



## 1 APPEARANCES:

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

1  
2           **COMMISSIONER BRISÉ:** So we'll go ahead and  
3 call this meeting to order. Today is May 14th in Docket  
4 Number 120161-WS. And I'm going to ask Ms. Barrera to  
5 read the notice.

6           **MS. BARRERA:** Yes, Commissioner. This was  
7 noticed a Commission hearing -- that a hearing will be  
8 held before Florida Public Service Commission regarding  
9 the application of Utilities, Inc. for financial  
10 accounting and customer service computer system, and was  
11 convened -- to be convened Wednesday, May 14th, 2014,  
12 9:30 a.m. at the Betty Easley Conference Center.

13           **COMMISSIONER BRISÉ:** All right. Thank you  
14 very much.

15           At this time we will go ahead and take  
16 appearances.

17           **MR. FRIEDMAN:** Yes. My name is Martin  
18 Friedman, attorney for Utilities, Inc.

19           **COMMISSIONER BRISÉ:** Okay.

20           **MR. SAYLER:** Erik Sayler with the Office of  
21 Public Counsel. Also I'd like to enter an appearance  
22 for Mr. Charles Rehwinkel, Deputy Public Counsel.

23           **COMMISSIONER BRISÉ:** Okay. Thank you.

24           **MS. BARRERA:** Martha Barrera, staff.

25           **MS. HELTON:** Mary Anne Helton, Advisor to the

1 Commission.

2 **COMMISSIONER BRISÉ:** Thank you very much.  
3 Preliminary matters. Are there any preliminary matters  
4 that we need to deal with at this time?

5 **MS. BARRERA:** No, Commissioner. Staff is not  
6 aware of any.

7 **COMMISSIONER BRISÉ:** Okay. Parties?

8 **MR. SAYLER:** None.

9 **MR. FRIEDMAN:** We have none.

10 **COMMISSIONER BRISÉ:** All right. Thank you  
11 very much. That makes the day a whole lot easier.

12 Opening statements.

13 **MR. FRIEDMAN:** Thank you, Commissioners. It's  
14 a little awkward. I wish we could switch the name tags  
15 because that is really, that is really awkward to --

16 **COMMISSIONER BALBIS:** (Inaudible. Microphone  
17 off.)

18 **MR. FRIEDMAN:** You're going stay down there  
19 though, in your --

20 **COMMISSIONER BALBIS:** We'll see how it plays  
21 out.

22 **MR. FRIEDMAN:** All right. I know how you get  
23 used to your chair and everybody likes the feel of their  
24 chair, but it is a little awkward, so I apologize in  
25 advance.

1                   **COMMISSIONER BRISÉ:** Just, just before you  
2 start, I just want you to know that per the order you  
3 have five minutes for your opening statements.

4                   **MR. FRIEDMAN:** I will not take more than five  
5 minutes. Thank you, Commissioner Brisé.

6                   We're here because the Commission has  
7 consistently made an arbitrary reduction in the cost of  
8 Utilities, Inc.'s Project Phoenix financial and customer  
9 care billing systems to reflect the customers that were  
10 divested through the sale of some of the systems. The  
11 utility's assertions that a reduction to customers -- of  
12 customers would not have affected the cost of Project  
13 Phoenix thus far has fallen on deaf ears, and, as a  
14 result, Utilities, Inc. had to initiate this proceeding  
15 to afford it an opportunity to have the person  
16 responsible for designing the Project Phoenix, the  
17 primary person responsible for hiring project -- for  
18 designing Project Phoenix to tell you himself and give  
19 you an opportunity to ask him a question or questions  
20 about what it takes to develop a system like Project  
21 Phoenix and how it has nothing to do with whether the  
22 utility has 10 or 15 percent less or more customers at  
23 any particular point in time.

24                   Unfortunately, you know, that testimony comes  
25 with a cost. The Commission, in prior orders, has



1 recognized that UI has divested systems, whether  
2 voluntarily or not, representing at most 14 percent of  
3 the number of ERCs that were online when Project Phoenix  
4 went active. However, this is not a one-time decrease  
5 in, in customers of 14 percent. It occurred over a  
6 period since 2009, and offsetting that are a growth in  
7 customers due to acquisitions and natural growth within  
8 particular systems.

9 And thus far, while the Commission has  
10 recognized the downside to the utility -- in other  
11 words, the divestitures -- it has thus far ignored the  
12 fact that the utility continues to grow customers to  
13 offset the, the divestitures, and thus far that has not  
14 been taken into consideration.

15 Through the testimony of Utilities, Inc.'s  
16 witnesses and the cross-examination of the staff's  
17 witnesses, I think that all three of you will reach the  
18 unanimous conclusion that there's no reasonable basis in  
19 regulatory ratemaking to reduce the Project Phoenix cost  
20 in the manner to which the utility -- the Commission has  
21 done so in the past and, and will enter a ruling  
22 allowing Utilities, Inc. the full cost of Project  
23 Phoenix. Thank you.

24 **COMMISSIONER BRISÉ:** Thank you. You have, you  
25 will have about two minutes after OPC gets an

1 opportunity.

2 **MR. FRIEDMAN:** Thank you.

3 **MR. SAYLER:** Good morning, Commissioners.

4 This is Erik Sayler on behalf of the customers of  
5 Utilities, Inc. and also the Office of Public Counsel.

6 Thank you.

7 This generic docket was opened to allow OPC  
8 and Utilities, Inc. to address issues which were generic  
9 to all of UI's systems in the State of Florida, and in  
10 January this Commission approved a partial settlement  
11 between our office and Utilities, Inc., which settled  
12 and addressed a number of accounting and ratemaking  
13 issues.

14 The remaining issue in dispute today concerns  
15 Project Phoenix. Project Phoenix is shorthand for a  
16 very expensive custom-made computer system for UI's  
17 financial customer care billing system. Since this  
18 \$21.5 million computer system was placed into service in  
19 mid-2008, Utilities, Inc. has voluntarily divested or  
20 sold off a number of water and wastewater systems,  
21 reducing the customers, the ERCs, and has reallocated  
22 the total cost of Project Phoenix to those remaining  
23 non-divested systems and those non-divested ERCs.

24 The issue you are deciding is whether there  
25 should be any adjustments on how Project Phoenix's costs

1 are allocated to the remaining Florida systems and  
2 whether those adjustments should account for voluntary  
3 divestitures of Utilities, Inc.'s systems.

4 It's important to highlight that the  
5 Commission started using this divestiture adjustment  
6 methodology in June 2010 and has decided this on  
7 numerous, numerous times since then. In fact, the  
8 Commission decided it at least seven times prior to the  
9 Eagle Ridge protest in December 2011.

10 The Office of Public Counsel supports the  
11 staff-recommended and the Commission-approved  
12 adjustments to Project Phoenix and the methodology for  
13 doing that. Those adjustments, we believe, properly  
14 account for the effect of voluntary divestitures by  
15 Utilities, Inc. of its systems. Through no fault of  
16 their own, the customers should not be required to pay  
17 more for Project Phoenix as a result of these voluntary  
18 divestitures. The Commission adjustments are just,  
19 reasonable, and fairly and equitably balance the  
20 interests of the customers and the utility.

21 And you may hear that the utility will raise a  
22 gain on sale argument. That is, you know, that's a  
23 fallacious smokescreen. Remember, Utilities, Inc.  
24 voluntarily sold off its systems, and whether those  
25 systems are sold for a profit or for a loss is not

1 something that the Commission takes into account when  
2 doing this adjustment methodology.

3 As Mr. Fletcher will testify, the remaining  
4 customers do not receive any benefit for paying more for  
5 Project Phoenix. Therefore, OPC believes that you have  
6 already decided this issue and you should continue  
7 making this adjustment.

8 With regard to rate case expense, rate case  
9 expense, as in every docket, requires careful scrutiny,  
10 and we believe that significant adjustments should be  
11 made for rate case expense. First, I would recommend  
12 that you read the deposition transcript of Ms. Wiorek,  
13 the UI rate case expense witness. That is Exhibit 21.  
14 It is very short and staff does an excellent job  
15 deposing her. Her deposition testimony clearly reveals  
16 that she is not an expert in rate case expense.

17 She testified she did not prepare the invoices  
18 to her exhibits; they were just emailed to her. When  
19 questioned about some of the basic details of the  
20 invoices, she could not answer. As such, UI's witness  
21 cannot testify to the reasonableness of rate case  
22 expense. Her rate case expense are pure hearsay and  
23 cannot be relied upon as the sole basis for your  
24 decision today -- or decision in this case. And you do  
25 have a lot of discretion in determining what you, what

1 the Commission believes is a reasonable amount of rate  
2 case expense to approve.

3 Second, we believe that the Commission should  
4 disallow or make significant reductions to the rate case  
5 expense of Mr. -- of UI witness Mr. Danielson and his  
6 team of very expensive Deloitte consultants.

7 Mr. Danielson's hourly rate is over \$650 per  
8 hour for this small case, and he and his team have  
9 supposedly spent many, many hours working on this case  
10 and preparing prefiled testimony. However, much of his  
11 and his team's time is either totally undocumented or  
12 sparsely documented. Moreover, his direct testimony  
13 does not address the issue being decided by this  
14 Commission, which is the appropriateness of the  
15 Commission's adjustments to Project Phoenix that account  
16 for the divestitures. His testimony only covers how the  
17 computer system is designed, why it was sized the way it  
18 was sized, and why it was very expensive.

19 The testimony he provided could have been  
20 provided by Mr. Hoy, a Utilities, Inc.'s employee; or  
21 another Utilities, Inc. employee that was involved in  
22 the designing of this project; or an affiliate -- or  
23 someone from the affiliate Water Services Company, and  
24 they could have done it at a much less expensive cost to  
25 the ratepayers.

1                   **COMMISSIONER BRISÉ:** You have 30 seconds.

2                   **MR. SAYLER:** Thank you. OPC believes that his  
3 testimony is wholly unnecessary and should be  
4 disallowed.

5                   In conclusion, you have decided this issue  
6 many times, and we believe you should continue on with  
7 your current adjustments and that you should make  
8 significant adjustments to rate case expense because we  
9 believe the utility hasn't met the basic burden of proof  
10 for that. Thank you very much for your consideration.

11                   **COMMISSIONER BRISÉ:** Thank you.

12                   Okay. You have two minutes.

13                   **MR. FRIEDMAN:** Thank you very much. Again,  
14 Marty Friedman on behalf of Utilities, Inc. And I'll  
15 just address the rate case expense, since that was what  
16 Mr. Sayler has addressed here at the end. And, and only  
17 one person designed that system. The Utilities, Inc.  
18 folks, Mr. Hoy -- or nobody at Utilities, Inc. designed  
19 it, nobody at Utilities, Inc. can tell you how to design  
20 it. They can't tell you the functions and how that  
21 process works out. Unfortunately, there's only one  
22 person who can tell you why the system was designed the  
23 way it was and whether any amount of reduction in  
24 customers of up to 14 percent would have had any impact  
25 on their design of the system. And I take exception

1 with Mr. Sayler saying that's irrelevant. I think  
2 that's the exact question.

3 If the system would have been designed exactly  
4 as it is now and there were 14 percent less customers --  
5 and, frankly, there were never really 14 percent less  
6 customers because of the customer growth and  
7 acquisitions I mentioned -- but even assuming there  
8 were, Mr. Danielson is going to testify that would have  
9 had no impact on their design of the system. It  
10 wouldn't have affected the cost of the system. Maybe a  
11 10 percent cost, the hard cost, maybe that, which is  
12 miniscule in connection with what's involved. There is  
13 only one person who can say that, and that's the people  
14 that designed it. Nobody at Utilities, Inc. is  
15 qualified to tell you how they designed it. They can  
16 tell you what they were looking for, but that's not the  
17 issue. The issue is how it was designed and whether or  
18 not it would have been designed any differently if there  
19 were 14 percent less customers.

20 The issue of Ms. Wiorek not knowing the bills,  
21 those were the bills that were sent in -- we did it just  
22 like we did all rate case expenses -- it's a business  
23 record that the company receives. She compiles that and  
24 puts it in her rate case expense exhibit.

25 **COMMISSIONER BRISÉ:** You have 30 seconds.

1           **MR. FRIEDMAN:** Just like, just like we, we  
2 typically do. The person who puts together a rate case  
3 expense exhibit doesn't necessarily render any opinion  
4 on the reasonableness of the rate case expense. The  
5 experts tell you what they did, and determining the  
6 reasonableness is within your prerogative. Thank you.

7           **COMMISSIONER BRISÉ:** Thank you very much.

8           Okay. Now we're going to take a look at  
9 exhibits, staff.

10          **MS. BARRERA:** Yes, Commissioner. We have  
11 prepared a Comprehensive Exhibit List and distributed  
12 copies to the parties and the Commission panel. Staff  
13 requested this list be marked as Exhibit 1 and moved  
14 into the record.

15          **COMMISSIONER BRISÉ:** Okay.

16          **MR. FRIEDMAN:** No objection.

17          **COMMISSIONER BRISÉ:** Any objections?

18          **MR. SAYLER:** No, sir.

19          **COMMISSIONER BRISÉ:** Okay. All right. So  
20 with that, we're going to move the Comprehensive Exhibit  
21 List.

22                 (Exhibit 1 marked for identification and  
23 admitted into evidence.)

24          **MS. BARRERA:** Staff next requests that the  
25 items in the Comprehensive Exhibit List be numbered as



1 indicated in the list, which is Exhibits 1 to 22 so far,  
2 which -- and also the parties have stipulated to the  
3 entry of all of staff's exhibits numbered 9 through 21,  
4 with the exception of a portion of Exhibit 12, which is  
5 the company's response to interrogatory number 5,  
6 sections A through D of staff's second set of  
7 interrogatories and its attached documents. The  
8 response to interrogatory number five relates to the  
9 issue of rate case expense.

10 Staff requests that, in the interest of time  
11 and efficiency, the presiding officer please address the  
12 introduction of this exhibit into evidence at this  
13 time -- at this time.

14 **COMMISSIONER BRISÉ:** Okay. We're talking  
15 about interrogatory 5A through D?

16 **MS. BARRERA:** Yes, sir.

17 **COMMISSIONER BRISÉ:** All right. Are there any  
18 issues with that?

19 **MR. FRIEDMAN:** No objection from Utilities,  
20 Inc.

21 **COMMISSIONER BRISÉ:** Okay.

22 **MR. SAYLER:** Yes, Commissioner Brisé. Office  
23 of Public Counsel objected to including this exhibit  
24 mainly because we don't want to stipulate to an exhibit  
25 because -- to bolster the utility's request for rate

1 case expense. If it's the utility's burden to request  
2 its rate case expense, it's the utility's burden to  
3 support what it's requested in this case. And I know  
4 that sometimes Commission staff will say we're here, we  
5 want to complete the record. But when it comes to rate  
6 case expense, that's directly adverse to the position of  
7 the customers. Because if it comes in and the  
8 Commission decides that the utility has supported its  
9 request for rate case expense, then our customers are  
10 going to have to pay more. So that's why we objected to  
11 this exhibit going in.

12 A, we don't believe they met the burden of  
13 proof. And this certainly will, keeping this out, this  
14 piece out will certainly make it harder for them to meet  
15 their burden of proof.

16 And, secondly, we don't think it's appropriate  
17 for the Commission staff to just put in, everything into  
18 the record. We generously stipulated 99 percent of  
19 everything, and we just would object to rate case  
20 expense.

21 **COMMISSIONER BRISÉ:** Mr. Friedman.

22 **MR. FRIEDMAN:** I think what Mr. Sayler doesn't  
23 understand is that the job of the Commission and the  
24 Commission staff is different than his job. He's an  
25 advocate for a group of customers. I'm an advocate for

1 the utility.

2 What the staff, I understand, and what you are  
3 supposed to do is a balancing act. And that is you need  
4 to balance the interests of the utility to earn a fair  
5 rate of return and meet the constitutional standards for  
6 a utility to continue to operate and obtain investment,  
7 and make sure that the customers are protected. So you  
8 do both.

9 Your job is not to, to penalize the utility  
10 or, or charge the customers exorbitant rates. Your job  
11 is to do a balancing act between the two, and that's  
12 what the staff is doing by putting this exhibit into the  
13 record. Thank you.

14 **COMMISSIONER BRISÉ:** Thank you very much.

15 Ms. Barrera?

16 **MS. BARRERA:** Yes, Commissioners. I would  
17 like to bring it back to the concept of what is a legal  
18 objection and what is not. Under 120.569, the  
19 Commission is authorized to accept evidence that is  
20 relevant and material to these proceedings. The exhibit  
21 specifically directs and addresses rate case expense.  
22 One example is the listing, which staff requested, of  
23 the salaries and time of Utilities, Inc. staff that  
24 participated in the preparation of this case.

25 An objection that, that states, and as I

1 understand the objection, is that we don't like them to  
2 prove up their case or not prove up their case. We  
3 think this exhibit is contrary to our case. It's not a  
4 valid objection. The purpose of any tribunal is to  
5 submit -- to review evidence for both sides and then  
6 give it the weight that it's due.

7 **COMMISSIONER BRISÉ:** Thank you very much. And  
8 after listening to, to the parties, we, we are going to  
9 allow that this exhibit be part of the record. Okay?

10 **MR. SAYLER:** Just for the record, we still  
11 object to the inclusion of this exhibit to preserve it  
12 for the record for potential appeal, should this go that  
13 direction. Just, we're just maintaining an objection to  
14 this exhibit. Thank you.

15 **COMMISSIONER BRISÉ:** Sure. Understood.

16 **MS. BARRERA:** At this time, Commissioner,  
17 Exhibits Number 9 to 21, we're asking that you make a  
18 ruling as to whether or not they've been moved into the  
19 record.

20 **COMMISSIONER BRISÉ:** Sure. Exhibits 9 through  
21 21, if there are no objections, we'll move those into  
22 the record at this time.

23 (Exhibits 9 through 21 marked for  
24 identification and admitted into evidence.)

25 **MR. SAYLER:** Excuse me. 9 through 21?

1                   **COMMISSIONER BRISÉ:** 9 through 21.

2                   **MR. SAYLER:** Including the staff exhibits? I  
3 thought those go in with his testimony. I'm sorry.

4                   We just still maintain our objection to that  
5 portion of Exhibit 12.

6                   **COMMISSIONER BRISÉ:** Sure. Understood. Thank  
7 you.

8                   Okay. Is there anything else that we have to  
9 do in terms of exhibits?

10                  **MS. BARRERA:** I, Commissioner, would just like  
11 to point out that Witness Wiorek has been stipulated to,  
12 is not present at the hearing, and I believe  
13 Mr. Friedman may move to introduce her exhibits into the  
14 record.

15                  **MR. FRIEDMAN:** That was going to be my  
16 question, just go ahead and do it now to get it out of  
17 the way before we start testimony would be to move  
18 Ms. Wiorek's direct and rebuttal testimony and exhibits  
19 into the record.

20                  **COMMISSIONER BRISÉ:** Sure. I think that that  
21 would be appropriate at this time. I don't know if  
22 there's going to be any objection to that.

23                  **MR. SAYLER:** No objection to Ms. Wiorek's  
24 testimony or her exhibits, which is Exhibit 7, 8, and  
25 22, I believe.

1           **COMMISSIONER BRISÉ:** Yes. Ms. Barrera, if you  
2 could -- so we can verify the numbers, 7, 8, and 22?

3           **MS. BARRERA:** Yes.

4           **COMMISSIONER BRISÉ:** Okay. And so we will  
5 enter that into the record as though read, I suppose.

6           **MR. FRIEDMAN:** Was 21 included in the staff's?

7           **COMMISSIONER BRISÉ:** 21 was included in the  
8 staff.

9           **MS. BARRERA:** Yes.

10          **MR. FRIEDMAN:** Thank you.

11          **COMMISSIONER BRISÉ:** Okay. All right. Seeing  
12 no objections, Exhibits 7, 8, and 21 [sic] will be  
13 entered into the record.

14                   (Exhibits 7, 8, and 22 marked for  
15 identification and admitted into evidence.)

16           Okay. Is there anything else in terms of  
17 exhibits that aren't traveling with the, with the --  
18 those who are going to testify that need to, that we  
19 need to deal with?

20          **MR. FRIEDMAN:** No.

21          **COMMISSIONER BRISÉ:** Okay. Seeing none, at  
22 this time, if you are here to testify, if you would  
23 stand and we will swear you in.

24                   (Witnesses sworn.)

25          Staff, if we can go over the instructions,

1 please.

2 **MS. BARRERA:** Yes, sir. Each witness will be  
3 responsible for moving his own testimony into the  
4 record. Each witness is given no more than five minutes  
5 to summarize his or her testimony. The sponsoring party  
6 will insert the testimony into the record as though read  
7 and identify the witness's exhibits. The witness will  
8 present his or her summary of the testimony.

9 The suggested order of cross by any party is  
10 if -- for the Utilities, Inc. witnesses, it would be OPC  
11 first, staff second, and the redirect by Utilities, Inc.  
12 counsel. If it's the staff witness, UI would go first;  
13 second, OPC; and then redirect by staff.

14 **COMMISSIONER BRISÉ:** All right. Thank you  
15 very much.

16 Okay. Just to be clear, on cross-examination  
17 it is preferable if you could identify in the testimony  
18 where you are posing the question, line and number, and  
19 that makes it a whole lot easier for us to operate.

20 Okay?

21 Thank you. So, Mr. Friedman, please call your  
22 first witness.

23 **MR. FRIEDMAN:** Thank you, very much,  
24 Commissioner.

25 Utilities, Inc. calls Lawrence Danielson.

1                   **COMMISSIONER BRISÉ:** And for ease for, for you  
2 who are testifying, you have this little device there  
3 that gives you an indication of time so that you can  
4 measure yourself. Okay?

5                   **THE WITNESS:** Okay. So this is live now, and  
6 I --

7                   **COMMISSIONER BRISÉ:** Yes, it is.

8                   **THE WITNESS:** All right. Thank you.  
9 Whereupon,

10   **LARRY DANIELSON**

11 having been called as a witness by Utilities, Inc., and  
12 having been sworn, testified as follows:

13   **EXAMINATION**

14 **BY MR. FRIEDMAN:**

15                   **Q**     Would you please state your name.

16                   **A**     It's Lawrence Danielson. I go by Larry.

17                   **Q**     And Mr. Danielson, by whom are you employed?

18                   **A**     I am a Principal at Deloitte Consulting. My  
19 home office is Parsippany, New Jersey.

20                   **Q**     And have you previously prefiled testimony in  
21 this case?

22                   **A**     I have.

23                   **Q**     All right. And if I ask you the questions in  
24 your prefiled testimony, would your answers be the same?

25                   **A**     They would, except that there is one



1 modification. We --

2 Q Would you point that out, please.

3 A Yes, of course. If you go to page 5, there's  
4 a reference to Exhibit LAD-2 -- excuse me -- LAD-4. It  
5 should be LAD-2. So there's no change within what's  
6 attached; it's just the reference was incorrect. And it  
7 doesn't change my opinion on my perspectives.

8 **COMMISSIONER BRISÉ:** Thank you.

9 **BY MR. FRIEDMAN:**

10 Q All right. Thank you. With that -- and,  
11 Mr. Danielson, you have five exhibits, do you not?

12 A I have the one exhibit and then it looks like  
13 I have three exhibits that were handed to me.

14 Q No. No. In your testimony.

15 A I'm sorry. In my testimony. Yes.

16 Q You presented --

17 A Yes.

18 **MR. FRIEDMAN:** At this time I would like to  
19 move Mr. Danielson's prefiled testimony into the record  
20 as though read and admit his exhibits.

21 **COMMISSIONER BRISÉ:** Okay. Any objection?

22 **MR. SAYLER:** No, sir.

23 **COMMISSIONER BRISÉ:** Okay. We will enter  
24 Mr. Danielson's prefiled testimony into the record as  
25 though read.

1 (REPORTER'S NOTE: Exhibits marked at  
2 conclusion of witness's testimony.)  
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1 **I. Introduction and Qualifications:**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Lawrence A. Danielson. My business address is Deloitte Consulting LLP,  
4 100 Kimball Drive, Parsippany, New Jersey, 07054.

5 **Q. WHAT IS YOUR OCCUPATION AND WHO ARE YOU ASSOCIATED WITH?**

6 A. I am a Principal at Deloitte Consulting LLP.

7 **Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.**

8 A. I have over 30 years of experience leading large-scale transformation at one of the  
9 largest companies in the world. I have been with Deloitte for nearly 26 years and have  
10 consulted to the leadership of a broad range of multinational clients. My client services  
11 practice focuses on helping large and small businesses make significant business  
12 changes including various aspects of transformation such as: business process design,  
13 organizational design, information technology, strategic planning, business application  
14 installation, mergers/acquisitions, strategic cost reduction, large-scale program  
15 management, productivity improvement, outsourcing advisory, business case  
16 development and technology maintenance & support.

17 **Q. WHAT ARE YOUR PRIMARY RESPONSIBILITIES AS A PRINCIPAL IN**  
18 **DELOITTE CONSULTING?**

19 A. As a Principal at Deloitte Consulting, I lead engagements at some of Deloitte's largest  
20 and most visible clients. I am a Lead Consulting Principal at several of our largest  
21 clients and a leader in our National Technology practice. I publish and speak on a  
22 regular basis at important industry meetings where my presentations typically address  
23 current topics that impact the future of business and technology. I am a hands-on leader  
24 and work actively with our project teams to implement large scale change in our client  
25 organizations. Most of my work involves helping clients fix problems or lead programs

1 where in-house expertise does not exist.

2 **Q. ON WHOSE BEHALF ARE YOU APPEARING?**

3 A. I am appearing in this proceeding on behalf of Utilities Inc. (“Utilities Inc.” or “UI”).

4 **II. Purpose of Testimony**

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. I was asked by Utilities Inc. to provide my opinions on a particular issue in connection  
7 with the findings of Florida PSC regarding rate increases filed in Florida by various  
8 subsidiaries of Utilities Inc. Specifically, I was asked to opine on whether the costs  
9 incurred by UI for Project Phoenix, a finance transformation and customer service  
10 project undertaken between 2006 and 2008, to determine if it would have had  
11 significantly different costs if UI’s customer base during the time of project scoping,  
12 sizing and planning had been 10% less.

13 In preparing this testimony, I have reviewed materials in Florida PSC Docket  
14 No. 090392-WS that is related to this case, as well as documentation from Project  
15 Phoenix. Such materials included project planning and scoping documents, pricing  
16 documents, including consulting statements of work and vendor Request For Proposal  
17 (RFP) and billing statements for systems, project status reports, project steering  
18 committee presentations and various project deliverables.

19 **III. Project Phoenix – Deloitte Engagement Background**

20 **Q. WHY WERE YOU ASKED TO PROVIDE YOUR OPINION BY UTILITIES**  
21 **INC.?**

22 A. I served as the engagement principal throughout the period Deloitte Consulting was  
23 engaged by Utilities Inc. to provide assistance with Project Phoenix. In my role, I  
24 conducted overall program direction, quality assurance, client management plus  
25 coordinating the Deloitte resources performing the engagement. My professional

1 experience has included similar projects at a broad range of clients. I have deep  
2 experience, spread over 30 years making improvements in the operations, systems and  
3 organizational structures.

4 **Q. WHAT DID YOU UNDERSTAND TO BE THE REASON BEHIND PROJECT**  
5 **PHOENIX?**

6 A. It is my understanding Project Phoenix was undertaken by Utilities Inc. as a corporate  
7 initiative involving transformation of its older legacy finance and customer service  
8 functions, in order to enable stronger financial controls, greater operational  
9 effectiveness and enhanced customer service. UI Management deemed the then  
10 existing finance and customer service processes and systems inadequate to support the  
11 organization's long term business objectives. Their current systems and applications,  
12 as they aged, were not able to support future business objectives and the costs to support  
13 these systems would continue to escalate over time. It is my understanding that through  
14 this initiative, Utilities Inc. wanted to create greater financial transparency by  
15 enhancing and integrating its finance processes, customer service, and supporting  
16 applications/controls across their enterprise.

17 **Q. WHAT WAS THE DURATION OF DELOITTE'S ENGAGEMENT?**

18 A. Deloitte Consulting was engaged by Utilities Inc. pursuant to an engagement letter  
19 dated June 9, 2006 to assist with the planning and execution of Project Phoenix. The  
20 initial engagement phase was a 12-14 week period between June and September 2006.  
21 Subsequent phases were added as additional assistance was requested. Deloitte  
22 Consulting services ended in June 2008. After that period of time, we were available  
23 to answer periodic questions from Utilities Inc.

24 **Q. WHAT WAS THE SCOPE OF DELOITTE'S ENGAGEMENT?**

25 A. Deloitte Consulting was initially engaged to evaluate the finance and operational areas

1 and then create an implementation plan to enhance operations and address identified  
2 shortcomings. This included a current state assessment of finance and customer service  
3 processes along with recommendations, finance and customer service process  
4 redesigns, system requirement definitions and assistance with vendor selection  
5 (*EXHIBIT LAD-1*). The scope of the engagement was later expanded to include  
6 assistance with design and implementation of the finance and customer service  
7 systems. Design and implementation of each system selected was divided into four  
8 phases – detailed design, build & data conversion, test & train and rollout & support.  
9 Deloitte Consulting also provided additional support work as requested.

10 **IV. Impact on Project Phoenix costs from a 10% lower customer base**

11 **Q. WHAT WERE THE MAJOR COMPONENTS OF PROJECT PHOENIX**  
12 **COSTS?**

13 A. It is important to note that the scope of Project Phoenix not only included the selection,  
14 design and implementation of JD Edwards and Oracle SPL to support its finance and  
15 customer service functions, respectively. It also included a re-design of the finance  
16 function, including organization and processes supporting the function, setting up of  
17 networks, mobile devices and purchases of hardware and other equipment to replace  
18 legacy items that UI Management deemed to be unsuitable to support the future state  
19 design. Additionally, as is common for a project of this magnitude and complexity,  
20 costs also included initial project management, change management, training, travel  
21 and other expenses (*EXHIBIT LAD-2*). Thus major components of cost for Project  
22 Phoenix consisted of professional services fees for approximately 75%, hardware,  
23 software, network and vendor licenses for approximately 15% and training, travel and  
24 other expenses for approximately 10%.

25 **Q. WHAT IS YOUR UNDERSTANDING OF THE METHODOLOGY USED TO**

1           **ALLOCATE THE COSTS INCURRED IN PROJECT PHOENIX?**

2    A.    Project Phoenix was planned and executed as a corporate wide initiative intended to  
3           benefit all of Utilities Inc. subsidiaries. It is my understanding that the overall approach  
4           used by Utilities Inc. in its rate increase proposal was to allocate the costs to its  
5           subsidiaries, with each subsidiary receiving a pro rata allocation based on the number  
6           of customers served by the subsidiary and the total number of customers in all of  
7           Utilities Inc. subsidiaries. Please note that Utilizes Inc. performed this analysis.  
8           **(EXHIBIT LAD-3).**

9    **Q.    PLEASE DESCRIBE THE ISSUE YOU ARE PROVIDING OPINION ON**

10   A.    Subsequent to the completion of Project Phoenix, Utilities Inc. divested several of its  
11           subsidiaries between 2009 and 2013. The subsidiaries were part of Utilities Inc. when  
12           the Project Phoenix was scoped, designed and implemented. It is my understanding that  
13           in calculating its proposed rate increase using the pro rata method mentioned above,  
14           Utilities Inc., pursuant to its corporate policy, excluded the customers of the divested  
15           entities and allocated the costs to the remaining subsidiaries. Florida PSC contends  
16           that this method effectively reallocates the amounts allocable to the divested  
17           subsidiaries to the remaining ones without any additional benefit to the remaining  
18           subsidiaries. As the number of customers belonging to the divested Florida subsidiaries  
19           comprised approximately 10% **(EXHIBIT ~~LAD-4~~ LAD-2 JB)** of all Utilities Inc. subsidiaries  
20           nationwide, the PSC concluded that the costs allocated to the remaining subsidiaries  
21           should be reduced by the same percentage and the proposed rate increase be adjusted  
22           accordingly. The key issue that I have been asked to provide my opinion on is whether  
23           the cost incurred by Utilities Inc. for Project Phoenix would have been materially  
24           different had the total customer base during the scoping, planning and implementation  
25           of the project had been 10% lower.

1 **Q. WOULD A 10% DECREASE IN THE CUSTOMER BASE HAVE IMPACTED**  
2 **THE DESIGN OF THE SOLUTION OR SELECTION OF VENDORS?**

3 A. No. Prior to the systems selection, a detailed assessment of Utilities Inc.'s current state  
4 of finance and customer service process and systems was conducted in an effort to  
5 understand its weaknesses, Consequently, a thorough understanding of the targeted  
6 future state was developed. It was established that Utilities Inc. needed a transformation  
7 of its finance and customer service processes and systems in order to build and support  
8 its desired future state. A series of activities were conducted in order to; plan, design  
9 and implement new processes. A rigorous vendor selection process was also  
10 undertaken for the finance and customer service systems in an effort to select vendors  
11 that met the defined objectives from both cost and capability perspectives (*EXHIBIT*  
12 *LAD-5*). In conducting these activities, various factors were taken into consideration,  
13 including; the number and geographical distribution of subsidiaries and customers,  
14 elements impacting the industry sector, the requirements of the finance and customer  
15 service organizations, availability of adequate network coverage in those geographic  
16 areas, cost, among others. All of these activities are considered essential to design a  
17 solution for an initiative of this size and complexity; therefore these same activities  
18 would have been conducted even if the customer base was 10% smaller. Further, the  
19 systems selected, JD Edwards for financials and Oracle SPL, would have been selected  
20 even with a 10% lower customer base because the business and technical requirements  
21 would not have changed.

22 **Q. WOULD A 10% DECREASE IN THE CUSTOMER BASE HAVE A**  
23 **MATERIAL IMPACT ON THE COST OF THE SOLUTION THAT WAS**  
24 **IMPLEMENTED?**

25 A. No.



1 The costs associated with the implementation of the solution or the selection of the  
2 vendors would not have changed. Thus, performing the business analysis, deriving  
3 business requirements and subsequent design of the software is not dependent on  
4 customer volume.

5 It should be recognized that there is not a linear (one to one) relationship between the  
6 number of customers and the number of system users. Customers do not directly use  
7 the technology, but system users (defined as those internal Utilities Inc. personnel that  
8 handle customer queries, payments, reimbursements, perform various accounting  
9 processes, etc.) do use the system. As such, if additional customers are added there is  
10 not an addition of the same number of systems users. In fact, a key decision for Utilities  
11 Inc. to select the technology that they did was to increase business capabilities (i.e.  
12 adding new customers, adding new system users, improving customer service,  
13 remediating finance control issues, etc.) without adding additional Utility Inc.  
14 employees and selecting different technologies.

15 An increase of 10% in customers does effect the implementation of network and  
16 hardware infrastructure. However, in order to ensure that the systems performs  
17 adequately and provides a reasonable level of performance (e.g. a two second response  
18 time) the implementation must consider peak transaction times. A common practice is  
19 to consider a factor of about 20-25% that typically provides limited impact to the  
20 average system user. Therefore, even if a 10 % increase in customers translated into  
21 the same numbers of system users, when you consider the peak design principle, there  
22 would be no change in the implemantion of the system.

23 **Q. WHAT WOULD HAVE BEEN THE IMPACT OF A 10% DECREASE IN**  
24 **CUSTOMER BASE ON PROJECT PHOENIX COSTS AND WHY?**

25 A. In my opinion, any change in the overall cost of Project Phoenix due to a 10% reduction

1 in the customer base would not change the costs of Phoenix. The major components of  
2 the cost include:

- 3 • professional services fees (75%),
- 4 • hardware, software and vendor licenses (15%)
- 5 • training, travel and other expenses (10%).

6 The professional services fees include fees paid to Deloitte Consulting for performing  
7 the assessment, design, implementation and support services. Hardware, software and  
8 vendors license include: costs for technology software vendors Oracle and JD Edwards.  
9 And training and expenses respectively.

10 Of the 15% of costs for hardware, software and vendor licenses (Exhibit 4) only  
11 \$380,862.00 is for hardware for the network and computing which is the only cost  
12 component that would be impacted if the customer size changed 10%.

13 **Q. WHAT IS YOUR CONCLUSION?**

14 A. Based on the reasons stated in this testimony, 85% percent of the total cost are fixed  
15 (75%), professional services fees) plus (training, travel and other expenses (10%). Only  
16 the hardware portion (network and hardware infrastructure) of the remaining 15%  
17 hardware, software and vendor licenses is variable. That leaves about \$380,862 as a  
18 total variable cost that can affected by customer volume. If there was a direct  
19 relationship with a 10% reduction of customers, that would leave a maximum of  
20 approximately \$38,086.00 to be considered. Of this amount, some of which can be  
21 attributable to conservative growth and accommodations for peak transaction  
22 processing, therefore the number of Utilities Inc. users would not change. This is why  
23 I conclude that the impact on the costs of Project Phoenix is very minimal if Utilities  
24 Inc. if the customer base decreased by 10% .

25 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

1 A. Yes, it does.

1 **BY MR. FRIEDMAN:**

2 Q Mr. Danielson, would you briefly summarize  
3 your prefiled testimony to the Commissioners.

4 A Of course. Maybe it's important for me to do  
5 a quick introduction and the reason why I'm here. I  
6 have been -- I have over 30 years of professional  
7 experience. I have been with our firm for close to 26  
8 years. I'm a Principal with the firm. In fact, I've  
9 been a partner, as we say, but a Principal for over 16  
10 years. And I also have responsibility for the New  
11 Jersey offices.

12 I am -- I've been doing this a very long time,  
13 and what I do in the marketplace is to help companies  
14 actually fix, fix problems and transform their  
15 businesses, and that's what I do on a daily basis. I've  
16 done that in a number of different industries. And I  
17 did some work in a number of projects within the public  
18 sector working for state governments, I've done it in  
19 the manufacturing environment, I've done it for media,  
20 I've done it for financial services, and I've done it  
21 for various utilities as well. I specialize in broad  
22 transformation. It's important to know that.

23 There aren't a lot of us to go around, quite  
24 frankly, that do two things: One is that do broad  
25 transformation; and that in particular, in the context

1 of what we're doing today, there aren't many of us that  
2 do this, that would come to a municipality, come to some  
3 form of proceeding to testify on behalf of our clients.  
4 We just don't have that many people to do that. It's a  
5 very highly specialized skill.

6 With that being said, because of the  
7 connection and the work that I had done back in 2006 and  
8 2008, which I hope you can all appreciate that was some  
9 time ago, it took, it took a little bit of doing. So,  
10 in fact, I'm, with my firm, myself and one other person  
11 is probably the only people that are really left that  
12 could actually speak about the work that we've done.

13 A couple of things just to build upon that --

14 **MR. SAYLER:** Commissioner Brisé, is this a  
15 summary or is this new testimony -- because this is  
16 certainly outside the scope of his direct testimony --  
17 or is this just a, just supplemental testimony that's on  
18 the stand or just a summary of who he is? No -- with  
19 apologies, I was just wanting to keep the record clear.

20 **COMMISSIONER BRISÉ:** Sure. How do -- are you  
21 objecting or --

22 **MR. SAYLER:** If this is a witness summary, I'm  
23 objecting. If this is additional supplemental  
24 testimony -- because all of what he just stated to you  
25 is not in his testimony and, as such, it should be

1 struck from the record.

2 **COMMISSIONER BRISÉ:** Okay. Mr. Friedman.

3 **MR. FRIEDMAN:** Well, it may not be exactly  
4 what he testified, and that's the point of summarizing  
5 testimony. If you want somebody to read their testimony  
6 into the record, then we can have them read their  
7 testimony into the record. So it's exactly the same.  
8 All he's doing is giving his background. It's the same  
9 kind of information that you have in here; he's just  
10 giving it a little different way. He's letting you know  
11 that, you know, he knows what he's doing and he does  
12 this kind of work, and there are a limited number of  
13 people that have the expertise to do that. And that's,  
14 that's why he's here testifying and that's -- you know,  
15 he's -- that's the background, and now he's getting  
16 ready to tell you, you know, the meat of his testimony,  
17 which is dealing with the design of the, of the project  
18 and why it has nothing to do with whether there's 15  
19 percent less customers. So, I mean, it's just  
20 background. I don't see it as a big deal.

21 **MR. SAYLER:** Some of those background  
22 questions are in the staff Comprehensive Exhibit List in  
23 response to OPC and staff discovery.

24 **COMMISSIONER BRISÉ:** Okay. Thank you. Mr. --

25 **THE WITNESS:** Danielson.

1           **COMMISSIONER BRISÉ:** -- Danielson. I was  
2 about to say Donaldson, so I just caught myself.

3           **THE WITNESS:** That's okay.

4           **COMMISSIONER BRISÉ:** Mr. Danielson, you may  
5 proceed, but just try to stay very close to your  
6 testimony.

7           **THE WITNESS:** Fair enough. Thank you.  
8 Appreciate that.

9           So, you know, to get right to the point, so  
10 the project -- again, to set some context -- we were  
11 engaged in 2006 and 2008. There was some work that we  
12 had done, had done after the project as well. The  
13 purpose of the project was to do two -- some very, very  
14 important things, and we addressed both of them.

15           One of them was to increase financial  
16 transparency and financial controls. That was one of  
17 the big issues that we were told by UI management that  
18 needed to be addressed. Hence, one of the things that  
19 we concluded after a six-week -- after a study was that  
20 we really needed to address the financial system. What  
21 was there just really didn't need, didn't get things  
22 done. And, quite frankly, when we looked at it, what we  
23 said to ourselves was this was a good example of a  
24 company that really hadn't invested, very candidly, in  
25 many, many years. And the way to do that was to pick

1 the appropriate solution, and we did so through an  
2 extensive evaluation of the financial component. We  
3 refer to that as, and the solution is something called  
4 JD Edwards. It's a packaged piece of software that was  
5 customized and adapted for use at UI, and that included  
6 a number of different functions that I will talk about.

7 The second part of that was the customer  
8 facing functions. I'll give you a good example to bring  
9 this to light. One of the things that we heard  
10 recurring was "My bill is wrong." And we saw evidence  
11 of not only wrong bills, but also bills that were so  
12 confusing. There were multiple bills --

13 **MR. SAYLER:** Objection. This is still outside  
14 the scope of his direct testimony. There's nothing in  
15 there about customer billing issues, fixing wrong  
16 customer bills, things of that nature.

17 **COMMISSIONER BRISÉ:** Mr. Friedman.

18 **MR. FRIEDMAN:** Mr. Danielson, would you, to  
19 appease the Public Counsel, would you just direct the --  
20 get to the point in your, in your summary where you  
21 discuss the effect of the customer, number of customer  
22 base or not effect of that and what you do is design the  
23 system and --

24 **THE WITNESS:** Okay. Very good.

25 **COMMISSIONER BRISÉ:** But just, just for my



1 purposes, when I look at page 3 and when I look at the  
2 question on line 4 -- "What did you understand to be the  
3 reason behind the project?" -- and I look down through  
4 that particular paragraph, when I look at customer  
5 service processes, that includes exactly what he was  
6 talking about. So you may proceed.

7 **THE WITNESS:** Thank you. Appreciate that. I  
8 will, I will be right to the point.

9 So the matter at hand, when we design such a  
10 solution, first of all, what I tried to establish was  
11 that this was a transformation of a business. We  
12 touched virtually every function of this organization.  
13 We took a look at the current state, the future state,  
14 and selected a solution of software and put in software.  
15 Some of it was customized, some of it was not.

16 When we do that, we look at the complexity of  
17 an organization, the products that are sold, where --  
18 what geographies were involved. We also do look at the  
19 number of customers. And we use all those pieces of  
20 information, and you see the analysis that was done, and  
21 we concluded that these were two pieces of software that  
22 would be appropriate to do that.

23 When we do that, we also take a look at growth  
24 and changes in the business throughout the course of our  
25 work. It never really entered into the fact that if we

1 lost ten customers, 20 customers, 30 customers, that  
2 variability would not change the work that we do. And  
3 the reason being is I'm really focused on the complexity  
4 of the organization, the processes. For example, within  
5 finance, there's general ledger accounts, payable  
6 accounts, receivables, all those things, we still need  
7 to do that regardless of whether we had more customers  
8 or fewer customers. We still do that work. That design  
9 work would still be the same.

10 If you extend the argument, and I'm going down  
11 the path, and say, all right, so the customers vary.  
12 The only component that I would suggest in my experience  
13 that would really change is volumetrics or something  
14 that we call "how many transactions we can push  
15 through." And to do that, really it sets variability of  
16 hardware. The network itself -- that's all the wires  
17 that connect the devices into the computer system -- and  
18 the computer and its storage. And if you -- the reason  
19 why I put in what I did here was that total cost, total  
20 cost to do all the network, all the servers, and the  
21 computer system was \$380,000. That would be that  
22 variability.

23 And, for example, if the business grew, they  
24 could do a resizing and they could say, well, we need  
25 more service, we need more network capacity to do that,

1 we need more connections into the company. And to do  
2 that, they could add more servers.

3 Now in this case if we were to say that the  
4 customer count changed, I don't believe that I would  
5 have done anything differently. But if I were to extend  
6 that, then I said to myself, all right, I'll extend the  
7 argument and say it's on a basis of \$380,000, the  
8 customer count which I included here, which was the  
9 information that we had when we did this, only varied by  
10 about 10 percent.

11 If it did, I would argue and submit to you  
12 that only \$38,000 would be something that you might  
13 consider different. And I genuinely think that with  
14 that variability, that's really what I would do  
15 differently if I was to make that change.

16 I go back to the point where it really, the  
17 argument -- and I use the word "linear connection" --  
18 between number of customers and the, you know, what we  
19 would have spent on doing what we needed to do. First  
20 of all, the connection really has to do with the  
21 capacity of Utilities, Inc. For example, do you need  
22 more customer service representatives? Do we need more  
23 people in finance? Those are things that might make  
24 some changes. But throughout that, because of the  
25 variability, we made no changes to it. So based on the

1 information that we have in front of us, I can, I can  
2 tell you that I confidently feel very good about that.

3 I also think -- there's one point that I would  
4 like to make. I'm sorry if I'm going out of order a  
5 bit. Okay. I want to make sure that everybody  
6 understands, you know, the cost of the system was  
7 appropriate for what was done. And the reason I say  
8 that is I've had the opportunity to help organizations  
9 where hundreds of millions of dollars are spent and  
10 others that are less than the money here. I think in  
11 all cases we strive to make sure that we did the right  
12 thing. And we didn't spend money lightly; we did it  
13 appropriately.

14 **COMMISSIONER BRISÉ:** Thank you.

15 Mr. Friedman.

16 **MR. FRIEDMAN:** Tender the witness for  
17 cross-examination.

18 **COMMISSIONER BRISÉ:** All right. Mr. Sayler.

19 **MR. SAYLER:** Thank you, Commissioner Brisé.  
20 We hadn't intended to do an exhibit for this  
21 witness, but let us -- we'll pass something out, if  
22 you'll give us a moment.

23 **COMMISSIONER BRISÉ:** Sure.

24 **MR. SAYLER:** Just to let you know, this is a  
25 cross-examination, not an actual exhibit for the record.

1 It's also the discovery to which our office has objected  
2 to in Exhibit Number 12. This is the redacted version.  
3 There's no confidential information in this, and it's  
4 concerning rate case expense.

5 **EXAMINATION**

6 **BY MR. SAYLER:**

7 **Q** Mr. Danielson, if you'll take a moment to  
8 review that, this exhibit and the attached spreadsheet.  
9 And when you're ready, I'll ask you a few questions.

10 **COMMISSIONER BRISÉ:** Any objections?

11 **MR. FRIEDMAN:** Any objection to what? He  
12 hasn't told me what he wants to use it for.

13 **COMMISSIONER BRISÉ:** Okay. Sometimes we  
14 object to the document.

15 **MR. FRIEDMAN:** I may object to it. I don't,  
16 personally I don't see what the relevance is, but, you  
17 know, I'll let him start. And then if I, if I have a  
18 problem, I'll raise that objection.

19 **COMMISSIONER BRISÉ:** Sure. All right. Go  
20 right ahead.

21 **BY MR. SAYLER:**

22 **Q** All right. Are you -- Mr. Danielson, when it  
23 comes to interrogatory response 5A, can you provide me  
24 information concerning that?

25 **A** 5A. Forgive me. I, you know, I haven't

1 really had a chance to read this. I just got it. So  
2 5A is what I was just, what I just received?

3 Q Yes, sir.

4 A Okay. And specifically your question is?

5 Q Can you answer any questions regarding rate  
6 case expense from Water Services Corporation?

7 A Well, it looks like some of these questions I  
8 can answer and others I cannot.

9 Q All right. Which ones can you answer?

10 A Okay. So I guess we go to page, the first  
11 page, which is 5A. That is provided by Sharon, so I  
12 can't speak to that. B --

13 Q 5B is the Deloitte agreement.

14 A Is there a question about that? Those are  
15 the -- that is the rate structure and the agreement that  
16 we made. Yes, that is correct.

17 Q Okay. 5C, can you respond to that?

18 A You'd like some more detailed information  
19 around the 32 hours that was used to do -- that we did.

20 Q Okay.

21 A Is that correct?

22 Q Yes.

23 A Yes. Okay. So, yeah, very clearly, again  
24 this was, the work was done back in 2006, 2008. One of  
25 the objectives that I had was that my rate is

1 substantially more than my staff, and a lot of the work  
2 really included research. So we had to go back through  
3 documents, so let me --

4 Q Well, let me just -- my question is can you  
5 provide responses to these? And you can answer this  
6 question.

7 A Yes, I can. Yes, I can.

8 Q And what is your hourly rate here?

9 A I have to take a look at what -- it's the same  
10 that's here. It hasn't changed, whatever the rate is.

11 Q Six hundred and eighty --

12 A 684. That's correct.

13 Q Okay. All right. Thank you. In your summary  
14 of your testimony, you indicated you have done similar  
15 computer systems for other utilities. What utilities  
16 were those?

17 A There were -- we had done -- I've done a  
18 number of due diligence projects for some gas, gas  
19 utilities that were out there. Within our practice we  
20 have a dedicated practice that does just utilities. And  
21 we have the benefit of using subject matter experts to  
22 help with all of that. We have a practice that does  
23 water utilities, gas utilities, electric utilities. And  
24 we had the benefit of actually our practice leader, the  
25 gentleman that does only that, because I specialize in

1 broader transformation, which was part of --

2 Q Which utilities?

3 A I'm sorry?

4 Q Excuse me. Which utilities in particular?

5 A In all candor, we serve probably the largest  
6 utilities in the world and those utilities in the  
7 country. And he is -- I would have to go to my practice  
8 leader to find out who that was and when it was done  
9 back in 2006.

10 Q But have you provided these similar services  
11 to other water and wastewater utilities in the --

12 A To water and wastewater companies I have not.

13 Q Okay. So this is the first time you've  
14 designed a system for one of those?

15 A For a water utility, that is correct.

16 Q Do you have a copy of your testimony and  
17 exhibits?

18 A I have -- yes, I do.

19 Q Would you turn to Exhibit LAD-2, please.

20 A LAD-2. Okay.

21 Q In your summary, you stated that the  
22 project -- you tried to work hard to keep the cost down  
23 as low as possible; is that correct?

24 A That is correct.

25 Q And according to this exhibit -- it's, I



1 think, dated November 2007; is that correct?

2 **A** I don't see the date on this. It says it was  
3 done in November, yes, 2007. That's correct. Yeah.  
4 I'm sorry, yeah, as of October 20th, 2007.

5 **Q** Okay. And the cost that your company had  
6 charged to Utilities, Inc. was about in the neighborhood  
7 of \$14 million; is that correct?

8 **A** That is correct.

9 **MR. FRIEDMAN:** I object to this line of  
10 questioning because it goes to an issue that's not at  
11 issue here, which is the actual cost of Project Phoenix.  
12 That's specifically not an issue that is, that is  
13 identified.

14 **MR. SAYLER:** He was testifying to the cost  
15 of Project Phoenix and saying that it was as low as  
16 possible, and I'm just trying to get for the record that  
17 their cost to Utilities, Inc. was about \$14 million or  
18 in that neighborhood.

19 **MR. FRIEDMAN:** And the reason he did that was  
20 because Mr. Sayler raised the issue. And I think in his  
21 opening statement he made, alluded to the fact that it  
22 being a very expensive system. And it shows  
23 Mr. Sayler's naivety in not understanding what's  
24 involved in designing these type of systems for major  
25 corporations. I think that's why Mr. Danielson felt

1 compelled to address that issues because Mr. Sayler  
2 raised it in his opening. It's not an issue in this  
3 case whether Mr. Sayler argued it in his opening or not.

4 **COMMISSIONER BRISÉ:** Thank you. Thank you.

5 Mary Anne.

6 **MS. HELTON:** I guess I'm a little bit  
7 confused, Mr. Chairman. I thought he was asking him  
8 some questions about Exhibit LAD-2 that's attached to  
9 his prefiled testimony. So are you saying that this is  
10 not a relevant exhibit to the case and it should be  
11 disregarded?

12 **MR. FRIEDMAN:** No. What I'm saying is that  
13 the exhibit was not put in there for the purpose -- at  
14 least this part of the exhibit was not put in there for  
15 the purpose of approving the cost of Project Phoenix.  
16 We're dealing with whether a component of the cost of  
17 Project Phoenix is variable. And Mr. Danielson  
18 testified that 380,000 -- I think it's really 382 and  
19 change -- is the variable part of that. That's the  
20 purpose of this.

21 **MR. SAYLER:** And I believe Mr. Danielson did  
22 testify "Yes" in response to my question before the  
23 objection.

24 **COMMISSIONER BRISÉ:** I'll allow the question.

25 **BY MR. SAYLER:**

1           **Q**     Just for the clarity of reading the  
2 transcript, the Deloitte portion or the cost that was  
3 charged for Project Phoenix from Deloitte to Utilities,  
4 Inc. was about \$14-, \$15 million, in that neighborhood;  
5 is that correct?

6           **A**     When I look at the total costs here, it looks  
7 like it was in the breakdown on page 12. It was ten  
8 thousand -- \$10,700,000. There were some new addendums,  
9 which took us to 12. I think -- I would want to -- you  
10 know what, to be very, very clear, I would specifically  
11 calculate those numbers because I didn't break that out  
12 in this spreadsheet. But if I look at the numbers, it's  
13 ten-two, so that's twelve-eight. I think, yes, I think  
14 it's very close to that. It looks like it might be off  
15 by about a million because I'm trying to do some quick  
16 math based on the arithmetic here. I'm looking at  
17 column D, just our costs, and then column E, which is  
18 the addendum, so I'm adding the Deloitte costs there.  
19 So, you know, ten-seven, 11, eight. Yeah, I think it's  
20 about \$14 million.

21           **Q**     All right. Thank you. Were you aware that  
22 the cost of the system being charged to ratepayers is  
23 about \$21 million?

24           **A**     I only have visibility into the work that we  
25 have done and the charges that we have incurred.

1           **MR. SAYLER:** All right. Thank you. No  
2 further questions.

3           **COMMISSIONER BRISÉ:** Staff.

4                           **EXAMINATION**

5           **BY MS. BARRERA:**

6           **Q**     Good morning, Mr. Danielson.

7           **A**     Good morning.

8           **Q**     Please turn to page 2, lines 13 to 15 of your  
9 direct testimony.

10          **A**     Page 2, large 13. I'm sorry. Line item 13 on  
11 page 2?

12          **Q**     Lines 13 through 15.

13          **A**     Okay.

14          **Q**     And you stated that "In preparing this  
15 testimony, I reviewed materials in Docket Number  
16 090392-WS that is related to this case, as well as  
17 documentation from Project Phoenix." Is that correct?

18          **A**     That's correct.

19          **Q**     Okay. And was this the only PSC docket you  
20 reviewed as part of this case?

21          **A**     In terms of the PSC docket, that's correct. I  
22 didn't go to any other docket information. I did use  
23 other information, but not that.

24          **Q**     Okay. And do you know the revenue requirement  
25 amount associated with this issue for UI systems in

1 Florida?

2 **A** There -- I'm sorry. There's a revenue -- your  
3 question is am I aware of the revenue issue that they  
4 have? No, I am not.

5 **Q** Okay. Would you agree that other than rate  
6 case expense, the only issue in this docket is should  
7 any adjustment be made to the utility's Project Phoenix  
8 financial customer care billing system?

9 **A** I'm sorry. I don't understand the question.

10 **Q** Okay. Would you agree that the only other  
11 issue, the only issue in this case other than rate case  
12 expense is termed as should any adjustment be made to  
13 the utility's Project Phoenix financial customer care  
14 billing system?

15 **A** I can only -- I'm here to provide information  
16 only on the work that we did and how it assisted  
17 Utilities, Incorporated.

18 **Q** Okay.

19 **A** I'm sorry. I don't have any more information  
20 regarding that.

21 **Q** Your agreement with Utilities, Inc. in this  
22 docket was to provide consultant services for an hourly  
23 fee of \$684 an hour; is that correct?

24 **A** Not entirely. That is part of it. I did --  
25 you know, one of the things I like to do is to make sure

1 that if there's an opportunity to use less expensive  
2 staff, I do so. So, in fact, when you look at the  
3 hours, most of the hours were people that are  
4 considerably less than I, and the role that I played was  
5 to review the materials, question things, go back  
6 through some of the analyses as well. So it was just  
7 not my rate; it was a small group of folks' rate. And I  
8 apply judgment when I try to make sure that they were --  
9 people with less experience than I, make sure we were  
10 getting the quality results that we needed.

11 **Q** You have before you that we distributed at the  
12 beginning of the hearing a portion of Exhibit 7, 8, and  
13 22 from the Comprehensive Exhibits List. We're  
14 distributing it -- it's been admitted -- but we're just  
15 distributing it for ease of reference for parties,  
16 Commission panel, and Mr. Danielson.

17 Please turn to Exhibit 8, page 3.

18 **A** Okay.

19 **Q** On September 27th, 2012, you or Deloitte  
20 submitted an invoice for services rendered to date in  
21 the amount of \$61,816; is that correct?

22 **A** That is correct.

23 **Q** And, okay, please turn to Exhibit 8, page 4.

24 Okay. And this invoice was for services  
25 performed by you that other Deloitte employees -- and

1 other Deloitte employees for a total of 106 hours spent  
2 as of September 2012; is that correct?

3 **A** That's correct.

4 **Q** Please turn now to Exhibit Number 22 on page  
5 29 of 31, and you or Deloitte submitted a second invoice  
6 for a total of 111.6 hours and in the sum of \$61,824  
7 for fees and expenses incurred through January 31, 2014.  
8 Is that correct?

9 **A** Yes.

10 **Q** And it's correct that the consultant services  
11 provided by Deloitte resulted in the testimony and  
12 exhibits you filed in this case.

13 **A** I'm sorry. Was there a question that I --

14 **Q** Yes.

15 **A** It was directly a result of this work. That  
16 is correct.

17 **Q** Okay. And you charged 18 hours for  
18 preparation of prefiled rebuttal testimony and exhibits,  
19 but is it correct to say that you did not file rebuttal  
20 testimony and exhibits in this proceeding?

21 **A** So if you recall, if you take a look at B,  
22 those are estimated time and expenses, and we have not  
23 billed since the original \$61,000. It will -- all of  
24 our bills will be billed on a time and material basis.  
25 I obviously didn't do the work, so I won't charge for

1 that. It was an estimate to be used for planning. When  
2 they're incurred, we'll incur the real costs. And I  
3 didn't do the work, so there wouldn't be any expense to  
4 it.

5 Q Okay. Is it correct that the total amount  
6 charged by Deloitte for consultant services rendered in  
7 this docket is \$147,221?

8 A No. What you have in front of you is one bill  
9 for \$61,824. And everything since then are all  
10 estimates, and some of that was what you have in front  
11 of you. And I tried to be clear; I said those are  
12 estimates. So what I tried to do is give everybody an  
13 idea. For example, if you look at -- I'm sorry, just  
14 bear with me -- Exhibit 22. I am looking at the third  
15 page, which shows a week-by-week estimate by individual  
16 that helped on this, an estimate of what their work will  
17 be. So in certain circumstances you see, you know --  
18 I'm sorry. Maybe I should flip the page, yeah. Take a  
19 look at the page, the next page after that, and it shows  
20 obviously hours: For example, the week of, the week  
21 ending May 10th and May 17th. I had no idea really what  
22 we would be doing, so they're estimates. And I try to  
23 do that, again, for planning. We will only bill for  
24 actual hours incurred. And, in fact, one of the things  
25 that I just want to make sure everybody understands, I



1 don't bill for travel time. That was something that had  
2 come up earlier. I bill for my time here providing  
3 testimony and working with my client. That is the only  
4 time I bill.

5 Q So let me understand, so your total bill was  
6 61,000?

7 A 824.

8 Q Okay.

9 A That's correct. That was -- and now  
10 they're -- again, there were fees that have been  
11 incurred since then, but what you have here is an  
12 estimate. I didn't -- I haven't refreshed that since  
13 then. I can, but I have not.

14 Q Okay. And do you have an estimate as to the  
15 amount of the fees for which you have done other work  
16 that you just mentioned? There's additional hours.

17 A Well, again the best estimate I have is right  
18 here. I can -- we're in a position now that I can give  
19 you all the actuals that are actually incurred and a  
20 small estimate. I have not done prior to that. What I  
21 would do to get that for you, and I'm happy to do that,  
22 of course, is I would go back to our time sheet system.  
23 We'd get the actual hours that were billed, we'd get  
24 that, do the calculation, and I could provide those to  
25 you. But I don't have, I don't have that reconciliation

1 here right now. I would, I would speculate though that  
2 the hours were less than what's here because I know that  
3 we, you know, the estimate, we ended up not doing some  
4 of the things that were here.

5 For example, your point around the rebuttal.  
6 There was none.

7 **Q** The what? I'm sorry.

8 **A** The rebuttal comment, your comment about  
9 rebuttal hours. And the answer was no. So that would  
10 not be here. But that accounting is something that we  
11 can provide, of course.

12 **Q** You stated that, of course, you and another  
13 person are the two people that are left in Deloitte who  
14 know about the, the Phoenix Project development. Who is  
15 that other person? Did they work on this case?

16 **A** They did. His name is Rohit Mohapatra  
17 (phonetic). He was actually the day-to-day project  
18 manager, and he is now a partner with our firm.

19 **MS. BARRERA:** Okay. I have no more questions.

20 **MR. SAYLER:** Commissioner Brisé, I had -- with  
21 your indulgence, I had one quick follow-up question for  
22 the witness based upon staff's exhibits here, with your  
23 indulgence. I promise, just one.

24 **COMMISSIONER BRISÉ:** All right. What's the  
25 order that we have now? So you went, staff went, and we

1 would have Commissioners next. I think we have --

2 **MR. FRIEDMAN:** I don't have any redirect of  
3 Mr. Danielson at least so far, unless Mr. Sayler says  
4 something I need to respond to.

5 **COMMISSIONER BRISÉ:** Understood. So we now  
6 we're at Commissioners, and I think we have a few  
7 questions from Commissioners.

8 **MR. SAYLER:** If you'd like, I'll share my  
9 question. And if there's an objection to it, then we'll  
10 just let it go.

11 **EXAMINATION**

12 **BY MR. SAYLER:**

13 **Q** The question is there's an invoice dated  
14 September 27th, 2012, for work done on apparently this  
15 testimony. And the question is when was this testimony  
16 developed? Was it developed almost two years ago or was  
17 it developed specifically for this hearing after the OEP  
18 was issued? That was basically my question.

19 **COMMISSIONER BRISÉ:** Okay. I think that's a  
20 fair question. Go ahead.

21 **THE WITNESS:** Yeah. The only reason we would  
22 do any of this work was directly regarding the questions  
23 that, us being engaged to answer these questions. So it  
24 couldn't have been two years ago. I mean, it was done  
25 when we knew we needed to be here. I mean, the

1 deliverables and all the documentation that we have  
2 done, that was done during the project. But this  
3 engagement to specifically answer the questions of the  
4 court, the municipality, and those of you, that's when I  
5 did the work.

6 **MR. SAYLER:** Okay.

7 **MR. FRIEDMAN:** Then I do have a redirect based  
8 on what Mr. Sayler just asked, if I might. Yeah.

9 **EXAMINATION**

10 **BY MR. FRIEDMAN:**

11 **Q** Mr. Danielson, do you recall when this docket  
12 first opened that you and your staff prepared testimony,  
13 which would have been a couple of years ago when we  
14 first opened the docket? Do you remember?

15 **A** When the first docket was opened, you know --

16 **Q** You didn't call it prefiled testimony, but do  
17 you recall the, the documentation that you put together  
18 that included, among other dialogue, a question and  
19 answer document?

20 **A** Yes, I do. Yeah, I do. I'm sorry. Yeah.  
21 There was -- some time has passed. So we had done that  
22 preliminary work, and most of it was -- there were some  
23 questions that were posed, there was some research that  
24 we had done. Again, there was a big gap between the  
25 time when it was originally done.

1           **Q**     Okay.  And so that document is what we call  
2     prefiled testimony.

3           **A**     Sorry.

4           **Q**     You may not have called it -- I know you  
5     didn't call it that.

6           **A**     I did not call it that.

7           **Q**     When you and your staff did it, you did not  
8     call it that.  But I wanted to make clear that the bulk  
9     of your testimony was really done back in '12, wasn't  
10    it?

11          **A**     That's when the bulk of the research was done.

12           **MR. FRIEDMAN:**  All right.  Okay.  Thank you.  
13     No further questions.

14           **COMMISSIONER BRISÉ:**  Thank you.

15           Commissioners.  Commissioner Brown.

16           **COMMISSIONER BROWN:**  Thank you.

17           Thank you, Mr. Danielson.  A question about --  
18     originally your engagement letter with Utilities, Inc.  
19     projected a 12- to 14-week period of services, but later  
20     was appended to include an additional period of time,  
21     the scope of which encompassed two years.  So when you  
22     originally contracted with Utilities, Inc., was it the  
23     intent to only do it for a period of three months?

24           **THE WITNESS:**  The original phase of work was  
25     purely analysis to diagnose the problem, to listen to

1 the issues that I shared with you earlier. They were  
2 pretty significant. As a result of that, we came up  
3 with a series of recommendations and developed a  
4 roadmap. Subsequently we were hired to do the rest --  
5 to actually do the implementation of that.

6 The intent, we always go in with the  
7 engagement that we have in front of us. We delivered on  
8 those things. And then we are engaged going forward as  
9 a result of that -- quite frankly, the performance that  
10 we did and the need, their need.

11 **COMMISSIONER BROWN:** Okay. And you testified,  
12 you responded to one of the Office of Public Counsel's  
13 questions earlier that you, personally you have this  
14 particular, pardon me, expertise at Deloitte, and only  
15 one other individual shares that as well.

16 **THE WITNESS:** Yeah.

17 **COMMISSIONER BROWN:** But that you have not  
18 performed the same services for a water or wastewater  
19 utility in the past; correct?

20 **THE WITNESS:** That's correct.

21 **COMMISSIONER BROWN:** But the question is have  
22 you designed systems that are comparable to the, to  
23 certain -- like the Utilities, Inc. need based on its  
24 function, services, and, I guess, size?

25 **THE WITNESS:** Oh, of course. So let me give

1 you an example. I like to think of these in two ways.  
2 One is the financial system. I have implemented  
3 solutions that included SAP, PeopleSoft, Oracle, JD  
4 Edwards obviously, and then some other packages that may  
5 not matter, but probably another five or six, and I've  
6 done those in multiple different environments. So from  
7 a financial system perspective, very, very deep  
8 expertise, which was a majority of the effort.

9 The customer facing functions, what we called  
10 CCB, which was actually during, during the work, we  
11 brought in our subject matter experts. My role was  
12 largely project management because a lot of that work  
13 was really done by the Oracle folks with a deep  
14 expertise.

15 So the role that we played was where we were  
16 strong. We had strength around project management; we  
17 had strength around what we call team leadership, making  
18 sure that we hit all the dates; we have expertise around  
19 business process design, which we did with the help of  
20 experts in the practice that know that; and we also did  
21 testing. So that's the role that we played.

22 The deep expertise around CCB and the deep  
23 water utility experience around customer service really  
24 came from the folks, the CCB folks or the Oracle folks.

25 **COMMISSIONER BROWN:** Okay.

1           **THE WITNESS:** That's where that expertise  
2 came.

3           **COMMISSIONER BROWN:** Thank you. Let's talk  
4 about your hourly rate.

5           **THE WITNESS:** Sure.

6           **COMMISSIONER BROWN:** The \$684 an hour. Is  
7 that your typical hourly rate or is that just for this  
8 particular case?

9           **THE WITNESS:** It is a discounted rate for this  
10 particular rate.

11          **COMMISSIONER BROWN:** Discounted?

12          **THE WITNESS:** Yes, it is.

13          **COMMISSIONER BROWN:** What, what is your hourly  
14 rate typically?

15          **THE WITNESS:** Well, our full rates are \$890 an  
16 hour.

17          **COMMISSIONER BROWN:** All principals or  
18 principals in your field? I mean, in your --

19          **THE WITNESS:** All principals.

20          **COMMISSIONER BROWN:** Wow, Deloitte.

21          **THE WITNESS:** Now I will, what I will say is  
22 that, you know, we, we obviously discount our rates in  
23 different situations and we did here as well. You know,  
24 in this situation there aren't a lot of people that, as  
25 I said earlier, that would stand in front of you and



1 have the deep expertise to be able to share the depth  
2 that we have. So I feel very good about what we're able  
3 to provide, and I think that that is a -- I know it is a  
4 fair rate, given the advice that I got from my  
5 colleagues that do this as well.

6 **COMMISSIONER BROWN:** Thank you. I am familiar  
7 with Deloitte too -- I have a bunch of friends that work  
8 for your company -- and they have a great reputation.

9 **THE WITNESS:** Thank you.

10 **COMMISSIONER BROWN:** I didn't know that was  
11 the hourly rate they were making.

12 **THE WITNESS:** Well, please understand that  
13 that is our firm's rate. I know some people sometimes  
14 say, "Well, are you getting that?" God willing, I wish  
15 I was. But, you know, that is the rate that our firm  
16 charges.

17 **COMMISSIONER BROWN:** Okay. And then the  
18 managers that worked on this case made \$524 an hour.

19 **THE WITNESS:** Yes.

20 **COMMISSIONER BROWN:** Now is that a discounted  
21 rate?

22 **THE WITNESS:** It is as well.

23 **COMMISSIONER BROWN:** What is their typical  
24 rate?

25 **THE WITNESS:** It's 20 -- it represents about a

1 20 to 25 percent discount. And the reason I say that is  
2 because during that period, about every six months we  
3 have a change in rates. So it would be an average  
4 number, but it was about a 20 to 25 percent discount  
5 over that period of time.

6 **COMMISSIONER BROWN:** And can I ask --

7 **THE WITNESS:** And my rate was the same thing.

8 **COMMISSIONER BROWN:** Why do you change your  
9 rates every six -- did you say six months?

10 **THE WITNESS:** Every about six months, uh-huh.  
11 That's our common practice.

12 **COMMISSIONER BROWN:** Increase?

13 **THE WITNESS:** Yes.

14 **COMMISSIONER BROWN:** An increase. Okay.

15 **THE WITNESS:** And that's a common practice  
16 within the industry as well.

17 **COMMISSIONER BROWN:** Why did you discount?  
18 Why did the principal and the manager discount the rates  
19 for this utility?

20 **THE WITNESS:** We, we, we discounted all of the  
21 rates at the same proportion. It's common practice to,  
22 you know, to reach a market rate that, that we feel we  
23 can get the necessary staff to do what we need to do and  
24 also be competitive in the marketplace. So it's a, it's  
25 judgment, quite frankly.

1           **COMMISSIONER BROWN:** Okay. So, and you said  
2 that you did a 20 percent discount based on your typical  
3 salary, and that was based -- I'm just trying to get an  
4 understanding why you did the discount. And also do,  
5 when you consider discounting it more than 20 percent,  
6 what -- is that typical to discount your hourly rates  
7 more than 20 percent?

8           **THE WITNESS:** Sometimes. It varies. For this  
9 type of work, no. In fact, my colleagues -- the  
10 guidance that I got was not to discount this rate at  
11 all; was that for testimony such as this and the  
12 expertise that we bring to bear, we typically don't  
13 discount rates at all. And that was the guidance that I  
14 got from my colleagues. But given the history that I  
15 had and what I thought was appropriate, that's why I did  
16 what I did.

17           **COMMISSIONER BROWN:** No more questions.

18           **COMMISSIONER BRISÉ:** Thank you. Commissioner  
19 Balbis.

20           **COMMISSIONER BALBIS:** Thank you. And thank  
21 you, Mr. Danielson, for your testimony.

22           I have a couple of questions, and it's going  
23 to focus on the work that was performed in 2006 and 2008  
24 in selecting the JD Edwards program.

25           **THE WITNESS:** Sure.

1                   **COMMISSIONER BALBIS:** At the time do you  
2 recall how many ERCs or customers Utilities, Inc. had  
3 when you were performing that work, just ballpark?

4                   **THE WITNESS:** The estimate that we have here  
5 was about, I think it was about \$300,000 roughly, a  
6 little bit shy. I think it was 290. That's the  
7 estimate that we had, the rough number. That's what I  
8 recall.

9                   **COMMISSIONER BALBIS:** Okay. And in  
10 determining which software is appropriate for the  
11 utility, obviously looking at the number of customers is  
12 a critical issue; correct?

13                   **THE WITNESS:** No.

14                   **COMMISSIONER BALBIS:** No?

15                   **THE WITNESS:** No. I think that what's really  
16 critical, as I said earlier, is the complexity, meaning  
17 I looked at the finance function, the number of people  
18 that were in finance, at the complexity of what they do  
19 on a daily basis. Because what we do is we do business  
20 process design. We looked at the current state and the  
21 future state. And what we had done was we understand  
22 what needed to change and we do that step by step. So  
23 when we do that work, we understood what the complexity  
24 was. And we have tools and accelerators that we use to  
25 help us do that to come up with some estimates. So we

1 knew what the complexity of the functions were,  
2 complexity of the reporting on the finance side. And on  
3 the customer side we did something similar.

4 The most driving factor -- in fact, we, we  
5 knew about the customers because we always ask about  
6 key, key volumetrics. We always ask those questions.  
7 But it's really more a function of the complexity of the  
8 organization and the way they conduct business.

9 **COMMISSIONER BROWN:** Okay. And then focusing  
10 then on the complexity of the organization, if  
11 Utilities, Inc. did not have as complex of a structure,  
12 i.e. they had one small utility in Florida with -- you  
13 know, it doesn't really matter the number of customers  
14 --

15 **THE WITNESS:** Right.

16 **COMMISSIONER BALBIS:** -- but it's not a very  
17 complex scenario, would you still recommend the software  
18 and the program that you recommended and helped to  
19 implement in 2006, 2008?

20 **THE WITNESS:** Again, if it was a very small  
21 organization, the answer, the answer is, no, I would  
22 not.

23 **COMMISSIONER BALBIS:** Okay.

24 **THE WITNESS:** I would size things  
25 appropriately.

1                   **COMMISSIONER BALBIS:** So we're -- and this is  
2 what I'm, what I'm struggling with. Where is that level  
3 of complexity? Because theoretically then, by your  
4 argument, then Utilities, Inc. could divest all of its  
5 systems so there's just one simple, non-complex  
6 organization, and yet they have the struggle with the  
7 issue of allocating the cost of the software. So where  
8 is that level of complexity where this software is not  
9 appropriate?

10                   **THE WITNESS:** I can understand why you'd want  
11 to know that. I'll say it this way: What we have done  
12 and what I've always done, large or small organizations,  
13 I go back to a tool that tells me there are in finance  
14 12 major processes. Then, excuse me, on the customer  
15 side, let's say there's about 12 as well. I take a look  
16 at those complexities and then I apply judgment on what  
17 I see out there. It's really hard to come up with a  
18 threshold. I think that, you know, if it was half the  
19 size, I would say I may not have made the same decision.  
20 I may not. I say that because one of the things that is  
21 also quite important is regulatory requirements in some  
22 of the reporting.

23                   I also look at what some of the available  
24 tools that are out there. I use guidance around when it  
25 would be appropriate -- I'll give you an example. If

1 you look at the Oracle, Oracle company, they provide  
2 three major products for finance. They provide an  
3 Oracle, their Oracle general ledger. They also provide  
4 something called PeopleSoft and JD Edwards. We  
5 didn't -- we looked at the other two. Because we knew  
6 that it was for very large enterprises, we didn't even  
7 consider them. JD Edwards was designed -- complexity,  
8 reporting, and cost -- so that it would serve smaller  
9 companies. So they were -- that was one of the --  
10 obviously what we picked -- but we considered them.

11 There is, you know, a point where we would  
12 apply judgment and say, you know what, it's not even  
13 appropriate to use JD Edwards. You can go with  
14 something even smaller. But during our evaluation we  
15 didn't look to see if the company would be half the size  
16 of what it was. We looked at what it was -- I think we  
17 were, you know, a little over \$100 million, about \$120  
18 million, as I recall, that size, the number of people  
19 that were there, the complexity. We sized it for that.  
20 We also did some sizing around what the growth might  
21 look like. And we also considered if there was a bit of  
22 a dip, would we still make the same type of arrangement?  
23 And we did and that's why we applied judgment the way we  
24 did.

25 **COMMISSIONER BALBIS:** Okay. Thank you.

1 That's all I had.

2 **THE WITNESS:** Thank you.

3 **COMMISSIONER BRISÉ:** Thank you. I have one  
4 question in terms of, on page 8 of your testimony going  
5 to your conclusion and really dealing with the 10  
6 percent decrease and sort of the variance in what that  
7 means if there was a 10 percent increase in, in  
8 customers and what the difference would be from a  
9 financial perspective on the company, ultimately the  
10 consumers on that. Can you, can you explain why such a  
11 different variance there?

12 **THE WITNESS:** So -- I'm sorry. Could you just  
13 rephrase the question? I want to make sure I answer  
14 specifically what you're asking.

15 **COMMISSIONER BRISÉ:** Sure. What's the  
16 difference between the 10 percent, if you had a decrease  
17 of 10 percent and an increase of 10 percent, and why the  
18 difference?

19 **THE WITNESS:** Okay. So the difference --  
20 there was no difference. We, we were given a set of  
21 numbers and we applied judgment and said let's see.

22 **COMMISSIONER BRISÉ:** Sure.

23 **THE WITNESS:** And what I, what I did -- the  
24 reason why you see 10 percent was I went to -- I used  
25 the estimates that we were provided. We saw a change of



1 about 10 percent there, and, you know, that was one  
2 thing that I said to myself. And I also said to myself  
3 that I'm trying to give you an appreciation for a  
4 majority or what I would suggest is 85 percent of the  
5 costs are fixed. You would do those regardless unless  
6 there was a dramatic difference and there hasn't been.  
7 We planned for pretty much a steady state; hopefully  
8 there was some growth if the organization grew.

9 But what I was trying to suggest is that the  
10 only variability would be the \$380,000 and only a  
11 percentage of that. And I'm not even sure I would make  
12 that connection because, again, there isn't a direct  
13 correlation between the number of customers and how I  
14 might fluctuate the system.

15 It's important to note that when we design  
16 these there's always variability. And what I cannot do  
17 is design for a specific case because we know that there  
18 will be peak hours where the system is used a lot, and I  
19 have to make sure that it can get through a peak. I  
20 don't design for that steady state because it would be  
21 very costly to do that. So I design for -- usually it's  
22 about an 80 percent number that we use when we do those  
23 estimates. We also have the benefit of using the  
24 hardware provider to do those estimates. We give them a  
25 model, some of the metrics, and they also help guide us

1 as well. So we don't do that alone.

2 **COMMISSIONER BRISÉ:** Okay. So in terms of  
3 scalability, let's say the company had a growth of 20  
4 percent or 25 percent, what type of impact would that  
5 have?

6 **THE WITNESS:** I suspect you'd have to buy more  
7 servers and maybe expand what it would take on the  
8 network. Quite frankly, that's what it would be.

9 I think the other thing to consider is that,  
10 so when you buy a piece of packaged software, it uses a  
11 certain amount of capacity from a computer. When they  
12 come out with new releases, which is what, the reason  
13 why you go to an outsource -- you know, you buy a  
14 package, is that every six months, every year they come  
15 out with a new version. Every, to a fault, every year  
16 those new versions require more computing capacity.

17 So it would be natural for -- in fact, we had  
18 a conversation with the UI folks that said, "There's a  
19 new version coming out. What should we do?" And the  
20 answer was, "Well, go to that version." But, you know,  
21 adding computing power is not uncommon and then, quite  
22 frankly, it's the cheapest part of a lot of this. So  
23 they would buy more computing power or buy more servers.  
24 And then also, you know, a lot of it is very intensely  
25 used through the internet, so that also is a factor.

1 It, it causes more requirements on your inter -- on the  
2 servers as well as the network capacity as well. And,  
3 in fact, our project, we put a complete new  
4 infrastructure in.

5 **COMMISSIONER BRISÉ:** All right. Thank you  
6 very much.

7 Any further questions, Commissioners?

8 All right. We already had redirect. So  
9 Mr. Friedman.

10 **MR. FRIEDMAN:** Yes. May I ask that, if nobody  
11 has any further questions of Mr. Danielson, that we  
12 could excuse him and let him be on his way?

13 **COMMISSIONER BRISÉ:** Sure. Looking at my  
14 fellow Commissioners, there seems to be no further  
15 questions. So with that, Mr. Danielson, you are free to  
16 leave.

17 **THE WITNESS:** Thank you.

18 **COMMISSIONER BRISÉ:** All right? But you're  
19 welcome to stay.

20 **THE WITNESS:** Thank you.

21 **COMMISSIONER BRISÉ:** Okay.

22 **THE WITNESS:** It's a pleasure meeting  
23 everyone.

24 **COMMISSIONER BRISÉ:** All right.

25 **MS. HELTON:** I think we need to admit his

1 exhibits into the record.

2 **MR. FRIEDMAN:** Yes, if we have not. I thought  
3 I did that when I moved the, when I moved his prefiled  
4 testimony. But if I did not, if I overlooked that, then  
5 --

6 **MS. HELTON:** Quite frankly, Mr. Chairman, I'm  
7 a little bit confused, and this is one of those things  
8 that I get a little bit picky about. I believe that  
9 there needs to be a clear process with respect to when  
10 you admit exhibits into the record, and I think the  
11 better practice is to do it at the --

12 **COMMISSIONER BRISÉ:** Following.

13 **MS. HELTON:** -- following the witness's  
14 testimony. And if there's a witness whose testimony is  
15 going to be entered into the record as though read and  
16 the witness not appear, I think that the exhibits should  
17 be entered then as well. Otherwise, everybody gets  
18 confused or, I should say, I get confused.

19 **MR. FRIEDMAN:** See. And I'm the other way  
20 around; if I wait, I'll forget. So that's why I like to  
21 do it at the, at the get-go. But I'll, I'll make a note  
22 however y'all want it. I don't have any more exhibits.

23 **COMMISSIONER BRISÉ:** Okay. In an abundance of  
24 caution, would you enter --

25 **MR. FRIEDMAN:** I would like to move

1 Mr. Danielson's exhibits, they're numbered 2, 3, 4, 5,  
2 and 6 into the record.

3 **COMMISSIONER BRISÉ:** Okay. Seeing no  
4 objections, we will enter Exhibits 2, 3, 4, 5, and  
5 6 into the record at this time. Okay.

6 (Exhibits 2 through 6 marked for  
7 identification and admitted into evidence.)

8 **MR. FRIEDMAN:** And since Ms. Wiorek's direct  
9 testimony has been stipulated into the record, we have  
10 no further direct witnesses.

11 **COMMISSIONER BRISÉ:** All right. Do we need to  
12 enter that at this time into the record?

13 **MS. HELTON:** I believe we entered Ms. -- I'm  
14 probably not saying her name correctly --

15 **MR. FRIEDMAN:** Wiorek.

16 **MS. HELTON:** -- Wiorek's exhibits into the  
17 record, but I don't recall that we entered her testimony  
18 into the record. But I, it may be that I got, was  
19 getting confused at the time we entered her exhibits  
20 into the record.

21 **MR. FRIEDMAN:** I think you're probably right,  
22 Ms. Helton. But I would like to move -- and I might as  
23 well -- I thought we had done her direct and, and  
24 rebuttal both at the same time. But out of an abundance  
25 of caution, I would ask that Ms. Wiorek's direct and

1 rebuttal testimony and exhibits be admitted into the  
2 record.

3 **COMMISSIONER BRISÉ:** Okay. At this time, if  
4 there are no objections, we will move Ms. Wiorek's  
5 direct and rebuttal testimony into the record at this  
6 time, along with the exhibits that travel along with it.  
7 Okay? Seeing no objections, they're in the record.

8 (REPORTER'S NOTE: Exhibits 7, 8, and 22  
9 previously marked and admitted.)

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

2 A. My name is Sharon Wiorek. I am employed as a Regulatory Accountant II at Utilities, Inc., 2335  
3 Sanders Road, Northbrook, Illinois 60062.

4 **Q. State briefly your educational background and experience.**

5 A. I am a Registered Certified Public Accountant, licensed in the State of Illinois. I have a Bachelor  
6 of Science degree, in Accounting, from Loyola University of Chicago. I have been employed by  
7 Utilities, Inc. since September of 2012. Prior to joining Utilities, Inc., I spent over 20 years in the  
8 cable television industry where eight years were in the regulatory department. Since joining  
9 Utilities, Inc. I have been involved in several phases of rate-making in many regulatory  
10 jurisdictions. My responsibilities include: financial analysis of individual subsidiaries of Utilities,  
11 Inc., preparation of rate applications, facilitation of regulatory audits, and the submission of  
12 testimony and exhibits to support rate applications.

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

14 A. The purpose of my direct testimony is to present information supporting the factual basis for  
15 Utilities, Inc. rate case expense incurred and to be incurred as a result of this proceeding.

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

17 A. Yes, I am sponsoring two exhibits. Exhibit SW-1 is the Contract with Deloitte Consulting, LLP,  
18 and Exhibit SW-2 is a schedule and documentation supporting the appropriate amount of rate  
19 case expense for this proceeding.

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

21 A. Yes, it does.

22

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25

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

2 A. My name is Sharon Wiorek. I am employed as a Financial Analyst at Utilities, Inc., 2335  
3 Sanders Road, Northbrook, Illinois 60062.

4 **Q. Did you previously prefile Direct Testimony in this proceeding?**

5 A. Yes, I prefiled direct testimony on actual rate case expense through the date of filing that  
6 testimony.

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

8 A. The purpose of my rebuttal testimony is to present updated information supporting the  
9 factual basis for Utilities, Inc. rate case expense incurred and to be incurred as a result of  
10 this proceeding.

11 **Q. Are you sponsoring any exhibits with your rebuttal testimony?**

12 A. Yes, I am sponsoring one exhibit. Exhibit SW-3 is a schedule and documentation  
13 supporting the update of the appropriate amount of rate case expense for this proceeding.

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

15 A. Yes, it does.  
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1                   **COMMISSIONER BRISÉ:** And so with that,  
2 Mr. Friedman, do you have any more witnesses?

3                   **MR. FRIEDMAN:** We have no further direct  
4 witnesses. We do have a rebuttal witness.

5                   **COMMISSIONER BRISÉ:** You have a rebuttal  
6 witness later on.

7                   All right. The Office of Public Counsel, do  
8 you have any witnesses?

9                   **MR. SAYLER:** No witnesses.

10                  **COMMISSIONER BRISÉ:** All right. Thank you.  
11 Staff, do you have any witnesses?

12                  **MS. BARRERA:** Yes. Staff would call Bart  
13 Fletcher to the stand, Stephen Bart Fletcher.  
14 Whereupon,

15                                   **STEPHEN BART FLETCHER**

16 having been called as a witness by the Florida Public  
17 Service Commission, and having been sworn, testified as  
18 follows:

19                                   **EXAMINATION**

20 **BY MS. BARRERA:**

21                   **Q** Mr. Fletcher, for the record please state your  
22 name and business address.

23                   **A** Yes. My name is Stephen Bart Fletcher. My  
24 business address is 2540 Shumard Oak Boulevard,  
25 Tallahassee, Florida 32399-0850.

1           **Q**     And by whom are you presently employed and in  
2 what capacity?

3           **A**     Presently employed by the Florida Public  
4 Service Commission. I'm the Public Utilities Supervisor  
5 of the surveillance section in the Division of  
6 Accounting and Finance.

7           **Q**     And how long have you been employed by the  
8 Commission?

9           **A**     I've been employed by the Commission since  
10 November 17th, 1997.

11          **Q**     And can you briefly state your educational and  
12 professional background?

13          **A**     Yes. I received an Associate of Arts degree  
14 from Tallahassee Community College, a Bachelor of  
15 Science degree in Accounting and Finance from Florida  
16 State University.

17                   As far as a professional background, it mainly  
18 consists with the Commission. The first ten years of  
19 employment at the Commission I was an accounting analyst  
20 with various titles working on water and wastewater  
21 cases. From January 2008 to November 2013, last year, I  
22 was the Public Utilities Supervisor of the Rate Filing  
23 Section, again primarily working on water and wastewater  
24 rate cases.

25                   Since December of last year to date, I'm the

1 Public Utilities Supervisor of the Surveillance Section.  
2 We primarily deal with electric and gas company rate  
3 cases, as well as a review of annual reports of water  
4 and wastewater companies under the Commission's  
5 jurisdiction and earnings surveillance of electric and  
6 gas companies.

7 **Q** Have you, have you presented testimony before  
8 this Commission or in any other regulatory venue?

9 **A** Yes. Before this Commission as well as the  
10 Division of Administrative Hearings.

11 **Q** And have you filed testimony and exhibits in  
12 this docket?

13 **A** Yes, I have.

14 **Q** And do you have any changes to your testimony  
15 at this time?

16 **A** Yes. I have one scrivener's error. It's on  
17 page 4 of my testimony, line 1. The year there on that  
18 line, the 2009, needs to be changed to 2008. And that  
19 concludes any changes to the written testimony.

20 **Q** Okay. And do you have any changes to the  
21 content of your exhibits at this time?

22 **A** Yes. The initial filed SBF-1 exhibit, there  
23 was an amended exhibit filed, SBF-1A. The specific  
24 changes are on the utility, the fourth column utility  
25 column, the third company name is correcting from Lake

1 Utilities Services, Inc. to Lake Utility, the correct  
2 title of that subsidiary.

3 And if you move down to the second-to-the-last  
4 row, I'm changing the dates for docket -- for the order,  
5 anticipated order, the agenda, and the recommendation  
6 filing for Cypress Lakes Utilities, Inc. in Docket  
7 Number 130212-WS.

8 The last change occurs on the second-to-  
9 the-last row under the column for utility. It reads --  
10 it read before Lake Utility Services, Inc. That needs  
11 to be changed to correct -- the correct subsidiary of  
12 Lake Placid Utilities, Inc. And that concludes the  
13 change.

14 **Q** Okay. Do the changes reflected in this  
15 exhibit and your testimony change your testimony in any  
16 way?

17 **A** No, it doesn't.

18 (REPORTER NOTE: For the convenience of the  
19 record, Witness Fletcher's Prefiled Direct Testimony  
20 inserted into the record.)  
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1 Q. Please state your name and business address.

2 A. My name is Stephen Bart Fletcher and my business address is 2540 Shumard Oak  
3 Boulevard, Tallahassee, Florida 32399-0850.

4 Q. By whom are you employed and in what capacity?

5 A. I am employed by the Florida Public Service Commission as a Public Utilities Supervisor  
6 of the Surveillance Section in the Division of Accounting and Finance.

7 Q. How long have you been employed by the Commission?

8 A. I started working at the Commission in November 1997.

9 Q. Would you state your educational background?

10 A. I received an Associate in Arts degree with honors from Tallahassee Community College in  
11 August 1993. I received a Bachelor of Science degree with majors in accounting and finance from  
12 Florida State University in December 1996.

13 Q. Would you explain what your general responsibilities are as a Public Utilities Supervisor of  
14 the Surveillance Section?

15 A. I am responsible for supervising professional technical staff members who are charged with  
16 financial, accounting, and rate review and evaluation of complex formal rate proceedings before  
17 the Commission. This section coordinates, prepares and presents staff recommendations before  
18 the Commission on the above-referenced proceedings. This section is also responsible for  
19 preparing testimony, testifying, and writing cross-examination questions for hearings involving  
20 complex accounting and financial issues, as well as annual report reviews for water and  
21 wastewater utilities and earnings surveillance of electric and gas companies.

22 Q. Have you previously testified before the Florida Public Service Commission?

23 A. Yes, I provided testimony on Aloha Utilities, Inc.'s purchased raw water transactions with  
24 related parties in Docket No. 010503-WU.

25 Q. Have you previously testified in any other hearing?

1 A. Yes, I provided testimony in Division of Administrative Hearing Case No. 12-0909 on the  
2 following: (1) the charges approved by the Commission in Docket No. 080562-WU and (2) what  
3 configuration should two customers receive if it was decided that they complied with the  
4 Commission's directive that customers who requested an irrigation meter prior to April 7, 2009,  
5 shall only be charged the rates in effect at the time of their application.

6 Q. Can you summarize the areas for which you are providing testimony in the instant case?

7 A. Yes, I am providing testimony regarding the appropriate treatment of Project Phoenix  
8 Financial/Customer Care Billing System (Phoenix Project) cost allocated to companies that were  
9 subsequently divested, as well as the proper depreciation method for the Phoenix Project costs.

10 Q. Can you provide a timeline for dockets where the Commission addressed the Phoenix  
11 Projects costs?

12 A. Yes. Exhibit SBF-1 is a timeline for dockets where the Commission addressed the Phoenix  
13 Project costs.

14 **Divested Systems' Share**

15 Q. What was the purpose of the Phoenix Project?

16 A. The purpose of the Phoenix Project was to replace UI's former Legacy system and to  
17 improve accounting, customer service, customer billing, and financial and regulatory reporting  
18 functions of Utilities, Inc. The Phoenix Project consists of the JD Edwards Enterprise One as the  
19 financial system, including asset management, and the Oracle Customer Care and Billing System  
20 as the customer information system. These systems are integrated in a manner that allows for the  
21 sharing of information between UI's different operational organizations, as well as providing  
22 access to UI and its subsidiaries from multiple locations because the system is web-based.

23 Q. When did the Phoenix Project become operational?

24 A. UI's Phoenix Project became operational in December 2008.

25 Q. Has UI divested any systems since December 2008?

1 A. Yes.

2 Q. How has UI allocated the Phoenix Project costs subsequent to those divestitures?

3 A. Based on the equivalent residential connections (ERCs) of the surviving systems and any  
4 newly acquired systems, UI has allocated the total Phoenix Project costs to those systems.

5 Q. Is this reallocation of the divested systems' previous share of the Phoenix Project costs to  
6 the surviving systems just and reasonable?

7 A. No. It is a utility's burden to show how customers are benefitting from allocated affiliate  
8 charges. See Order No. 7692, issued March 22, 1977, in Docket No. 750780-WS, In re:  
9 Application of General Waterworks Corporation d/b/a General Waterworks-Central Fla. District  
10 for an interim and permanent rate case in Orange County, Florida. (In this case, the Commission  
11 found that in order for a utility to be allowed management fees paid to a parent company as an  
12 operating expense, it must show the benefit to the utility's customers.) Section 367.081, Florida  
13 Statutes, states that the Commission shall, either upon request or upon its own motion, fix rates  
14 which are just, reasonable, compensatory, and not unfairly discriminatory. Therefore, in  
15 accordance with this statute, I do not believe that UI's reallocation of the divested systems'  
16 previous share of the Phoenix Project costs to the surviving systems is just nor reasonable because  
17 the ratepayers of the surviving systems receive no added benefit associated with bearing additional  
18 allocated Phoenix Project costs.

19 Q. Can you provide an example that illustrates that UI's reallocation of the divested systems'  
20 previous share of the Phoenix Project costs to the surviving systems is unjust and unfair treatment?

21 A. Yes. If UI were to divest all its systems except for one system in Florida that serves  
22 approximately 1,200 ERCs, I believe that it would be unjust and unfair for those remaining  
23 customers to bear the full burden of the Phoenix Project costs and the associated depreciation  
24 expense.

25 Q. How many systems has UI acquired and divested since December 2008?

2008 JB

1 A. From January 1, ~~2009~~ through December 31, 2013, UI has acquired 8 systems which  
2 equates to approximately 3,000 ERCs and has divested 24 systems which equates to approximately  
3 40,000 ERCs.

4 Q. What was the previous approximate share of the Phoenix Project costs for these divested  
5 systems?

6 A. The previous approximate share of the Phoenix Project costs for these divested systems is  
7 \$3.2 million which equates to approximately 14 percent of the total capitalized plant costs.

8 Q. What is the proper allocation methodology of Phoenix Project costs to account for divested  
9 systems?

10 A. The proper allocation methodology is to reduce the gross amount of the Phoenix Project  
11 costs by the previously ERC-allocated share for the divested systems and to allocate this reduced  
12 amount over the surviving and newly acquired systems based on their number of ERCs relative to  
13 total ERCs.

14 Q. Has the Commission made similar cost allocation adjustments to parent company  
15 information technology (IT) systems for any other utility?

16 A. Yes. The Commission found that it was not fair, just or reasonable for Aqua Utilities  
17 Florida, Inc. ratepayers to bear any additional allocated IT plant costs due to divestitures because  
18 no added benefit was realized by remaining customers. See Order No. PSC-11-0256-PAA-WS,  
19 pp. 67-69, issued June 13, 2011, in Docket Nos. 080121-WS, In re: Application for increase in  
20 water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange,  
21 Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua  
22 Utilities Florida, Inc. and 100330-WS, In re: Application for increase in water/wastewater rates in  
23 Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco,  
24 Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida,  
25 Inc.



1 Q. Do you have any other comments related to UI's divestitures since December 2008?

2 A. Yes. In the Order approving the transfer to Wedgefield Utilities, Inc. (Wedgefield), it  
3 states that Wedgefield is a wholly-owned subsidiary of UI and that UI focuses on ownership and  
4 operation of small systems and provides centralized management, accounting, and financial  
5 assistance to small utilities that were commonly built by development companies. See Order No.  
6 PSC-98-1092-FOF-WS, p. 2, issued August 12, 1998, in Docket Nos. 960235-WS, In re:  
7 Application for transfer of Certificates Nos. 404-W and 341.-S in Orange County from Econ  
8 Utilities Corporation to Wedgefield Utilities, Inc. and 960283-WS, In re: Application for  
9 amendment of Certificates Nos. 404-W and 341-S in Orange County by Wedgefield Utilities, Inc.

10 That Order also states the following:

11 Mr. Wenz testified that the previous owner confided that: 'although he wanted to  
12 continue to develop property, he was no longer interested in operating a utility or  
13 committing funds to it.' In contrast, Mr. Wenz testified that Wedgefield's parent  
14 company only operates utility systems. With this affiliation, Wedgefield will be  
15 able to attract capital at a reasonable cost and benefit from economies of scale  
16 through sharing common vendor and management resources. He testified that  
17 Utilities, Inc. is probably the largest active company acquiring troubled water and  
18 wastewater systems in Florida and that it relied upon this Commission's acquisition  
19 adjustment policy to bargain for and purchase these systems.

20 (Underline emphasis added) UI used the economies of scale assertion with regard to the public  
21 interest for acquiring a utility in Bay County. See Order No. PSC-99-1818-PAA-WS, p. 4, issued  
22 September 20, 1999, in Docket No. 981403-WS, In re: Application for transfer of Certificates Nos.  
23 469-W and 358-S in Bay County from Bayside Utilities, Inc. to Bayside Utility Services, Inc. In  
24 its transfer application to acquire a Martin County utility in Docket No. 040179-WS, Utilities, Inc.  
25 of Hutchinson Island also asserted the transfer was in the public interest, in part, because it can

1 achieve economies of scale through UI that would be unattainable on a stand-alone basis.

2 Further, as of March 31, 2014, UI's website states that its growth strategy is as follows:

3 Utilities, Inc. pursues a disciplined growth strategy of acquiring attractively valued  
4 utility systems in geographically diverse locations with long-term potential. Our  
5 strategy of assimilating new and small utilities has been greatly supported by  
6 various Public Service Commissions who see Utilities, Inc. as the solution to non-  
7 compliant and inefficient stand-alone utilities.

8 Based on the above, I believe UI's decisions to divest multiple systems is contrary to its  
9 stated growth strategy and has reduced the economies of scale it has previously claimed to have  
10 created for the benefit of the ratepayers of its surviving systems and newly acquired systems.

11 **Proper Depreciation Method for the Phoenix Project Costs**

12 Q. What is the service life of the Phoenix Project?

13 A. In three 2007 docketed UI cases, the Commission approved a 6-year amortization period.  
14 In five UI cases opened in 2008 and 2009, the Commission found that an 8-year amortization  
15 period was more appropriate for a software project of this magnitude. For all other 2009 and  
16 subsequent cases, the Commission found that the amortization period for the Phoenix Project  
17 should be 10 years. The Commission established a 10-year service life for a number of reasons.  
18 First, the Phoenix Project was specifically tailored to meet all of UI's needs. Such a project is not  
19 "off the shelf" software, but software designed to fulfill long-term accounting, billing, and  
20 customer service needs. Second, the software will be used at least 10 years. For example, UI's  
21 former Legacy accounting system had been used for 21 years. Third, in a 2009 docketed case  
22 involving a UI subsidiary in Nevada, UI responded that any amortization period between 4 and 10  
23 years would be in compliance with Generally Accepted Accounting Principles. Based on these  
24 factors, this Commission found that 10 years is a more reasonable amortization period for which I  
25 believe is appropriate.

1 Q. What is the proper depreciation method for the Phoenix Project costs given the different  
2 service lives used in Florida and for subsidiaries in other states?

3 A. I believe the remaining life depreciation rate method should be used to determine the  
4 proper amount of depreciation for the Phoenix Project costs.

5 Q. What is the remaining life depreciation rate method?

6 A. The remaining life depreciation rate method is designed to recover the remaining  
7 unrecovered balance (investment less net salvage less reserve) over the remaining life of the  
8 associated investment. In accordance with Rule 25-30.140(1)(u), Florida Administrative Code, the  
9 formula for the remaining life rate is the appropriate plant investment (represented as 100 percent)  
10 minus accumulated reserve percent minus net future salvage percent divided by the average  
11 remaining life in years. The reserve represents the portion of the investment accumulated through  
12 depreciation expense to date. Exhibit SBF-2 illustrates the remaining life depreciation rate  
13 method.

14 Q. Does this conclude your testimony?

15 A. Yes.

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1 **BY MS. BARRERA:**

2 **Q** And can you please state the sum and substance  
3 of your testimony?

4 **A** Yes. I'm providing testimony regarding the  
5 appropriate treatment of allocated Phoenix Project costs  
6 to companies that were subsequently divested. I provide  
7 comments regarding the divestiture's reduced -- reducing  
8 the economies of scale, and also finally the appropriate  
9 depreciation method for the Phoenix Project costs.

10 **Q** Does that conclude your testimony today?

11 **A** Yes, it does.

12 **MS. BARRERA:** I have no more questions.

13 **COMMISSIONER BRISÉ:** Okay. So with that,  
14 Mr. Fletcher is available for cross-examination.

15 Mr. Friedman.

16 **MR. FRIEDMAN:** Thank you, Commissioners. I do  
17 have some exhibits which I'm asking to be handed out to  
18 refer to at the appropriate time.

19 **EXAMINATION**

20 **BY MR. FRIEDMAN:**

21 **Q** Mr. Fletcher, this reduction in the cost of  
22 Project Phoenix due to divestitures of systems was  
23 originated by you, was it not?

24 **A** And others. It wasn't just myself. It was  
25 brainstorming among staff and, and it was a

1 collaborative effort. But, yes, I had a hand in it.

2 Q Didn't you have -- weren't you the material  
3 person behind it?

4 A No. It was a collaborative effort.

5 Q Who else was involved in it then?

6 A We met among staff. I believe the Division  
7 Director at the time and the Assistant Director, Bureau  
8 Chief at the time, and the Accounting Analyst, whoever,  
9 when it was first addressed for recommending a  
10 divestiture adjustment. It was a collaborative effort.

11 Q And am I correct that the first case where  
12 this adjustment was made was Utilities, Inc. of Pembroke  
13 rate case in 2010?

14 A That's correct.

15 Q Would you look -- I hope you've got a stack of  
16 documents. The one I want you to look at under the  
17 description where it's got Order Number 10-0400. Did  
18 you -- let me know when you have that one.

19 A I have it.

20 **MR. SAYLER:** Office of Public Counsel doesn't  
21 have that. How many exhibits are we supposed to have?  
22 I'm sorry.

23 **MR. FRIEDMAN:** Five.

24 **MR. SAYLER:** Two of my exhibits are repeated,  
25 it looks like. So I should have a 10-0400?

1           **MR. FRIEDMAN:** You should have 10-0400,  
2 10-0719, 10-0585, 11-0514, 12-0102.

3           **MR. SAYLER:** Thank you.

4 **BY MR. FRIEDMAN:**

5           **Q** Mr. Fletcher, have you got that document in  
6 front of you?

7           **A** I do.

8           **Q** All right. And that's the excerpt from  
9 Commission Order 10-0400; correct?

10          **A** That's correct.

11          **Q** And my understanding is that this is the first  
12 time that any adjustment was made for the Project  
13 Phoenix costs as a result of divestitures; is that  
14 correct?

15          **A** That's correct.

16          **Q** All right. Would you look on the -- it's  
17 page 8 of the document but it's the second page of this  
18 exhibit. Do you see the highlighted language?

19          **A** I do.

20          **Q** All right. Would you read that for me,  
21 please.

22          **A** Yes. "However, we do not believe the Phoenix  
23 Project costs previously allocated to the divested  
24 system, divested subsidiaries should be reallocated to  
25 the surviving utilities. Wedgefield was sold for an

1 amount significantly greater than its rate base. Miles  
2 Grant and Hutchinson were sold collectively for an  
3 amount significantly greater than the rate base. We  
4 believe the amounts allocated to the divested system --  
5 subsidiaries," excuse me, "were recovered by the  
6 shareholders through the sale of those systems."

7 **Q** All right. When you made that statement that  
8 ended up in this order, you were aware, were you not,  
9 that no part of Project Phoenix was actually sold in  
10 connection with any of those sales?

11 **A** Again, it was a collaborative effort. I  
12 believe the analyst at that time was, you know, the lead  
13 analyst was different than me. I wasn't the lead  
14 analyst. But, yes, I did review that rec. And I think  
15 the train of thought that we had at that time, that we  
16 thought that it may have been in the net book value, but  
17 that's not my testimony here today.

18 In that order it was -- that train of thought  
19 was in that case and two other preceding cases. But  
20 after those cases, that was taken out, and that's not my  
21 testimony here today. It has nothing to do with the  
22 gain on sale.

23 **Q** All right.

24 **A** As far as any bearing on my opinion testimony  
25 regarding divestitures.

1           **Q**     So, so -- well, it was obviously your opinion  
2 at the time this order was entered, was it not?

3           **A**     Again, it was a collaborative effort, and that  
4 was the train of thought at that time.

5           **Q**     Well, was it your personal opinion or not?

6           **MS. BARRERA:** Objection, if I may. We're  
7 referring to an order of the Commission. Mr. Fletcher's  
8 involvement in that order or his opinion as to that  
9 order is -- any question to that effect is inappropriate  
10 since the order speaks for itself.

11           **MR. FRIEDMAN:** Well, I disagree since the  
12 order originated from the recommendation of, of  
13 Mr. Fletcher, or he was intimately involved in that  
14 recommendation obviously. What I'm trying to do is to,  
15 is to go through a chronology so that we can see how  
16 this concept arise -- arose, and I think that's, that's  
17 a legitimate question. And all I asked him, which he  
18 hasn't answered the question yet, was whether he knew  
19 that when those systems were sold, that no part of  
20 Project Phoenix was sold as a part of those sales. That  
21 was the question.

22           **COMMISSIONER BRISÉ:** Well, I think that  
23 question can be answered. But the question concerning  
24 whether it's his personal opinion and so forth, we can  
25 stay away from that.



1           **THE WITNESS:** At that time, at that time we  
2 thought it was being sold. But subsequent to those, we  
3 were under the understanding that the Phoenix Project  
4 was not a part of the sale, and that's why you only see  
5 it in two subsequent orders after this and you don't see  
6 it in the body of any recommendation after about  
7 three orders. It does not appear. And it has no  
8 bearing on my testimony for a divestiture adjustment.

9           **BY MR. FRIEDMAN:**

10           **Q** All right. What if the -- if a utility system  
11 had been sold at a loss?

12           **A** It would have no bearing, gain or loss, on my  
13 testimony for a divestiture adjustment.

14           **Q** But at the time, but at the time you asserted  
15 this was the position that you took, I'm asking you --

16           **MS. BARRERA:** Again, I would object to the  
17 question that it was -- was it the position that you  
18 took? There is an order based on the record in those  
19 proceedings, and the order speaks for itself.

20                   Mr. Fletcher could have taken the position  
21 that the moon is blue, and that would have no relevancy  
22 altogether with the contents of the order which reflects  
23 the findings of the Commission.

24           **MR. FRIEDMAN:** But it certainly is relevant to  
25 his instant opinion about why he believes that that

1 adjustment is appropriate. What I -- you know, it goes  
2 to his credibility. You know, he's going to say and  
3 he's going to testify, yeah, you know, this theory  
4 changed. I originally thought it should be this, then I  
5 changed it to this, and now I changed it to this. And I  
6 think that goes to his credibility, and I think that's,  
7 that's fair game. I don't have to just cross-examine  
8 him on what his theory is today. If he had a different  
9 theory last week or the week before, that's, that's  
10 appropriate.

11 **COMMISSIONER BRISÉ:** So I'm going to wade into  
12 ground that, that I don't typically wade into. I think  
13 you can question the order in terms of the rationale for  
14 the order, but his personal opinion is, is not,  
15 shouldn't be at question. But, Mary Anne, you can help  
16 me out.

17 **MR. FRIEDMAN:** His opinion, that's what he's  
18 telling you he's got here --

19 **COMMISSIONER BRISÉ:** Mr. Friedman, thank you.

20 **MS. HELTON:** I'm assuming, and I have not read  
21 Mr. Fletcher's testimony, but I'm assuming that  
22 Mr. Fletcher is testifying here today because he does  
23 have an opinion about the, any adjustments and whether  
24 they should be made to the Phoenix Project by reason of  
25 divestiture of certain systems.

1 I don't think we've asked Mr. Fletcher if he  
2 has an opinion about this first order. If he does have  
3 an opinion, I do think it is an appropriate line of  
4 questioning with respect to how he got to the opinion  
5 where he is today.

6 **COMMISSIONER BRISÉ:** Okay. So maybe you could  
7 rephrase your questions.

8 **MR. FRIEDMAN:** Well, I think what he's -- he  
9 answered the question by saying that's not my opinion  
10 today, and that's not why I'm here, so he really didn't  
11 answer the question. He just said that's not my opinion  
12 today. So what I'm asking him is at that point in time  
13 your opinion was -- what was your opinion on what would  
14 have happened if a divested system had been sold at a  
15 loss? He's already said that if it was sold at a  
16 profit, here's the -- they made a bunch of money. They  
17 don't need to, to burden the customers with this part of  
18 Project Phoenix. They made a ton of money. And so I'm  
19 saying if they would have sold a system at a loss, what  
20 would your, what would your theory have been then?

21 **COMMISSIONER BRISÉ:** Okay. Go ahead and we'll  
22 see how we move that forward. You can answer the  
23 question.

24 **THE WITNESS:** Okay. Take a step back. At  
25 that time for that Pembroke case, and I believe it was

1 Sanlando and Longwood that had that, the sales of those  
2 three systems in it. Now for a gain on sale you have  
3 the purchase price less net book value and any selling  
4 cost to determine a gain.

5 Now at our time and our train of thought back  
6 then was it was in the net book value; therefore, it  
7 didn't generate -- there was no, there was not a gain  
8 issue that needed to be addressed. And since that time,  
9 since those three rate cases, what I'm saying is when  
10 you look at it, the net book value, that goes to  
11 transferring of assets. The allocated share of the  
12 Phoenix Project cost did not get transferred to those  
13 purchasers. After those cases you can look at it, and  
14 because of that my -- and in any future dockets after  
15 those three it had no bearing on the gain on sale. The  
16 opinion or the recommendations in subsequent orders  
17 after those three were that there was no added benefit;  
18 therefore, additional costs, the ratepayers should not  
19 have to bear that as far as, you know, taking the  
20 previous divested system shares and reallocating it  
21 among the surviving customers or newly acquired  
22 customers. So there was that train of thought at that  
23 time.

24 But subsequent to that we knew that a portion  
25 of the Phoenix Project didn't move along with net book

1 value. It didn't have any bearing on the main reason,  
2 if you will, that's, that's pretty much been brought  
3 out, which is there's been no out of benefit. The  
4 surviving customers should not have to bear additional  
5 costs.

6 **BY MR. FRIEDMAN:**

7 Q That's the mantra today. But at the time that  
8 these orders were entered, your belief and opinion was  
9 that that was the sole reason for denying the recovery  
10 of that portion of Project Phoenix. There's nothing in  
11 the orders about anything other than what you read;  
12 right?

13 A No. That was not the sole reason. And I  
14 recall a conversation at the Pembroke -- one of the  
15 Agenda Conferences for one of those three cases where  
16 we, we talked about that. I myself talked about it, and  
17 I think there was an analyst, Mr. Deason had talked  
18 about it as well, that that was an ancillary reason that  
19 we thought that was in the net book value; therefore,  
20 there was no gain issue. Of course, the main thrust of  
21 staff's recommendation was there's no added benefit;  
22 therefore, the previous divested system share should not  
23 be borne by the surviving customers. There was a  
24 dialogue at agenda for one of those three cases that you  
25 have, and that was the main and has always been the main

1 reason.

2 Q Although it doesn't show up in any of those  
3 three orders, does it?

4 A No. It was discussion at agenda. I will, I  
5 will say it in those three cases. But subsequently to  
6 those three cases, it has been well identified in ten  
7 cases, prior cases from those three, that no added  
8 benefit has been the basis.

9 Q And we'll get to that in a second.

10 You heard Mr. Saylor mention about that, that  
11 it was OPC's position that the, because of the voluntary  
12 divestitures of systems that it was appropriate to make  
13 that adjustment?

14 A I heard that.

15 Q All right. What about if the system, the sale  
16 of the system was not voluntary?

17 A I don't think it has a bearing on my  
18 testimony. I wouldn't change it.

19 Q All right. So, so if the government came in  
20 and condemned the system and -- let's do this. Look at,  
21 there's an Exhibit 10, Excerpts from Order 10-0719. Do  
22 you have that in front of you?

23 A Yes.

24 Q That's from the Alafaya transfer, is it not?

25 A Yes, it is.

1           **Q**     All right. And you were involved in that  
2 docket, were you not?

3           **A**     I don't recall. I know I was involved in a  
4 proceeding for Alafaya. I don't think I was a part of  
5 this transfer.

6           **Q**     All right. And you see in your order it  
7 references that a copy of that contract was included  
8 with the application, was it not?

9           **A**     On page 2, that's the highlighted sentence in  
10 the second paragraph, yes.

11          **Q**     All right. And then if you'd look at the last  
12 page of that exhibit, doesn't it reflect that the  
13 property was sold under threat of condemnation?

14          **A**     That's what it reflects.

15          **Q**     All right. And do you understand what  
16 condemnation means?

17          **A**     Yes, I do.

18          **Q**     All right. What does it mean in your mind?

19          **A**     I guess eminent domain by a municipality or  
20 city, whatever, that can exercise that right to take  
21 over property at a, I guess, a fair market value.

22          **Q**     Whether or not the property owner wants to  
23 sell it or not. Is that your understanding?

24          **A**     That's my understanding, yes.

25          **Q**     Okay. And so it makes no difference to you

1 whether this property, these customers were divested  
2 because of condemnation or whether there was a voluntary  
3 transfer, it makes no difference in your mind?

4 **A** No, it doesn't, and with an explanation there.

5 You -- a divestiture, for whatever the reason,  
6 you can't assign that with a recommendation or a  
7 Commission decision to disallow a portion of an  
8 investment that was not transferred. That, to me, is  
9 you're trying to trace a divestiture, even though it's  
10 under condemnation, to a subsequent disallowance of a  
11 particular investment. To me, I analogize that with  
12 funding of capital structure.

13 In the capital structure you have funds, they  
14 are fungible, which means they cannot be traced. And,  
15 to me, in the same token with that practice you cannot  
16 trace a divestiture, regardless of the circumstances, to  
17 a decision to disallow a certain investment. I just --  
18 that's my opinion.

19 **Q** And by divestiture, you mean what?

20 **A** The sale of a subsidiary.

21 **Q** Voluntary or involuntary?

22 **A** Correct.

23 **Q** All right. Would you have the same opinion if  
24 the systems were not divested but there was just a lower  
25 number of customers because of some catastrophic event?



1           **A**     I haven't thought about that. I'm not -- I  
2 don't know.

3           **Q**     Would you also believe that that adjustment  
4 would be appropriate if there was a natural growth in  
5 customers within the system that exceeded the number of  
6 divestitures?

7           **A**     Yes. I believe there should be an adjustment.  
8 As you look on my testimony regarding the growth  
9 strategy of UI, I don't think that you would not make an  
10 adjustment for divestitures even if they -- you had  
11 growth that matched them. Those were economies of  
12 scales that were not foreseen but for a result of the  
13 divestiture. So I stand by my recommendation, my  
14 opinion testimony.

15          **Q**     All right. What about acquisitions? What if  
16 they acquired the same number of customers that they  
17 divested?

18          **A**     That's what I was saying. Like in my  
19 testimony there was 40,000 in ERC divestitures. If  
20 there were 40,000 in ERC acquisitions, it would not  
21 change my recommendation or opinion. To me, it was  
22 foregone economies of scale that would have been  
23 realized absent the divestiture.

24          **Q**     Now you had mentioned in your testimony that  
25 later on that year the basis for making the adjustment

1 changed. You recall that, do you not?

2 **A** Yes, I do.

3 **Q** All right. And, and if you'd look at Order  
4 10-0585. I think it's in front of you. That's the UIF  
5 2010 rate case.

6 **A** Yes.

7 **Q** All right. And would you read the language  
8 that I've highlighted on -- it's page 10 of the order,  
9 but it's the second page of the order attached.

10 **A** The UIF is page, page 10 of the order?

11 **Q** Yeah.

12 **A** It's the second page of the exhibit?

13 **Q** Yeah. It's the highlighted page I attached.

14 **A** Yes. "However, we do not believe the Phoenix  
15 Project costs previously allocated to the divested  
16 subsidiaries should be reallocated to the surviving  
17 utilities. Wedgefield was sold for an amount  
18 significantly greater than its rate base. Miles Grant  
19 and Hutchinson were sold collectively for an amount  
20 significantly greater than the rate base. We believe  
21 the amounts allocated to the divested subsidiaries were  
22 recovered by the shareholders through the sale of those  
23 systems. Because no added benefit was realized by  
24 remaining subsidiaries, we find that it is not fair,  
25 just, or reasonable for ratepayers to bear an additional

1 allocated Project Phoenix cost."

2           **Q**     Okay. So in this order you've got the, let me  
3 call it the original basis and you have the new basis;  
4 is that correct?

5           **A**     It has the language in addition in this order  
6 regarding no added benefit, yes.

7           **Q**     Okay. But it continues to rely upon the fact  
8 that the other systems were sold for a profit; correct?

9           **A**     That is one of the basis that was in that  
10 order.

11           **Q**     All right. And then you recall, do you not,  
12 that the basis for making that adjustment changed again  
13 in 2011 in the Lake Utility Services rate case? That  
14 would be the Order 11-0514 in front of you.

15           **A**     The basis of no added benefit were there, yes,  
16 was there in that order.

17           **Q**     All right. And noticeably absent from that  
18 order and all the subsequent orders is any reference to  
19 the fact that the systems were sold at a profit;  
20 correct?

21           **A**     I believe there was just like three or four  
22 orders that sold at a profit or stated in the orders.  
23 However, there was about nine orders subsequent to those  
24 that reflect only the basis of no added benefit.

25           **Q**     All right. So does that mean you've abandoned

1 that as the basis for your opinion that the adjustment  
2 is proper?

3 **A** As I stated, I think, previously, it has no  
4 bearing on my testimony. My testimony only includes no  
5 added benefit there and it deals with economies of  
6 scale.

7 **Q** You mentioned economies of scale. Would you  
8 explain to me how that applies to, you know, whether  
9 you've got, you know, ten or, ten or twenty thousand  
10 less or more customers that you have an economy of  
11 scale? I mean, don't you still get an economy of scale  
12 by having 280,000 customers?

13 **A** In my testimony it deals with economies of  
14 scale as far as the fact of divestitures. The allocated  
15 methodology for UI costs down to its subsidiaries -- not  
16 only in Florida, but the other 15 states that it has  
17 utilities in -- is based on the equivalent residential  
18 connection methodology. So an important factor is the  
19 denominator of the total ERCs which you're going to  
20 allocate that, those costs down to. So if you have a  
21 reduction in the denominator, then -- as a result of  
22 divestitures, then the surviving customers are being  
23 allocated more costs than they were prior to the  
24 divestitures. That is a decrease in economies of scale  
25 to me.

1           **Q**     But you would admit that there still are  
2 significant economies of scale by having a customer base  
3 of 260,000.

4           **A**     It can. You would have to perhaps look at the  
5 situation. And it's been put in the context of maybe  
6 for a standalone company for certain services you would  
7 think that it could have economies of scale dealing with  
8 your vendors, certain common costs that you have. It  
9 can.

10          **Q**     Okay. And would you explain to me where in  
11 the, in the PSC rules or orders that requires that there  
12 be an added benefit in order to get cost recovery?

13          **A**     I think in -- it's basically in the statute,  
14 367.081, where just and reasonable. I'm not sure about  
15 any rule. You -- we -- I have provided in my testimony  
16 regarding allocated costs from a, an affiliate. That's  
17 on page 3, lines 5 through 8 of my testimony deals with  
18 that. In that case that I mentioned they had to use a  
19 benefit in order to justify the allowance of costs being  
20 allocated from an affiliate company down to a  
21 subsidiary. And, to me, it stands to reason is if you  
22 have a divestiture, some change regardless of the  
23 circumstance, and there is no added benefit, why should  
24 they be bearing additional cost? So I was kind of using  
25 that order as the threshold as there has to got to be,

1 there has to be a benefit first. And, to me, if there  
2 is a reduction or an increase of costs allocated, there  
3 has to be an added benefit. One goes hand in hand to me  
4 to be just and reasonable.

5 Q All right. So in your mind the word "benefit"  
6 and "added benefit" are synonymous. Because the word  
7 "added benefit" is nowhere in that order you relied on,  
8 is it?

9 A No. Just benefiting is in that order to make  
10 the initial allocation of cost.

11 Q All right. And there's no, there's no order,  
12 there's no PSC rule that uses the term "added benefit,"  
13 is there?

14 A That's correct.

15 Q All right. And there might be one or two --  
16 other than the UI orders, there might be one other order  
17 that uses the word "added benefit"?

18 A I do know that a similar adjustment for the  
19 divestitures was made in a docket for Aqua Utilities,  
20 Inc. of Florida. So that's the only one I believe I'm  
21 aware of.

22 Q Yeah. And what did -- and what order did you  
23 rely on in making that added benefit?

24 A It was previous orders of the Commission's  
25 decisions and for UI subsidiaries.

1           **Q**     Which is why we're here arguing about it; is  
2     that correct?

3           **A**     That's correct.

4           **Q**     All right.  So you -- in summary, you agree,  
5     do you not, that the term "added benefit" does not  
6     appear, other than the Aqua order you mentioned, does  
7     not appear in any rule or other order or requirement or  
8     statute that this Commission is governed by?

9           **A**     The specific word "added benefit" is not  
10    contained in the statute or order.  The terms are just  
11    and reasonable.  And it's my opinion testimony that no  
12    added benefit applies to just and reasonable.

13          **Q**     But there is certainly a benefit, is there  
14    not, a benefit to the customers to have Project Phoenix?

15          **A**     There could be.

16          **Q**     Well, y'all -- the Commission approved a  
17    \$22 million rate base for it.  I hope you, I hope you  
18    thought there was some benefit to it.

19          **A**     Yes.

20          **Q**     All right.  So in your mind, no matter how  
21    many customers are added to the system, whether it  
22    exceeds the roughly 300,000 that were online when  
23    Project Phoenix went there, if it goes up above that,  
24    this adjustment you made is forever gone; is that  
25    correct?

1           **A**     I still believe the divestiture adjustment  
2 should be made.  Regardless if there's a matching  
3 acquisition or growth in the ERCs through acquisition,  
4 it still should be made.

5           **Q**     So isn't it true that by making your  
6 adjustment that new customers to the system get a  
7 windfall?

8           **A**     They share the cost of it.  A windfall, I  
9 wouldn't say that.  I would say that how the math works  
10 out, if -- by including the divestiture system share,  
11 they would pay less.  So to that extent they pay less,  
12 yes.

13          **Q**     So if we use the numbers in round numbers --  
14 in round numbers we agree the Project Phoenix cost was  
15 \$22 million; correct?

16          **A**     Correct.

17          **Q**     All right.  And if we use round numbers, we  
18 divide that by the roughly 300,000 customers at the time  
19 Project Phoenix went active, do the math, and it comes  
20 up about \$73 per ERC, does it not?

21          **A**     I don't have a calculator.  I would have to  
22 calculate that.  Subject to check.

23          **Q**     Do you have a phone?  Phones all have  
24 calculators these days.

25                 All right.  So if you reduced the cost of



1 Project Phoenix by, what, 3 million bucks due to these  
2 divestitures, you're still looking at the cost of \$73  
3 per ERC; correct? I mean, it doesn't change because of  
4 the divestitures. What you've done is a  
5 dollar-for-dollar decrease so that the actual per ERC  
6 cost remains the same even though there's a divestiture.

7 **A** By operation of math it should work that way.  
8 Because as you lower the denominator, it should work out  
9 to the same average. So, yes.

10 **Q** All right. So let's assume UI had -- you saw  
11 the prefiled testimony or the deposition testimony of  
12 Mr. Hoy?

13 **A** I attended the deposition.

14 **Q** The exhibit that said they're going to get  
15 about ten or eleven thousand new customers through  
16 acquisitions last year and this year?

17 **A** Yeah, I believe so. Through 2013 and '14, I  
18 believe it was 10,000 ERCs.

19 **Q** All right. So, so, so we add those 10,000  
20 ERCs to the, to the math, and doesn't it reduce the per  
21 customer cost down to \$40 per ERC roughly? I mean, to  
22 \$70 an ERC roughly.

23 **A** Subject to check, yes. And I believe it  
24 should because of the -- you should be able to realize  
25 the foregone economies of scale if it wasn't for the

1 divestiture. So I believe that given UI's growth  
2 strategy that is appropriate.

3 **Q** And every other customer that, that joins the  
4 system is going to bring that per ERC count down, is it  
5 not?

6 **A** It does. That happens with any kind of  
7 acquisition, either customer growth or acquisition,  
8 however the ERC growth occurs, that's how it works out.  
9 The economies of scale increase; the average costs can  
10 go down.

11 **Q** So UI can never get that -- let me strike  
12 that. Let me start over.

13 If UI divests a system tomorrow, will it  
14 continue to have this same impact? If they divest a  
15 system that had -- the middle of next year they added  
16 10,000 and they're selling the system for 10,000, are  
17 you going to recommend that, that they make the same  
18 adjustment to reduce the cost of Project Phoenix?

19 **A** Yes.

20 **Q** So I guess to use an absurd theory like you  
21 did in your testimony, they could, they could divest all  
22 300,000 customers and buy a system, another system with  
23 300,000 customers and they would have zero Project  
24 Phoenix costs; correct? Even though the system was  
25 still operating and in good order.

1           **A**       The math works out that way. Had that  
2 happened, I believe that issue would be readdressed at  
3 the Commission at that time. Because then you wouldn't  
4 be using -- you might be using a different software  
5 package that's not made for that company. I mean, right  
6 now this system is designed for multiple states'  
7 jurisdiction. It may have to be readdressed at that  
8 time. It may be another system that's put in place for  
9 that system.

10           **Q**       We're doing a hypothetical like you did in  
11 your testimony, and I want to know whether if, if they  
12 had -- if they sold 300,000 customers and they bought  
13 systems with 300,000 customers in 15 states, didn't have  
14 to modify Project Phoenix at all, you would give them  
15 zero return on Project Phoenix; correct?

16           **A**       That's how the math works out. However, I  
17 believe that it would be readdressed at that time  
18 whenever that system came in for a rate case.

19           **Q**       So there might be scenarios where your, your  
20 economies of scale argument doesn't apply and we just  
21 have to wait and see what those are?

22           **A**       You would have to -- again, you would have to  
23 address it at that time if that were brought to that  
24 hypothetical. Given the customer -- UI's growth  
25 strategy, I don't foresee it happening in the

1 foreseeable future.

2 Q You don't see them getting down to 1,200  
3 customers in the foreseeable future either, do you?

4 A Given their growth strategy, it's highly  
5 unlikely that that will occur in the foreseeable future.

6 Q And one of your hypotheticals was just that,  
7 was it not? What would happen if there was a reduction  
8 of 1,200 customers?

9 A Yes. That was just a hypothetical which I --  
10 it was actually brought up by a Pembroke customer that  
11 stated that during the customer meeting.

12 Q Now in your prefiled testimony -- and I'll  
13 accept Commissioner Brisé's suggestion to point out  
14 where I'm talking about finally after 99 percent of my  
15 questions -- on page 5 where you discuss the Wedgefield  
16 sale or purchase.

17 A I'm there.

18 Q Now you believe, do you not, that, that  
19 Utilities, Inc. provided an economies of scale in  
20 connection with that purchase?

21 A That was in the order. That's what the order  
22 stated in the quote that I have there, yes.

23 Q And then I presume that you would agree it  
24 would have continued to provide an economies of scale to  
25 its customers for 1999, 2000, 2001, 2003 up until they

1 sold the system; is that correct?

2           **A**     At the time of the transfer that was it.  
3 There's -- obviously with common cost it gets allocated  
4 down. There can be moving parts. It could be less  
5 economies of scale from when it initially was  
6 transferred. Expenses change, fluctuate over time, as  
7 well as the economies of scale. So, yes, it could still  
8 be economies of scale when they were sold.

9           **Q**     And in rendering your opinion on the added  
10 benefit, it makes no difference how many connections  
11 that Utilities, Inc. had at the time of the  
12 Wedgefield acquisition?

13           **A**     Are you referring to -- I'm sorry. Could you  
14 repeat your question?

15           **Q**     Yeah. Did it have any bearing in your  
16 reliance upon the Wedgefield case for your opinion on  
17 economies of scale, was it relevant to know how many  
18 customers were on, were served by Utilities, Inc. at  
19 that time?

20           **A**     At the time of the transfer, no. The Phoenix  
21 Project was implemented subsequent to this transfer.

22           **Q**     Okay. But there are other benefits of  
23 economies of scale other than a computer system, aren't  
24 there?

25           **A**     Sure, there can be.

1           **Q**     All right. Then on the last point, on page  
2           6 when you talk about depreciation method, you've got a  
3           formulistic approach you worked out, do you not?

4           **A**     Yeah. It's Exhibit SBF-2, and it basically is  
5           in accordance with the depreciation rule for water and  
6           wastewater cases.

7           **Q**     So that basically supports the staff's  
8           position that it should be ten years; correct?

9           **A**     Now that's the appropriate depreciation for  
10          remaining life.

11          That -- what you're talking about is addressed  
12          on lines 13 through line 25 on page 6, and those  
13          three reasons that are provided there is the basis for  
14          the ten-year service life.

15          **Q**     Are you now saying that the ten-year service  
16          life should be something different?

17          **A**     No. As reflected in my testimony from Lines  
18          23 to 25, I believe, in my opinion, it should be ten  
19          years.

20          **Q**     Starting in 2008 when it went active?

21          **A**     Well, for any -- you're going to have  
22          staggered investments, which I believe it does. You  
23          could have some capitalized numbers in 2008. I think  
24          there were some subsequent to that. So, yes, a ten-year  
25          life for that should be the service life, and that

1 service life should be inputted into the formula for the  
2 remaining life depreciation rate, in accordance with the  
3 rule.

4 Q And does that apply to hardware, as well?

5 A For the Phoenix Project costs? Yes. It's the  
6 entire cost.

7 Q All right. So you're saying that it's your  
8 belief that computer hardware should last ten years?

9 A That's my testimony, and based on those  
10 reasons listed on Page 6.

11 Q But is that what you really believe?

12 A Yes.

13 Q Do you have a computer in your office?

14 A I do.

15 Q Have you had it ten years?

16 A It's been a long time. I don't know how long  
17 I've had it.

18 Q You need a new one.

19 A It has been transferred to several offices.

20 **MR. FRIEDMAN:** That's all the questions I  
21 have.

22 **COMMISSIONER BRISÉ:** Thank you. At this time  
23 we are going to go ahead and take a ten-minute break and  
24 give an opportunity to our court reporters to do their  
25 swap and so forth. All right. Thank you.

1 (Recess.)

2 **COMMISSIONER BRISÉ:** We're going to reconvene.  
3 Okay. Mr. Sayler.

4 **MR. SAYLER:** All right. Thank you, Mr.  
5 Chairman. I know it's time for Office of Public Counsel  
6 to offer some cross-examination for Mr. Fletcher, but we  
7 don't have any cross questions for him at this time.  
8 Thank you.

9 **COMMISSIONER BRISÉ:** All right. Thank you.  
10 Commissioners, any questions before we go to  
11 redirect?

12 **COMMISSIONER BALBIS:** I have one.

13 **COMMISSIONER BRISÉ:** Sure. Commissioner  
14 Balbis.

15 **COMMISSIONER BALBIS:** Mr. Fletcher, on Page 4  
16 of your testimony starting on Line 1, you indicate that  
17 since January 1st, 2008, to December 31st, 2013, you  
18 have acquired eight systems and divested twenty-four.  
19 How many systems were in place when the Phoenix system  
20 was developed?

21 **THE WITNESS:** I don't know.

22 **COMMISSIONER BALBIS:** Okay.

23 **THE WITNESS:** I just know the ERC count,  
24 that's it.

25 **COMMISSIONER BRISÉ:** Commissioner Brown.



1                   **COMMISSIONER BROWN:** Thank you.

2                   Mr. Fletcher, thank you for your testimony,  
3 and I know Mr. Friedman previously said at the  
4 prehearing conference that he was eager to ask you some  
5 questions. And he stole most of mine, but I wanted to  
6 get you to elaborate on some of the answers that you  
7 provided to him.

8                   Let's go to -- you talk about benefits, and,  
9 you know, the Commission has ruled, has followed staff's  
10 advice in several cases about the divested system and  
11 their surviving systems receiving no added benefit  
12 associated with bearing the additional allocated Phoenix  
13 costs.

14                   Can you tell me what added benefit, what  
15 quantifiable benefit it is you're seeking?

16                   **THE WITNESS:** To me it would be, it's the same  
17 system, the Phoenix Project. There has been no  
18 additional tweaks to maybe improve any kind of  
19 operational efficiencies, that is what I would mean by  
20 added benefit. A tweak to the system where it provides  
21 maybe qualitative benefits as far as their processing of  
22 bills or anything of that nature.

23                   **COMMISSIONER BROWN:** Okay. And really getting  
24 back to one of your answers, you talked about why would  
25 staff even conduct a divestiture allocation if the

1 system divests? You said an example if the system  
2 divests 10,000 and then adds 10,000 customers, wouldn't  
3 that denominator then ultimately be the same and be a  
4 wash?

5 **THE WITNESS:** Mathematically it would be a  
6 wash. However, the forgone increased economies of scale  
7 for the divested systems that were previously allocated,  
8 you forwent that as a result of the divestiture. There  
9 would have been even greater economies of scale to make  
10 the divestiture adjustments regardless of the  
11 circumstances around it.

12 **COMMISSIONER BROWN:** But if you're adding back  
13 in the same amount of acquired systems, it nulls itself  
14 out. And they're getting, they're providing economies  
15 of scale, the nearly 10,000 ERCs are providing  
16 additional economies of scale for the divested systems  
17 that have been sold.

18 **THE WITNESS:** Yes, it goes to later in my  
19 testimony also with the economies of scale. Given UI's  
20 growth strategy, it seems to me with that growth  
21 strategy it should be ever increasing. There should  
22 never be, to me, an offset, given that strategy. The  
23 increased economy of scale, that's what they have always  
24 been. They initially developed -- tried to buy small  
25 developer-owned systems, and that was their growth

1 strategy since the genesis of the company.

2 It seems to me that they switched that pattern  
3 at one point in time in 2008, and going all the way to  
4 2012. And the economies of scale that would have been  
5 realized had they not divested, I don't think that that  
6 should be realized for the surviving customers in newly  
7 acquired systems, in my opinion.

8 **COMMISSIONER BROWN:** I understand what you're  
9 saying. I may not necessarily agree with it, but I  
10 understand what you're saying. Aren't there cost  
11 savings, though, associated with the Project Phoenix for  
12 these surviving and remaining customers? And there are  
13 economies of scale, as well.

14 **THE WITNESS:** I believe there can be economies  
15 of scale, but it's reduced as a result of the  
16 divestitures.

17 **COMMISSIONER BROWN:** Well, what about cost  
18 savings, aren't there cost savings associated with it?

19 **THE WITNESS:** None that I could quantify for  
20 you. We have asked that question in numerous data  
21 requests after the Phoenix Project was operational. We  
22 submitted numerous data requests to UI to try to  
23 quantify that. They had given in data request responses  
24 qualitative about the process, but no quantitative  
25 savings, a dollar to it. So if they can -- I don't know

1 what the quantitative savings are, if any were realized.

2 **COMMISSIONER BROWN:** All right. Getting back  
3 to the previous cases that the Commission agreed with  
4 staff. Can you cite -- I know we talked about that, we  
5 talked about the Wedgefield case and we've talked about  
6 the Aqua case, but can you cite any other similar cases  
7 that the Commission determined in which we specifically  
8 reallocated to remaining subsidiaries the amount of ERCs  
9 that were divested? If you have a specific example of  
10 how the Commission deviated and decided that the cost  
11 allocation should be this way, I'd like to know what  
12 specific case you're relying on.

13 **THE WITNESS:** There are no other cases. This  
14 was a first impression to my knowledge, since I have  
15 been here in '97 that we faced with a tailor-made asset  
16 where we made an adjustment related to divestitures.  
17 I'm not aware of any other order that addressed it.

18 **COMMISSIONER BROWN:** But, really, you were  
19 going back to, I guess -- so you were relying on -- in  
20 terms of the benefit, you were relying on -- was it the  
21 Wedgefield case in your analysis, when you came to this  
22 conclusion? I'm trying to understand how staff  
23 originally came to the conclusion.

24 **THE WITNESS:** It was definitely a  
25 collaborative effort. We sat there in discussions among

1 staff before recommending, and that being in  
2 recommendations, and it's the same system. Again, they  
3 have not submitted anything, a data request that said  
4 that we've changed our process and we've increased  
5 efficiencies further by a tweak to the system. It's  
6 still the same system, but yet customers are being  
7 asked, surviving customers are being asked to pay more.  
8 So in using that brainstorming and collaborative among  
9 staff, in evaluating it we came to, well, there is no  
10 added benefit that the utility has identified and why  
11 should the surviving customers or newly added system  
12 customers have to pay extra.

13 **COMMISSIONER BROWN:** But when you take in that  
14 rationale and you add back in newly acquired ERCs, new  
15 systems, you're still not changing that methodology?

16 **THE WITNESS:** And that goes to my other point  
17 about forgone increasing economies of scale as a result  
18 of UI's growth strategy through acquisition. Had they  
19 not divested, it would have been even more economies of  
20 scale. Their surviving customers, they would have paid  
21 less.

22 **COMMISSIONER BROWN:** Okay. Let's get back  
23 to -- this last question is about the amortization  
24 period. I know that staff and the Commission went from  
25 a period of six years to eight years to ten years over

1 some time. During my term at the Commission it has been  
2 ten years throughout the whole time. Can you tell me  
3 the rationale for the change the three different times?

4 **THE WITNESS:** Yes. Initially in the first  
5 cases where the Commission actually approved the Phoenix  
6 Project costs through pro forma, the -- it just -- in  
7 evaluating it, it was just straight forward using six  
8 years in accordance with the service life and the  
9 depreciation Rule 25-30.140.

10 Subsequent to that, on the time line on the --  
11 it's in Exhibit SBF-1, in the Utilities, Inc., the 2008  
12 docket, we looked at it and there was a depreciable life  
13 changed to eight years, given the fact that it was such  
14 a -- the magnitude of the system, that was pretty much  
15 the basis for extending it two years. And that went on  
16 for about five rate cases at eight-year service life.

17 The ten years, staff discovered in that case,  
18 beginning in Pembroke, that for another system in  
19 Nevada, a subsidiary of UI's, the Commission determined  
20 that it was ten years based on UI's response to the  
21 Nevada Commission's data request that it could be ten  
22 years. And looking at it in other responses to the  
23 Nevada Commission, UI had responded to discovery stating  
24 that it could be anywhere between four and ten.

25 Now in looking at that with the previous

1 system that they had in place, the legacy, that was in  
2 service for 21 years. So we felt the need to extend  
3 it -- to recommend, and the Commission ultimately  
4 approved a ten-year service life based on the Nevada  
5 case, the UI's data request response to the Nevada  
6 Commission saying that it could be four to ten range in  
7 the service life of the preceding legacy system.

8 **COMMISSIONER BROWN:** Okay. So not only is  
9 this a case of first impression, this also seems to be a  
10 matter that the Commission has continually addressed  
11 because it has evolved, and we've -- is that correct?

12 **THE WITNESS:** That's correct.

13 **COMMISSIONER BROWN:** Now, those other cases,  
14 are they on a ten-year depreciable life right now or are  
15 they still at the six and the eight?

16 **THE WITNESS:** No. I believe, to the best of  
17 my knowledge, the Commission has, you know, rendered the  
18 ten-year service life. However, UI continues at an  
19 eight-year service life, and I don't think they've  
20 adjusted their books -- as they come in for rate cases  
21 here, we continue to make the adjustments, or have in  
22 the past to use the ten-year service life.

23 **COMMISSIONER BROWN:** And this docket is  
24 supposed to address that, correct?

25 **THE WITNESS:** Correct.

1                   **COMMISSIONER BROWN:** Okay. No further  
2 questions.

3                   **COMMISSIONER BRISÉ:** All right.  
4                   Commissioners, any further questions?  
5 Commissioner Balbis.

6                   **COMMISSIONER BALBIS:** Mr. Fletcher, going back  
7 to Page 4 where you indicated that the divestitures and  
8 additions or acquisitions equate to approximately 40,000  
9 ERCs.

10                  **THE WITNESS:** The divestitures -- yes, 40,000  
11 ERCs. Yes, Commissioner.

12                  **COMMISSIONER BALBIS:** Okay. If the utility  
13 came to the Commission looking to allocate the costs for  
14 the Project Phoenix to that reduced number of ERCs, so  
15 instead of 300,000, 260,000, how would you allocate  
16 those costs? Would you follow the same methodology and  
17 just divide it through -- would you recommend that it's  
18 just divided by the ERCs and allocate the full cost to  
19 the customers at the time?

20                  **THE WITNESS:** I would still use the ERC  
21 methodology. I would just -- the adjustment in my  
22 testimony is to reduce the gross amount for the  
23 previously divested system share --

24                  **COMMISSIONER BALBIS:** No, starting day one.

25                  **THE WITNESS:** Day one.



1           **COMMISSIONER BALBIS:** So in the rate case that  
2 first allocated the Phoenix systems, you just allocate  
3 them to the existing number of customers that were there  
4 at the time, correct?

5           **THE WITNESS:** Correct.

6           **COMMISSIONER BALBIS:** So if in that case there  
7 was 40,000 less customers, would you reduce the  
8 allocation or just simply allocate the full amount to  
9 the number of customers at the time?

10          **THE WITNESS:** If it's the result of just  
11 customer decline, that it would just be based on ERCs  
12 and not through a divestiture or an acquisition.

13          **COMMISSIONER BALBIS:** Okay. So I just want to  
14 make sure I understand your answer. So hypothetically,  
15 if they came in with 300,000 customers in 2009, and you  
16 would allocate the full cost of the Phoenix Project to  
17 all 300,000 customers following the ERC methodology,  
18 correct?

19          **THE WITNESS:** Correct.

20          **COMMISSIONER BALBIS:** Okay. In 2009 they  
21 didn't come in with 300,000, they came in with 260,000.  
22 You would allocate the full cost of Phoenix to those  
23 customers using the ERC methodology?

24          **THE WITNESS:** Correct.

25          **COMMISSIONER BALBIS:** And Commissioner Brown

1 asked about quantifying benefits for the divestitures,  
2 are there benefits associated with acquisitions?

3 **THE WITNESS:** Yes, it increases the economies  
4 of scale.

5 **COMMISSIONER BALBIS:** Okay. Do the customers  
6 benefit from Utilities, Inc., the parent company, being  
7 able to make those acquisitions quickly and seamlessly?

8 **THE WITNESS:** The surviving customers do  
9 benefit.

10 **COMMISSIONER BALBIS:** Okay. Thank you.  
11 That's all I have.

12 **COMMISSIONER BRISÉ:** All right. Okay.  
13 Redirect.

14 **MS. BARRERA:** Staff has no redirect, and at  
15 this time we would like to move Mr. Fletcher's testimony  
16 into the record.

17 **COMMISSIONER BRISÉ:** Sure. What numbers are  
18 we looking to move into the record?

19 **MS. BARRERA:** Well, it would be his testimony,  
20 and exhibits have already been admitted.

21 **COMMISSIONER BRISÉ:** Okay. So it is my  
22 understanding that exhibits -- in the exhibits that we  
23 moved before we included Exhibits 9 through 19.

24 **MS. BARRERA:** Yes. So 9, 9a, and 10 were  
25 Mr. Fletcher's exhibits.

1                   **COMMISSIONER BRISÉ:** Okay.

2                   And, Mr. Friedman, I think all we have to do  
3 is take recognition of these orders, or do we need to  
4 move them into the record?

5                   **MS. HELTON:** Yes, sir, I believe you can just  
6 officially -- I don't even think you have to have  
7 Commission orders officially recognized, and I think  
8 Mr. Friedman has put everybody on notice that he may be  
9 using these orders in his brief.

10                  **MR. FRIEDMAN:** That's correct. I don't need  
11 them as an exhibit unless you particularly want them in.

12                  **COMMISSIONER BRISÉ:** Great. Okay. Thank you.  
13 And the Office of Public Counsel didn't have any  
14 exhibits for this -- for our witness.

15                  **MS. BARRERA:** No.

16                  **COMMISSIONER BRISÉ:** All right. With that,  
17 thank you, Mr. Fletcher.

18                  So now we are going to move to rebuttal.

19                  **MR. FRIEDMAN:** Utilities, Inc. in rebuttal  
20 calls John Hoy.

21                                   **JOHN HOY**

22 was called as a witness on behalf of Utilities, Inc.,  
23 and having been previously sworn to tell the truth,  
24 testified as follows:

25                                   **DIRECT EXAMINATION**

1 **BY MR. FRIEDMAN:**

2 Q Would you state your name?

3 A John Hoy.

4 Q And what is your position?

5 A My position is I'm the president of the  
6 Utilities, Inc. companies in Florida.

7 Q Thank you. And in connection with this  
8 proceeding have you prefiled rebuttal testimony?

9 A I have.

10 Q And do you have a copy of it with you?

11 A I do.

12 Q And if I asked you the questions in your  
13 prefiled testimony, would your answers be the same?

14 A Yes, they would.

15 **MR. FRIEDMAN:** All right. Thank you.

16 (REPORTER NOTE: For the convenience of the  
17 record, Witness Hoy's Prefiled Direct Testimony inserted  
18 into the record.)

1 **Q. Please state your name, position and business address.**

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

4 **Q. State briefly your educational background and experience.**

5 A. I have a Bachelors Degree in Civil Engineering and a Masters of Business Administration  
6 both from Marquette University. I have over 30 years of experience in the utility industry,  
7 including gas, electric and water companies, the last eight years of which have been with  
8 Utilities, Inc. I joined UI in 2006 as the Regional Vice President of the Florida and  
9 Louisiana region. Since that time, I have served as the Chief Regulatory Officer for UI  
10 and most recently the Chief Operating Officer before assuming my current position as  
11 President of the Florida companies this year.

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

13 A. The purpose of my rebuttal testimony is to present information in response to the Pre-Filed  
14 Testimony filed by Stephen Bart Fletcher and his novel approach for reducing Utilities  
15 Inc.'s investment in its financial and customer care billing system, commonly referred to  
16 as Project Phoenix.

17 **Q. Do you have any initial comments regarding Utilities, Inc.'s corporate policy  
18 regarding acquisitions and divestitures?**

19 A. Yes I do. Utilities, Inc. has been providing utility services for nearly fifty years and in that  
20 time has grown to be one of the largest private water and wastewater companies in the  
21 country with its largest presence in Florida. The strategy has always been to acquire, invest  
22 in, and grow systems that typically do not have the resources to do it themselves or a nearby  
23 system to connect to. The water industry, compared to other utility services, is the most  
24 fragmented with more customers receiving service from small isolated systems. UI has a  
25 history of bringing capital to these small and medium sized utilities in order to improve the

1 quality of service and insure current and future compliance with the growing industry  
2 regulations.

3 Over the years, UI has also sold utilities when it was in the best interest of the company,  
4 the customers and the community. Typically that has happened when the community has  
5 had an interest in acquiring one of our systems due to growth of their community or  
6 expansion of their utility services. These strategic divestments are typical for most  
7 companies particularly one that has been in business since 1965. Overall, UI has been  
8 growing the company with some isolated periods where we have sold systems for different  
9 reasons.

10 **Q. Is Utilities, Inc. currently in an acquisition mode?**

11 A. As Mr. Fletcher points out, Utilities, Inc.'s website identifies Utilities, Inc.'s growth  
12 strategy and the benefits of that strategy. So the answer is "yes", as we are actively looking  
13 to acquire additional utility systems that grow the company. Mr. Fletcher insinuates that  
14 this is somehow inconsistent with the past divestitures. As previously noted, strategic  
15 divestitures are the normal part of the corporate strategy of many companies, and not just  
16 those who own and operate utility companies.

17 Today, Utilities, Inc. is backed by a private equity owner with extensive capital to fuel the  
18 company's continued growth. That renewed growth trend is already showing itself with  
19 three acquisitions completed in 2013 and another two earlier this year. There are a number  
20 of other acquisitions are currently under contract, which combined with the acquisitions  
21 already complete add over 10,000 ERCs.

22 **Q. Would you comment on Mr. Fletcher's remarks regarding economies of scale?**

23 A. Yes. Mr. Wenz's comments in the Wedgefield transfer proceeding is equally applicable  
24 today. Utilities, Inc. could back then, and can today, provide a benefit to customers through  
25 economies of scale and professional operations and management. Wedgefield was a

1 developer-owned stand alone utility that had no ability to offer any economies of scale by  
2 spreading professional operations and management over a large number of customers.

3 **Q. Do you have any additional comments?**

4 A. Yes, I do. Even during the period of some strategic divestments, Utilities, Inc. continued  
5 to make significant capital investments in its systems in order to improve quality of service  
6 and compliance with all water quality standards. There is no shortage of infrastructure  
7 needs, particularly in the water industry, and keeping pace with upgrades to the utility  
8 systems is critical now and will be going forward. As mentioned previously, the company  
9 has access to private capital to address these needs, however, it is essential that the  
10 company have the ability to provide a fair return on that investment so that that we can  
11 continue to attract the capital needed to improve water service to current and future  
12 customers throughout the state. Project Phoenix was just one such investment. The  
13 Company believes it is important to provide a message of regulatory consistency to  
14 investors and rate predictability to customers to insure the needed infrastructure  
15 improvements going forward.

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

17 A. Yes, it does.

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1 **BY MR. FRIEDMAN:**

2 **Q** Would you please give a short summary of your  
3 prefiled testimony?

4 **A** I'd be happy to. Utilities, Inc. has been in  
5 business for nearly fifty years, and in that time we  
6 have grown to be one of the largest investor-owned water  
7 and wastewater companies in the country. And, actually,  
8 our largest presence is here in Florida. Over that time  
9 our strategy has always been to invest in, to acquire,  
10 to grow those systems, and primarily in areas where  
11 municipalities can't get to them, where developers can't  
12 provide that service, so we step in as the utility in  
13 those cases.

14 But over the years we have also sold some  
15 systems. So this isn't new, divestments are not new.  
16 Some of the reasons for that, the primary reason is not  
17 really to generate cash to deliver back to investors,  
18 but primarily to reinvest in our other systems. And we  
19 have done a lot of that over the years. But in the time  
20 we're talking about here, in the last ten years, we have  
21 reinvested close to half a billion dollars in our  
22 systems, and part of that was generated through some of  
23 the sales of the systems.

24 But there is also other strategic reasons why  
25 we would divest. It could be a case where a



1 municipality had grown out to where we serve now, and  
2 they would like to acquire the system and make it part  
3 of their own system. In that case, condemnation is  
4 generally what we see. It's either the actual  
5 condemnation or a threat of condemnation that we wind up  
6 giving that system --

7 **MR. SAYLER:** Objection, outside the scope of  
8 his testimony. He's summarizing things about  
9 condemnations or municipalities surrounding utilities as  
10 a reason for selling. That is certainly outside the  
11 scope of what he testified in his prefiled testimony.

12 **MR. FRIEDMAN:** (Inaudible; microphone off.)  
13 He does deal with how the company deals with strategic  
14 divestments, and I think that's what he was talking  
15 about. He was just detailing his strategic divestments.

16 **MR. SAYLER:** If someone has a question about  
17 why they do strategic divestments, then he can certainly  
18 answer that, but I don't think it's proper for the  
19 summary of his testimony.

20 **COMMISSIONER BRISÉ:** Okay.

21 **MR. FRIEDMAN:** Would you continue?

22 **THE WITNESS:** We will move on. In 2012, the  
23 end of 2012, we came under new ownership. And that new  
24 ownership brings with it a significant look at an  
25 interest in continuing to grow the company. So in that

1 time we've acquired five systems, we've got four others  
2 under contract, we've got considerable others pending.  
3 So since 2008 through the, I guess, the total effect of  
4 the divestments we have had, the acquisitions we have  
5 made and the ones that we have under contract, we are  
6 looking at still a reduction in the ERCs to the extent  
7 of about 25,000 ERCs, or about 8 percent. But we are in  
8 growth mode. And we expect to -- with the acquisitions  
9 we have on the horizon, we expect to be up above where  
10 we were in 2008 very shortly.

11 **MR. SAYLER:** Same objection, Commissioners.

12 **COMMISSIONER BRISÉ:** Okay. I'm trying to  
13 identify where in your testimony you are talking about  
14 growth, and I'm looking at Page 1 and 2 where it says is  
15 Utilities, Inc. currently in an acquisition mode. And I  
16 can see how loosely that is related to what you're  
17 talking about, but if you could make your summary really  
18 truly a summary of your testimony.

19 **THE WITNESS:** I am to the end.

20 **COMMISSIONER BRISÉ:** Okay.

21 **THE WITNESS:** I appreciate that. Basically,  
22 the Phoenix investment that we have made has and will  
23 continue to provide benefits to the customers, and it  
24 will continue to provide that as we go forward. So the  
25 adjustments that we have been seeing in prior rate cases

1 and what we're here today to talk about we feel is  
2 unwarranted and why we are here to talk about it.

3 That concludes.

4 **COMMISSIONER BRISÉ:** All right. Mr. Friedman.

5 **MR. FRIEDMAN:** I have no other questions. I  
6 just made a note to remind myself to admit his prefiled  
7 testimony at the end. That's the best that I can do  
8 now, Ms. Helton.

9 **COMMISSIONER BRISÉ:** Do you want to enter his  
10 Prefiled Rebuttal Testimony into the record as though  
11 read at this time?

12 **MR. FRIEDMAN:** All right. Then I would so  
13 move.

14 **COMMISSIONER BRISÉ:** All right. Thank you.  
15 Seeing no objections. All right. Thank you.

16 So now I think you will tender him for  
17 cross-examination.

18 **MR. FRIEDMAN:** I do. I apologize. Yes, sir.

19 **CROSS EXAMINATION**

20 **BY MR. SAYLER:**

21 **Q** Good afternoon, Mr. Hoy. How are you?

22 **A** Good afternoon. Very well.

23 **Q** Pretty good. To aid in your  
24 cross-examination, Utilities, Inc. had passed out a  
25 couple of exhibits. One is final Order PSC-12-0102. Do

1 have you a copy of that?

2 **A** I do not have that in front of me. I  
3 apologize.

4 **Q** And maybe your counsel -- similarly, there's  
5 another PSC order concerning the Alafaya utility, that's  
6 PSC 10-0719. Do you have a copy of that?

7 **A** I do not have that, either.

8 **Q** And, also, do you have a copy of Bart's  
9 Exhibit SBF-1A? We can provide you a copy of SBF-1A. I  
10 don't have extra copies of --

11 **A** I have 1, but not 1A. So I do not have the  
12 amended exhibit.

13 **Q** 1 is fine. I think both were admitted into  
14 the record, is that correct?

15 **COMMISSIONER BRISÉ:** That's correct.

16 **BY MR. SAYLER:**

17 **Q** Then it will be the same question whether it  
18 was on SBF-1 or 1A.

19 **A** Okay.

20 **Q** But I would like to ask you some questions  
21 about the Aqua final order. You said you don't have a  
22 copy of it. Can someone find a copy for him?

23 **MR. FRIEDMAN:** Bart, do you have --  
24 (Inaudible; microphone off.)

25 **COMMISSIONER BRISÉ:** Let's do this. We will

1 have somebody from our staff make that available to the  
2 witness.

3 **BY MR. SAYLER:**

4 Q And the last exhibit was the cross-examination  
5 exhibit related to discovery responses we're objecting  
6 to, and I believe you have a copy of that.

7 A I do.

8 Q Okay. Let me know when you have a copy of the  
9 Aqua order. It is PSC-12-0102-FOF-WS.

10 A Yes, I have that.

11 Q All right. And do you understand that when a  
12 Commission order has the initials FOF at the end, that  
13 means that it's a final order, is that correct?

14 A Yes.

15 Q Would you please turn to Page 113, or the page  
16 at the top that's listed 113?

17 A I'm there.

18 Q All right. Mr. Friedman asked some questions  
19 of Mr. Fletcher regarding this order. Isn't it true  
20 that the Commission made a very similar adjustment to  
21 computer costs for Aqua Florida that was made also for  
22 two Utilities, Inc. Phoenix Project costs?

23 A I'm sorry, was that a question?

24 Q Yes. Isn't it true that the Commission in  
25 this final order addressed how to allocate costs as it

1 relates to various subsidiaries? And if the  
2 subsidiaries are sold, the costs previously allocated to  
3 the subsidiaries would not be reallocated to the  
4 surviving utilities, because no added benefit was  
5 realized by the remaining subsidiaries. Isn't it true  
6 the Commission made this adjustment in this final order?

7 **A** From my review of the order, just this part of  
8 the order, it appeared different than what we're talking  
9 about today in that the divestments were made -- it  
10 looked like the divestments were made prior to the  
11 allocation and, therefore, it was just concluded that no  
12 adjustment was made and no adjustment should have been  
13 made. At least that's my reading of it.

14 **Q** Okay. If you'll look down at that middle  
15 paragraph where it starts off, "Recently, in several  
16 rate cases for Utilities, Inc.," and midway through that  
17 paragraph starting off with, "However," would you read  
18 those two sentences?

19 **A** "However, if subsidiaries are sold, the costs  
20 previously allocated to subsidiaries should not be  
21 reallocated to the surviving utilities because no added  
22 benefit was realized by the remaining subsidiaries. The  
23 rationale for this adjustment is that customers receive  
24 no additional benefit from this development. While the  
25 decision cited is a final order, we note that UI has

1 protested this adjustment in a case from a sister  
2 utility."

3 Q Okay. So isn't it true that the Commission  
4 has previously determined not only for Utilities, Inc.,  
5 but another utility that it is not appropriate to -- or  
6 it's appropriate to make those adjustments because  
7 customers receive no additional benefit from that  
8 investment, isn't that what the order states?

9 A That is here in the order. However, I would  
10 say that it appears that the rationale for the Aqua  
11 adjustment was based on the Utilities, Inc. adjustment  
12 of which -- for which we are protesting and are here  
13 today to talk about.

14 Q Looking in that paragraph where you see Order  
15 No. PSC-10-0585-PAA-WS, do you see that?

16 A I'm sorry, another -- in that order?

17 Q Yes, in that same paragraph right above the  
18 sentence you just read.

19 A Yes.

20 Q All right. That is a Utilities, Inc. order,  
21 is that correct, PAA order?

22 A I believe that's correct.

23 Q And did Utilities, Inc. protest this order?

24 A I'm not aware of whether we protested this  
25 particular order, but I do know we have protested

1 others.

2 Q Okay. Isn't it true that Utilities, Inc. did  
3 not protest this order, and that's why it's considered a  
4 final order by the Commission?

5 A Protest the Utilities, Inc. order, is that  
6 your question?

7 Q Yes. Did Utilities, Inc. protest that order  
8 referenced in this Aqua Utilities of Florida order?  
9 Yes; no; I don't know.

10 A I'm not certain about this particular order.  
11 But I do know that we have protested the adjustment in  
12 subsequent orders.

13 Q Sure. Okay. And when Utilities, Inc. first  
14 protested this adjustment, isn't it true that it was in  
15 the Utilities, Inc. Eagle Ridge docket?

16 A I believe a formal protest in that docket,  
17 yes.

18 Q Okay. And that PAA order that was protested  
19 was PSC-11-0587-PAA-SU in Docket Number 110153?

20 A I believe that's the case, yes.

21 Q All right. And that order was issued on  
22 December 21st, 2011, subject to check?

23 A Subject to check, I believe that's correct.

24 Q Okay. And the order number referenced in this  
25 paragraph is PSC-10, which refers that it's a 2010



1 order. And if you'll take my assertions that that order  
2 was issued on September 22nd, 2010, and to my knowledge  
3 Utilities, Inc. did not protest this order, isn't that  
4 correct?

5 **A** I believe that's correct.

6 **Q** Okay. So you would agree, then, since this  
7 adjustment was made in this Aqua Utilities final order  
8 that this Commission's adjustment methodology that it  
9 uses for when a utility such as Aqua Utilities of  
10 Florida or Utilities, Inc. makes divestitures, you would  
11 agree that this is not really a case of first impression  
12 in this proceeding. It may be a case of first  
13 impression for Utilities, Inc., but it's not a first  
14 impression for this Commission, isn't that true?

15 **MR. FRIEDMAN:** I object to the question to the  
16 extent that calling something a case of first impression  
17 connotes some legal knowledge of what that really means.  
18 And he's not a lawyer, and he's not here as a law  
19 witness, he's here as a fact witness.

20 **COMMISSIONER BRISÉ:** Okay. I would agree. If  
21 you could find another way to find the answer.

22 **MR. SAYLER:** Sure.

23 **BY MR. SAYLER:**

24 **Q** In addition to the Commission making this  
25 adjustment for Utilities, Inc. and its various

1 divestitures of subsidiaries, isn't it true that the  
2 Commission has made it for Aqua Utilities of Florida?

3 **A** Again, I would refer back to my prior  
4 statement where in looking at the Aqua order, it  
5 didn't -- it did not look -- it was a question of  
6 whether the allocation was made to those systems and was  
7 a different case, and, therefore, was not the same  
8 adjustment that we're talking about here. That's my  
9 reading of the order.

10 **Q** Okay. Do you have a copy of Mr. Fletcher's  
11 SBF-1 or 1A before you?

12 **A** I have SBF-1, yes.

13 **Q** Okay. If you look in the column that says  
14 adjustments for divestiture, do you see that column?

15 **A** Yes.

16 **Q** If you go down to the first time it says yes,  
17 do you see that?

18 **A** Yes.

19 **Q** What's the date of that PAA order?

20 **A** From the schedule it is June 18, 2010.

21 **Q** All right. Was that order protested by  
22 Utilities, Inc.?

23 **A** As far as I know, we did not.

24 **Q** Okay. The next one that's dated 6/21/2010 for  
25 Utilities, Inc. of Longwood, was that PAA order

1 protested by Utilities, Inc.?

2 **A** Again, as far as I know it was not.

3 **Q** All right. For the orders -- and I'll just  
4 move along -- for the orders issued July of 2010,  
5 September of 2010, November of 2010, were any of those  
6 protested by Utilities, Inc.?

7 **A** I believe the answer is no.

8 **Q** Okay. Same question for the January of 2011  
9 and November of 2011, were those two orders protested?

10 **A** I'm sorry, which one are you talking about?

11 **Q** The January of 2011 and the November of 2011,  
12 were any of those orders protested?

13 **A** I do not believe so.

14 **Q** Okay. So if I do my math, the Commission  
15 started making the Project Phoenix order adjustment in  
16 these seven PAA orders which went unprotested, isn't  
17 that correct?

18 **A** That's correct.

19 **Q** Okay. Would you please refer to the other  
20 exhibit that your counsel developed for Mr. Fletcher,  
21 that's PSC-10-0719-FOF?

22 **A** Okay.

23 **Q** You would agree that this concerns a transfer  
24 of the Alafaya utility to the City of Oviedo, is that  
25 correct?

1           **A**    Yes.

2           **Q**    Was the Alafaya utility sold to the City of  
3 Oviedo?

4           **A**    I did not hear the question.

5           **Q**    Was this utility sold to the City of Oviedo?

6           **A**    Yes, it was.

7           **Q**    Okay. Now, when it was sold to the City of  
8 Oviedo, isn't it true that Utilities, Inc. received more  
9 than rate base for this system?

10          **A**    I was not directly involved in the sale, but I  
11 believe that is the case.

12          **Q**    Okay. So the utility did not sell this for a  
13 loss?

14          **A**    Not this one.

15          **Q**    Okay. And I know you're not an attorney, but  
16 is the threat of condemnation different from an actual  
17 condemnation proceeding?

18          **A**    As far as I understand, the answer is yes.

19          **Q**    Thank you. That's enough.

20                    If you will turn to the cross-examination  
21 exhibit that I proffered, it has Witness Danielson and  
22 Hoy listed at the top. Do you have a copy of that?

23          **A**    I do.

24          **Q**    If you'll turn to the last two pages.

25                    **MR. SAYLER:** And, Commissioners, I still

1 maintain our objection to this exhibit, our standing  
2 objection. We still believe it's hearsay. But in the  
3 abundance of caution, I do have a few questions in case  
4 the higher court decides it's not hearsay, so I do have  
5 some questions for the witness.

6 **BY MR. SAYLER:**

7 **Q** Isn't it true that this hearing that we are  
8 here today on, the Phoenix Project adjustment, isn't it  
9 true that that hearing date was set in January of this  
10 year?

11 **A** I'm not aware of the actual date when it was  
12 set.

13 **Q** All right. Subject to check or subject to  
14 verification that the order establishing procedure which  
15 sets forth the hearing dates was issued in January of  
16 this year, is that correct?

17 **A** Subject to check, yes.

18 **Q** Okay. And subject to check, didn't the Office  
19 of Public Counsel serve its first set of interrogatories  
20 and request for production of documents in late January?

21 **MR. FRIEDMAN:** You know, I object to any  
22 question that says subject to check. Either a witness  
23 knows the answer or the witness does not know the  
24 answer. I don't think, quote, subject to check are  
25 appropriate questions, because we never get the check.

1 The case is closed, and I just think that's not -- I  
2 know that it regularly happens at the Commission, I have  
3 never liked it, and I'm voicing my displeasure with that  
4 question or any answer that says I'll check later as an  
5 appropriate question or answer.

6 **COMMISSIONER BRISÉ:** Sure. Duly noted.

7 **MR. SAYLER:** With your indulgence, I'm asking  
8 Ms. Merchant to show the witness a copy of our first set  
9 of discovery just to confirm that the date that it was  
10 served was January 28th. I apologize, I don't have  
11 copies for everybody else.

12 **BY MR. SAYLER:**

13 **Q** Isn't it true that our first set of request  
14 for production of documents was served on January 28th  
15 of 2014?

16 **A** Yes. The date filed on this is January 28th.

17 **Q** All right. Thank you. When you look at that  
18 page here, I will show it to you, it's the second to the  
19 last page, it has got two black columns indicating that  
20 some of this information is redacted?

21 **A** I see that.

22 **Q** And you will see a list of various names of  
23 individuals that worked on this, I guess, this case; is  
24 that correct?

25 **A** Yes.

1           **Q**     Okay.  And these are Utilities, Inc. or Water  
2 Services employees?

3           **A**     Yes, they are Water Service Corp employees.

4           **Q**     Okay.  And the first line shows for Ms. Erin  
5 Aquilino, do you see that?

6           **A**     Yes.

7           **Q**     And it says assistant responding to discovery  
8 requests?

9           **A**     Yes.

10          **Q**     And if you look down in the column at the very  
11 bottom where it shows her name being listed, if you'll  
12 scan through that and tell me the last time that she  
13 actually billed any time to this docket.

14          **A**     I see November 30th, 2012.

15          **Q**     Okay.  So the last time she worked on this  
16 docket was November 30th, 2012, yet the first time we  
17 served formal discovery in this docket is in January of  
18 2014, isn't that true?

19          **A**     Well, this proceeding --

20          **Q**     Isn't that true?

21          **A**     For this particular docket --

22          **Q**     Yes or no, and then give me your explanation,  
23 please.

24          **A**     I do not believe so --

25          **Q**     Okay.

1           **A**     -- to the second part of the question.

2                   **COMMISSIONER BRISÉ:** You can provide an  
3 explanation.

4                   **THE WITNESS:** Yes. I mean, this docket was  
5 opened a number of years ago to deal with a number of  
6 issues regarding adjustments that have been made in rate  
7 cases. As has been previously discussed, a number of  
8 those issues were settled and agreed to. The one  
9 remaining issue has been the Project Phoenix issue, and  
10 that's what we're here to talk about today. But the  
11 expense associated with the proceeding is all here.

12 **BY MR. SAYLER:**

13           **Q**     Okay. Did Ms. Aquilino perform any duties on  
14 this case after January 2014?

15           **A**     I do not believe so.

16           **Q**     All right. Would you look at the lines for  
17 Mr. Darrien Pitts?

18           **A**     Yes.

19           **Q**     Did he perform any duties after January 2014?

20           **A**     After what date?

21           **Q**     January of 2014. Isn't it true that he hasn't  
22 performed any --

23           **A**     I do not see any, no.

24           **Q**     Okay. Thank you.

25                   What is cap project?



1           **A**     A cap project is a separate project we open up  
2 for the purpose of deferring the expense for recovery at  
3 a future time.

4           **Q**     Now, when you look under the explanation of  
5 March, you actually see some billing from Mr. Patrick  
6 Flynn for the generic docket. Do you see that, about  
7 halfway down on that first page?

8           **A**     Yes, I do.

9           **Q**     But nobody else actually billed to the generic  
10 docket, it just says cap project, correct?

11          **A**     Correct.

12          **Q**     So this cap project could be the generic  
13 docket, or it could be some other project that the  
14 utility is seeking deferral of expenses, is that  
15 correct?

16          **A**     No, no. You have to go to the separate  
17 project number. For our time reporting system, you have  
18 the ability to put in a comment, and Patrick Flynn must  
19 have put in generic docket to the comment, where  
20 everybody else just charged the number.

21          **Q**     Okay. Under estimate for remaining hours,  
22 Ms. Sharon Wiorek has been excused, so she won't be  
23 incurring \$960, is that correct?

24          **A**     Looking at this statement, I'm not sure to  
25 what period this goes through. So she may have had

1 additional time since this was put together, but you're  
2 correct that she did not have to appear today, and  
3 therefore will not be charging time for the time today.

4 **Q** And Mr. Lubertozzi, he is not here today, is  
5 that correct?

6 **A** He is not.

7 **MR. SAYLER:** Okay. Thank you for your  
8 responses.

9 **THE WITNESS:** Thank you.

10 **MR. SAYLER:** No further questions.

11 **COMMISSIONER BRISÉ:** Okay. Staff.

12 **MS. BARRERA:** Yes, Commissioner, I just have a  
13 couple of questions, namely six.

14 **CROSS EXAMINATION**

15 **BY MS. BARRERA:**

16 **Q** Mr. Hoy, has UI submitted -- well, is it  
17 correct to say that UI submitted documentation regarding  
18 the amount of rate case expense generated by your work  
19 on this particular docket?

20 **A** I'm sorry, generated by my work?

21 **Q** Yes.

22 **A** I am not the rate case expense witness. I  
23 mean, that was Sharon Wiorek who is not here today.

24 **Q** Okay. Would your fee for services in this  
25 docket be separate and apart from your regular salary?

1           **A**     No. As you'll see in the time that was  
2 recorded for this docket, you'll see my name appear, as  
3 well.

4           **Q**     Okay. And would you agree that in Witness  
5 Wiorek's testimony the utility is requesting rate case  
6 expense of approximately \$240,000?

7           **A**     I believe that's an estimate, an updated  
8 estimate at a point in time a number of weeks ago.

9           **Q**     And do you know the revenue requirement amount  
10 associated with this issue, the rate case expense?

11          **A**     I don't have an exact estimate, but we  
12 wouldn't be here today if it was minimal. The  
13 adjustments that have been made in all of our cases are  
14 significant, and it's also presently going forward,  
15 because we are seeing a future where the adjustment will  
16 continue to be made. Even though we are in growth mode  
17 and adding customers, we felt it was a time now to come  
18 in -- and in the case with Eagle Ridge, take on these  
19 issues, go to a generic docket, and try to plead our  
20 case.

21                   We have pled that case in all the adjustments.  
22 We used the PAA process for all of our cases because we  
23 try to minimize rate case expense and try to be  
24 expeditious about it. We did not have an opportunity  
25 during those cases to really provide ample opportunity

1 to do exactly what we are doing today about the Project  
2 Phoenix adjustments, so that's why we are here today.

3 **MS. BARRERA:** I have no more questions. Thank  
4 you.

5 **COMMISSIONER BRISÉ:** Commissioners?  
6 Commissioner Balbis.

7 **COMMISSIONER BALBIS:** Thank you, Mr. Hoy. And  
8 thank you for your testimony.

9 You mentioned in your testimony that the  
10 company now, because of a change in ownership, is in  
11 acquisition mode. Are you involved in the negotiation  
12 of the acquisitions or the divestitures?

13 **THE WITNESS:** I've been involved in the  
14 high-level discussions about acquisitions. I have not  
15 been directly involved in the negotiations.

16 **COMMISSIONER BALBIS:** Okay. So in what you  
17 have been involved with -- let's focus on divestitures.  
18 Do you or does the company take into account the loss of  
19 revenues in determining what the appropriate sale price  
20 would be?

21 **THE WITNESS:** Yes, that would be one factor.

22 **COMMISSIONER BALBIS:** Okay. And the allocated  
23 portions of the Project Phoenix would be included in  
24 those revenues, correct?

25 **THE WITNESS:** To some extent they would, yes.

1                   **COMMISSIONER BALBIS:** Okay. And I guess my  
2 line of thought is in negotiating the divestitures, you  
3 are taking into account that the company is no longer  
4 going to collect those revenues, which include their  
5 portion of the Phoenix Project costs, and, therefore,  
6 that's used as part of the negotiating tool to get a  
7 higher sale price.

8                   **THE WITNESS:** Well, I would say that the  
9 primary basis for what you might sell for, and obviously  
10 it matters to the buyer what they're willing to pay for  
11 it, is the investment, the investment we have in the  
12 systems. And that's what we look at, and that's what  
13 the buyer looks at, at what they're acquiring. They did  
14 not acquire a piece of Phoenix. So the person or the  
15 entity who bought the systems had to get their own  
16 customer systems, their own finance systems, or fold it  
17 into theirs. So that really, from my perspective,  
18 didn't look like a basis for how you would determine the  
19 value.

20                   **COMMISSIONER BALBIS:** No. And I'm just  
21 putting my Utilities, Inc. hat on when I'm negotiating  
22 this. And as you stated, which I'm not sure whatever  
23 happened, but you were looking at the potential loss in  
24 revenues, as you stated previously, in negotiating the  
25 price. So although whether or not the buyer is buying a

1 portion of Phoenix isn't really relevant to Utilities,  
2 Inc. One of the considerations is your loss of revenue,  
3 not just the investment.

4 **THE WITNESS:** Well, like I said, it's one  
5 thing that would be considered, but not the primary one.  
6 So I think value is determined in a number of ways, and  
7 it really comes down to the value of what buyers are  
8 willing to pay for it, and then what we are willing to  
9 sell.

10 **COMMISSIONER BALBIS:** And I guess what I'm  
11 trying to flesh out is, since you're looking at your  
12 loss in revenue, and that revenue includes a portion of  
13 Project Phoenix, is the utility gaining a benefit  
14 through the negotiation process because they have to  
15 account for that loss of revenue regardless of them  
16 buying Phoenix Project or not? Do you understand?

17 **THE WITNESS:** I understand, but I don't think  
18 that's necessarily the case. Because there are some  
19 systems that we sold for a loss. And, therefore, you  
20 know, had to take a loss on the sale, so there revenue  
21 may not have been the factor.

22 **COMMISSIONER BALBIS:** Okay. And then in 2009,  
23 or when the Phoenix Project first became operational, or  
24 the rate case was processed through here, how many  
25 systems did you have?

1           **THE WITNESS:** I don't have an exact count, and  
2 systems is a relative term. We had -- again, I would  
3 have to go back to the ERCs, that we had about 296,000  
4 ERCs at the time.

5           **COMMISSIONER BALBIS:** Okay. So the number of  
6 systems isn't really relevant then, it's just the number  
7 of ERCs?

8           **THE WITNESS:** Yes. Because the way the  
9 allocation works is the project cost, the system cost is  
10 allocated per ERC, and that is -- actually, when we  
11 changed from our prior system to our JDE system, we went  
12 to the ERC allocation methodology, which is what Florida  
13 requires. So that's how the costs are allocated.

14           **COMMISSIONER BALBIS:** Okay. And I'm trying to  
15 gauge the level of complexity. So you're saying the  
16 number of systems is not as important as the number of  
17 ERCs.

18           **THE WITNESS:** Well, in terms of the allocation  
19 the ERCs are important. The number of systems, number  
20 of tariffs, number of customers, that enters into the  
21 complexity on the customer system side. Then the  
22 different business units would be the complexity on the  
23 accounting side.

24           **COMMISSIONER BALBIS:** Do you know in the  
25 systems that have been divested, does the buying

1 utility, do they continue with the same rates and  
2 tariffs?

3 **THE WITNESS:** It varies. Again, the system  
4 that is, is sold or sold on a threat of condemnation to  
5 a municipality. The municipality generally may  
6 incorporate it into their own system and their own  
7 rates. If it's sold to an independent entity, one that  
8 may be regulated by the Commission here, then that's up  
9 to the Commission to decide.

10 **COMMISSIONER BALBIS:** Okay. And then my last  
11 question. Now that you are in acquisition mode and  
12 there has been a lot of discussion of the economies of  
13 scale and benefits to acquisition, do you -- does the  
14 company and do the customers realize any benefits from  
15 an acquisition, I guess, is my first question?

16 **THE WITNESS:** Oh, I believe so. I mean, they  
17 get the economies of scale going the other way.

18 **COMMISSIONER BALBIS:** And how and when do you  
19 pass those on to the customers?

20 **THE WITNESS:** They would get passed on at the  
21 next rate proceeding. As rates are determined over --  
22 yes, that's the case. But the allocations would happen  
23 right away. So, for example, if we bought a system in  
24 another state that they would get a higher allocation  
25 than Florida may, for example, or a system in Florida.



1 And, therefore, at the time of the next rate case that  
2 lower allocation for those customers would be passed  
3 through to those customers.

4 **COMMISSIONER BALBIS:** Could you repeat that?

5 **THE WITNESS:** Sure. So if we were -- I guess  
6 it doesn't matter what state it is, but if we were to  
7 acquire -- and it doesn't matter whether it's an  
8 acquisition or generic growth or organic growth, more  
9 customers that would be added to the system would spread  
10 the fixed costs of the system over a broader base of  
11 customers. That allocation happens every month as we  
12 allocate those costs down, and at the time of the next  
13 rate proceeding those costs would be included in that  
14 rate case.

15 **COMMISSIONER BALBIS:** Okay. Thank you.

16 **COMMISSIONER BRISÉ:** Commissioner Brown.

17 **COMMISSIONER BROWN:** How did you know?

18 Good afternoon, Mr. Hoy.

19 **THE WITNESS:** Good afternoon.

20 **COMMISSIONER BROWN:** Nice to meet you and put  
21 a name with a face.

22 **THE WITNESS:** Same here.

23 **COMMISSIONER BROWN:** Thank you. I just have  
24 one question, kind of a follow-up regarding the  
25 benefits, but really specifically the benefits regarding

1 the Phoenix Project to the remaining subsidiaries.

2           Could you -- you provide a little bit of  
3 statement about the benefit to customers through  
4 economies of scale and professional operations and  
5 management in your testimony, but I'd like to give you  
6 an opportunity to elaborate on what you perceive the  
7 benefit is, not just to the customers of the Phoenix  
8 Project, but also, in the terms of staff's analysis, the  
9 remaining, the remaining surviving systems.

10           **THE WITNESS:** Well, I think the benefit was  
11 and continues to be, you know, advanced systems. We had  
12 not invested in systems for quite a period of time. So  
13 it wasn't a matter of whether we should, but what we  
14 should do, and made that decision back in 2006 and '07.  
15 And the customers have seen those benefits. I mean, our  
16 bills contain a significant amount more information than  
17 customers have been getting in the past.

18           We offer, you know, billing options that we  
19 couldn't do in the past. We also have an accounting  
20 system that allows us to track and provide the kind of  
21 information that this Commission is looking for on a  
22 routine basis, whether it's an annual report, whether  
23 it's filings like this, whether it's adjusting, you  
24 know, the depreciation rate from six years to eight to  
25 ten years, we need a system that allows us to do that.

1 Because it would be very cumbersome, very tedious if we  
2 didn't have that kind of system.

3 So I think the benefits were there for  
4 customers. It's going to fluctuate, you know, as  
5 customers come in and out. And I wouldn't say we  
6 weren't -- we're back in growth mode, I mean, we're  
7 focused more on growth today, but we have been growing.  
8 We have been adding customers within our systems, even  
9 at the time we were divesting. So those customers were  
10 getting that benefit and continue to get that benefit.

11 **COMMISSIONER BROWN:** Thank you. And, also, in  
12 opening statements it was mentioned that there has been  
13 a decrease of about 14 percent of the ERCs since 2009.  
14 But I believe it was stated that some of the decrease  
15 was offset with natural growth in existing systems or  
16 acquisitions. Can you quantify what percentage that is?

17 **THE WITNESS:** Yes. Today, and I mentioned in  
18 my opening statement, that we are down about 8 percent  
19 in terms of total ERCs from where we were at the end of  
20 2008. We were never down much more than 10. So the  
21 combination of the divestments, the organic growth and  
22 acquisitions. And as I also mentioned, we've got about  
23 four acquisitions that are currently under contract. We  
24 have got a number of others that are pending, so I would  
25 expect that 8 percent is going to be down to zero fairly

1 soon.

2 **COMMISSIONER BROWN:** Thank you.

3 **COMMISSIONER BRISÉ:** Commissioners, any  
4 further questions?

5 Seeing none, redirect.

6 **REDIRECT EXAMINATION**

7 **BY MR. FRIEDMAN:**

8 **Q** Mr. Hoy, do you remember when Mr. Sayler asked  
9 you about the Aqua case?

10 **A** I do.

11 **Q** And is it true that the basis for which Aqua  
12 was seeking recovery is not the same basis as Utilities,  
13 Inc. is seeking recovery?

14 **A** That's the way I read the order, yes.

15 **Q** And he asked you on rate case expense about  
16 some of the terminology in the rate case expense  
17 schedules, particularly the use of the word discovery.  
18 Do you remember those questions?

19 **A** Yes.

20 **Q** And is it your belief that in using the term -  
21 let me start with some predicate. When this case  
22 started, do you know whether there were questions asked  
23 by the Office of Public Counsel in a number of informal  
24 discovery requests?

25 **A** I believe so, yes.

1           **Q**     And is it your understanding that when the use  
2 of the word discovery in some of those comments were  
3 referring to that early discovery from OPC instead of  
4 like we use the technical/legal discovery that has  
5 occurred since January?

6           **A**     Yes.

7           **MR. FRIEDMAN:** I have no further questions.

8           **COMMISSIONER BRISÉ:** All right. Thank you  
9 very much.

10          **MR. FRIEDMAN:** We have no further witnesses,  
11 either.

12          **COMMISSIONER BRISÉ:** Say that again.

13          **MR. FRIEDMAN:** We have no further witnesses.

14          **COMMISSIONER BRISÉ:** Thank you.

15          Let's deal with the exhibits for Mr. Hoy.

16          **MR. FRIEDMAN:** (Inaudible; microphone off.)

17          **COMMISSIONER BRISÉ:** All right. Mr. Sayler,  
18 did you have any exhibits that you wanted to enter?

19          **MR. SAYLER:** No, sir. Office of Public  
20 Counsel is not moving in any exhibits. And, again, we  
21 still maintain our objection to --

22          **COMMISSIONER BRISÉ:** Sure.

23          **MR. SAYLER:** -- Exhibit 12, Interrogatory 5.

24          **COMMISSIONER BRISÉ:** All right. Thank you.  
25 Ms. Barrera.

1           **MS. BARRERA:** Yes, Commissioner, just a point  
2 of clarification. When we moved Exhibit 12 into the  
3 record, we included, of course, as part of the exhibit  
4 the confidential section of that exhibit, just to  
5 clarify that.

6           **COMMISSIONER BRISÉ:** Sure. Thank you.

7           And, Mr. Hoy, thank you for your testimony  
8 today.

9           **THE WITNESS:** Thank you.

10          **COMMISSIONER BRISÉ:** Okay. So at this time we  
11 are pretty much at the conclusion of our hearing. And  
12 if we can have Ms. Barrera go through the important  
13 dates moving forward.

14          **MS. BARRERA:** Yes, Commissioner. The  
15 transcript of the hearing is due on May 23rd, and briefs  
16 will be due on May 30th. The staff recommendation will  
17 be due on July 31st for the August 12th agenda  
18 conference.

19          **MR. SAYLER:** When are transcripts due again?  
20 Sorry.

21          **MR. FRIEDMAN:** (Inaudible; microphone off.)

22          **MS. BARRERA:** I'm sorry, go ahead.

23          **COMMISSIONER BRISÉ:** Transcripts are due on  
24 the 23rd of May; briefs are due on the 30th of May.

25          **MR. SAYLER:** So seven days to turn around some

1       briefs?

2                   **COMMISSIONER BRISÉ:**  Yes.  And the  
3       recommendation will be due July 31st, and the issue will  
4       be taken up on the August 12th Agenda Conference.

5                   All right.  Is there anything else that needs  
6       to be addressed at this time?

7                   **MS. BARRERA:**  Staff has no matters to address.  
8       I don't believe there's any.

9                   **MR. FRIEDMAN:**  The utility has no matters,  
10      either.  Thank you.

11                  **MR. SAYLER:**  No matters for OPC.

12                  **COMMISSIONER BRISÉ:**  All right.  Thank you  
13      very much.  With that we stand adjourned.

14                  (The hearing concluded at 12:43 p.m.)

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2 COUNTY OF LEON )

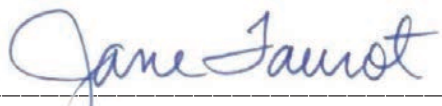
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