of Sunshine witness Dante DeStefano,

15 (6) Repression Adjustment: As explained later in my testimony, I have made a

16 repression adjustment to billed gallonage to reflect the expected impact of the rate increase

17 on customer usage. This reduced consumption will result in a reduction of certain costs. I

18 have made an adjustment to purchased water, purchased power and chemical expense of

19 2.3128%, which is the overall reduction in total consumption expected.

20 Depreciation Expense – Test Year

21 (1) Amortization of Early Retirement: Consistent with the adjustment made to

22 accumulated depreciation, the retirement entry was incorrectly charged to depreciation

23 expense for Organization Costs, and was therefore moved to depreciation expense for Wells

24 and Springs.

25 (2) Over amortization and reclassification of Sandalhaven Intangible Plant (EWD):

1 Consistent with the adjustment to accumulated depreciation, as the intangible asset associated
2 with the payment to EWD had been included in the incorrect account, it was depreciated over
3 10 years, rather than the 40 years associated with intangible plant, requiring an adjustment.
4 Additionally, the amortization was reclassified from Wells & Springs to Intangible Plant.

5 (3) Non-Used and Useful: Based on the NUU determined by Sunshine witness Frank
6 Seidman, associated depreciation expense was reduced by the amount determined to be NUU.

7 (4) Over-amortization of CIAC: Consistent with the adjustment made to accumulated
8 amortization of CIAC, Order No. PSC-2017-0361-FOF-WS determined that certain CIAC
9 accounts were over-amortized in Lake Placid, Mid County and Sanlando, requiring an
10 adjustment to reduce the expense by that amount.

11 Depreciation Expense – Pro-forma

12 (1) Annualization of depreciation expense for test year plant additions, consistent with
13 the adjustment made to accumulated amortization, each of the additions to plant was
14 identified and the depreciation expense was adjusted to reflect a full year.

15 (2) Additional depreciation expense for pro-forma plant additions: The depreciation
16 expense for the first full year in service is reflected as an adjustment to increase depreciation
17 expense.

18 (3) Reduction to depreciation expense for retirements: An adjustment was made to
19 reduce depreciation expense for one full year after retirement of plant associated with the
20 pro-forma plant projects.

21 (4) Amortization of Pro-forma CIAC retirements: Amortization expense was adjusted
22 to remove one year of amortization expense for retired CIAC.

23 Amortization Expense

24 An adjustment was made to reclassify amortization of early retirements from depreciation
25 expense.

1 Taxes Other than Income Taxes – Test Year

2 An adjustment was made to reflect the regulatory assessment fees on annualized revenue,
3 consistent with the adjustments to test year revenues.

4 Taxes Other than Income Taxes – Pro-forma

5 (1) Payroll taxes: an adjustment was made to reflect pro-forma salary levels, consistent
6 with the testimony of Sunshine witness Dante DeStefano.

7 (2) Property taxes:

8 (a) Adjustments were made to reflect a full year of property taxes on plant added during the
9 test year, using the proportion of plant additions to taxable property.

10 (b) An adjustment was made to reduce property taxes by a proportionate amount for NUU
11 plant.

12 (c) An adjustment was made to increase property taxes associated with taxable pro-forma
13 projects.

14 (3) Regulatory Assessment Fees: An adjustment to increase regulatory assessment fees
15 associated with the final requested revenues was made.

16 Income Tax Expense

17 (1) Income tax expense was calculated based upon test year taxable income.

18 (2) Income tax expense was calculated based upon final requested taxable income.

19 **Q. Can you explain why you made additional adjustments to requested revenues?**

20 A. After calculating the revenue requirement for both water and wastewater, Sunshine made
21 the decision to limit the revenue increase to 19.9% over test year adjusted revenues. I
22 therefore made adjustments to reduce the overall water revenue increase to 19.9%.

23 **Q. What impact did this adjustment have?**

24 A. This reduction in the revenue increase reduced the repression adjustment to rates and
25 expenses. Regulatory Assessment Fees was reduced due to the lower taxable revenues.

1 Income tax expense was reduced due to the lower taxable net income.

2 **Q. Did you make any adjustment to the cost of capital?**

3 A. Capital Structure – Test Year

4 The capital structure proposed is a combination of consolidated company debt and equity,
5 and components that are on Sunshine’s books. The D schedules included in DDS-1 provide
6 the required information for the consolidated company information (schedules D-4, D-5,
7 and D-6). Schedule D-2 allocates those consolidated company components to Sunshine
8 based upon Sunshine’s rate base. The result is that the components on Sunshine’s books are
9 included as reflected on the books, with the adjustment described below, and the
10 consolidated components are included proportionately so that the blended capital structure
11 totals rate base. The final capital structure reconciled to rate base is shown on D-1.

12 Cost of Capital

13 The components in the capital structure were assigned cost rates based upon the actual cost.
14 The cost of equity was calculated using the leverage formula in Order No. PSC-2024-0165-
15 PAA-WS.

16 Capital Structure – Pro-forma

17 Current and Deferred Income Taxes – The pro-forma plant adjustment included a calculation
18 of the difference between book depreciation and tax depreciation. The tax impact of this
19 difference resulted in a pro-forma increase in deferred income taxes. This adjustment is
20 reflected in schedule D-2 in DDS-1, and thus included in the calculation of overall rate of return
21 on Schedule D-1.

22 **Q. What is recommendation regarding billing rates?**

23 A. Billing Rates

24 I am proposing that the rates be increased proportionately across the board. I am also applying
25 a repression adjustment to discretionary gallonage equal to 2% for every 10% of revenue

1 increase, consistent with the repression adjustment requested and allowed in Order No. PSC-
2 2017-0361-FOF-WS, and consistent with the amount allowed in other Commission cases. We
3 are proposing a revenue increase of approximately 19.9% in water revenues. Therefore, the
4 appropriate reduction in discretionary consumption based upon this increase would be 3.98%
5 to discretionary consumption, resulting in a reduction to all consumption of 2.3128%.
6 Discretionary consumption is determined to include consumption in billing blocks above the
7 lowest block, i.e. over 4000 gallons. The reduction in consumption and the increased rates to
8 compensate for this reduction is shown on schedule E-2, page 2 of 8. As mentioned earlier, a
9 corresponding adjustment to reduce the specifically affected expenses was made to recognize
10 the reduced consumption.

11 **Q. Does that conclude your direct testimony?**

12 A. Yes, it does.