

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 120161-WS

ANALYSIS OF UTILITIES,
INC.'S FINANCIAL ACCOUNTING
AND CUSTOMER SERVICE COMPUTER
SYSTEM.
_____ /

PROCEEDINGS: COMMISSION CONFERENCE AGENDA
ITEM NO. 7

COMMISSIONERS
PARTICIPATING: CHAIRMAN ART GRAHAM
COMMISSIONER RONALD A. BRISÉ
COMMISSIONER JULIE I. BROWN

DATE: Thursday, September 4, 2014

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

REPORTED BY: LINDA BOLES, CRR, RPR
Official FPSC Reporter
(850) 413-6734

P R O C E E D I N G S

1
2 **CHAIRMAN GRAHAM:** Item number 7 is a panel.
3 So, Staff, if you would walk us through item 7.

4 **MR. BROWN:** Okay. Good morning,
5 Commissioners. Todd Brown with Commission staff.

6 Item 7 addresses whether any adjustment should
7 be made to UI's financial accounting and customer
8 service computer system, which is commonly referred to
9 by us as the Phoenix Project. The recommendation also
10 addresses the appropriate amount of rate case expense in
11 this docket. There are primary and alternate staff
12 recommendations on both of those issues. Staff is
13 prepared to answer any questions you may have.

14 **CHAIRMAN GRAHAM:** Thank you, staff.

15 Commissioners, any questions of staff? If
16 not, we need to pick a primary, secondary
17 recommendation.

18 Commissioner Brown.

19 **COMMISSIONER BROWN:** Thank you. And this
20 project has been going on, this docket has been going on
21 for about six years and affected other dockets as well.
22 I'm going to focus on primary staff, Mr. Cicchetti.

23 **MR. CICCHETTI:** Good morning, Mr. Chairman,
24 Commissioners. The primary recommendation differs from
25 the status quo and the alternate recommendation in that

1 it recognizes acquisitions. The basic premise of the
2 recommendation is that it's more equitable to recognize
3 divestitures -- or recognize acquisitions as well as
4 divestitures. Because if you continue to recognize
5 divestitures without recognizing acquisitions, you'll
6 get to the point where the company may have the same or
7 more number of customers but not be able to recover the
8 full cost of the project and incur losses.

9 If we recognize acquisitions in a way similar
10 to what we do for used and useful adjustments, in
11 addition to being more equitable, it would send an
12 appropriate price signal, it would ensure that the per
13 ERC cost never increases from the per ERC cost at the
14 time of implementation, and it would allow customers to
15 benefit from economies of scale when the number of
16 customers exceeds the number of customers at the time of
17 implementation. And so I look forward to answering any
18 questions you may have.

19 **COMMISSIONER BROWN:** Thank you for that
20 introduction. I do believe that it is more equitable
21 and fair to account for those acquisitions as we've been
22 accounting for the divestitures. So I'm happy that the
23 primary recommendation got to that place because that's
24 where I was going. But the Witness Danielson stated,
25 and I thought this was compelling during the hearing,

1 that the design of the Phoenix Project was not dependent
2 on the customer count. I was persuaded by that. I
3 don't know how we ever got to the place where -- for
4 cost allocation where we did it based on the ERCs for
5 the subsidiaries. But that being said, I think that the
6 primary staff recommendation is more equitable and fair
7 going forward, and how we treat that regulatory asset
8 for the existing five cases as well as moving forward
9 for the other subsidiaries.

10 Getting to that, what will happen to the
11 regulatory assets created if we approve the primary
12 recommendation after an acquisition is completed for the
13 utilities?

14 **MR. CICCHETTI:** Those will be recognized at
15 the next rate case, and the rates, appropriate rates
16 would be set at that time in the next rate case.

17 **COMMISSIONER BROWN:** What would be the actual
18 effect though including those acquisitions? Would it be
19 a reduction overall to the -- feel free to --

20 **MR. CICCHETTI:** Well, eventually once they got
21 to the point where they have more customers than they
22 had at the time of implementation it would result in a
23 reduction in the per ERC cost.

24 **COMMISSIONER BROWN:** Uh-huh. And then for the
25 other subsidiaries, what will happen when they seek

1 recovery in a rate case? That will apply as well?

2 **MR. CICCHETTI:** Yes.

3 **COMMISSIONER BROWN:** Okay. For purposes of
4 cost allocation.

5 Can we go to the amortization period? We've
6 been a little bit all over the place over the past six
7 years. And I understand that there was testimony
8 proffered by the utility that eight years was -- was it
9 eight years was acceptable; is that correct?

10 **MR. BROWN:** I believe there was a period of
11 time between '6 and '10, and that's testimony that came
12 from another state, Commissioner.

13 **COMMISSIONER BROWN:** Okay. So we've had three
14 cases with six years, we've had five cases with
15 eight years, we've had 14 most recently at ten years.
16 How can we be sure that ten years is the proper
17 amortization period?

18 **MR. CICCHETTI:** Commissioner, I don't think
19 there's anything that can guarantee it.

20 When we set a -- or when a depreciation rate
21 is set, it's based on the best estimate. And I think
22 the testimony that Mr. Brown was referring to said for
23 GAAP purposes six to ten years was reasonable.

24 **COMMISSIONER BROWN:** And they're currently
25 using eight in their books.

1 **MR. CICCHETTI:** Well, I believe that's
2 correct.

3 **MR. BROWN:** I believe that's correct.

4 **MR. CICCHETTI:** But for ratemaking purposes
5 we're using ten.

6 **COMMISSIONER BROWN:** What was the prior
7 amortization period for the legacy system, the prior
8 system?

9 **MR. CICCHETTI:** I'm not sure exactly what that
10 was, but I believe that system was in place for over 20
11 years.

12 **COMMISSIONER BROWN:** I don't have any other
13 questions for issue 1. I do have a couple,
14 Mr. Chairman, for issue 2, but I'll reserve that.

15 **CHAIRMAN GRAHAM:** All right. Let's take up
16 issue 1. Is there a recommendation on which of the two
17 recommendations we take -- is there a motion for which
18 one of the two recommendations we take up?

19 **COMMISSIONER BROWN:** I move the primary staff
20 recommendation on issue 1.

21 **COMMISSIONER BRISÉ:** Second.

22 **CHAIRMAN GRAHAM:** It's been moved and
23 seconded, the primary staff recommendation on issue
24 number 1.

25 (Vote taken.)

1 Seeing no further discussion, all in favor,
2 say aye.

3 (Vote taken)

4 Any opposed? By your action, you have
5 approved the primary staff recommendation on issue
6 number 1.

7 Commissioner Brown, issue number 2.

8 **COMMISSIONER BROWN:** Okay. Got to find it.
9 Hold on. I know we also have a primary and an alternate
10 recommendation which are significantly different and
11 vary. Can we go to the alternate recommendation first
12 on that?

13 **MR. CICCHETTI:** Commissioner, the alternate
14 recommendation differs from the primary in that the
15 alternate recommends no rate case expense be allowed for
16 the Deloitte consultant, and the reason for that being
17 that it's the alternate staff's belief that his
18 testimony did not address an issue in dispute. His
19 testimony addressed the design, the size, the scope, the
20 cost of Project Phoenix, all of which are not in dispute
21 in this docket. His testimony offers no opinion on the
22 appropriateness of the allocation method, which is what
23 was protested in the Eagle Ridge docket.

24 The ruling in the Eagle Ridge docket was that
25 it would not be fair and just to reallocate the costs

1 from the divested systems to the surviving systems, and
2 Mr. Danielson's testimony does not address that at all.
3 It's the, also the alternate staff's recommendation that
4 if Mr. Danielson's testimony was removed from the
5 record, it would not affect the relevant analysis at
6 all. And, consequently, the recommendation is that it's
7 not a reasonable and prudent cost for those reasons and
8 therefore should not be included in rate case expense.

9 **COMMISSIONER BROWN:** Excellent. Do you want
10 to address the hourly rate also for Mr. Danielson? I
11 mean, pardon -- yeah, Mr. Danielson.

12 **MR. CICCHETTI:** It's my understanding that the
13 Commission has never approved a rate that high. \$685 an
14 hour is a significant cost, and I think the Commission
15 has broad discretion with regard to rate case expense
16 and reasonableness. And allowing \$685 per hour for
17 testimony that at least alternate staff doesn't feel
18 addresses an issue in dispute I believe is not
19 reasonable.

20 **COMMISSIONER BROWN:** But all other -- and with
21 regard to the alternate recommendation, all other costs
22 are the same with regard to the primary recommendation.

23 **MR. CICCHETTI:** Except for \$2,080 of legal
24 expense that was identified to be associated with
25 Mr. Danielson's testimony.

1 **COMMISSIONER BROWN:** Mr. Danielson. Thank
2 you. Okay. That's all.

3 **CHAIRMAN GRAHAM:** Commissioner Brisé.

4 **COMMISSIONER BRISÉ:** Yes. If you could,
5 Mr. Brown, walk me through the primary recommendation.

6 **MR. BROWN:** The primary recommendation
7 basically recommends the appropriate rate case expense
8 to be \$129,204. The utility requested approximately
9 \$199,700 in its post-hearing brief. Basically staff's
10 adjustments here, the two largest ones were to the
11 Deloitte expense and Water Service Corp. expense, and
12 those amounts were \$55,460 for Deloitte being a
13 reduction and \$11,860 approximately for the WSC employee
14 expense.

15 **COMMISSIONER BRISÉ:** Okay. So why did primary
16 staff in their recommendation think that it was
17 important to include this in the rate case expense?

18 **MR. BROWN:** The Deloitte costs, sir?

19 **COMMISSIONER BRISÉ:** Yeah.

20 **MR. BROWN:** Because he did testify -- I mean,
21 there was testimony filed in the docket, he participated
22 in, during the discovery phase of the docket. He
23 attended the hearing and also proffered testimony there.

24 **COMMISSIONER BRISÉ:** Is it the Commission's
25 practice that if, for some reason, the testimony isn't

1 used towards a recommendation or included in some of the
2 analysis, that we just throw it out and not cover the
3 expense?

4 **MR. BROWN:** I don't know that that's the
5 Commission's practice, sir.

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

7 **CHAIRMAN GRAHAM:** In the primary
8 recommendation is that, the full cost of that expense
9 allowed, or has it been reduced to what we think is more
10 of a normal charge?

11 **MR. BROWN:** We didn't make an adjustment per
12 se to the hourly expense. I mean, I think the hourly
13 cost was expensive, was very high, but we made
14 reductions in other areas to kind of offset that high
15 cost. Staff reduced over \$55,000 worth of Deloitte
16 expense in this docket, most of that due to the lack of
17 detailed support documentation.

18 **CHAIRMAN GRAHAM:** Okay. Commissioners, I see
19 no further questions, so I entertain a motion.

20 **COMMISSIONER BRISÉ:** Sure. Mr. Chairman, I
21 move the primary recommendation on issue 2.

22 **CHAIRMAN GRAHAM:** It's been moved. Is there a
23 second on the primary recommendation? I will second for
24 discussion. I'd like to hear the reasons why the
25 primary, not the secondary.

1 **COMMISSIONER BRISÉ:** Well, I think that the
2 testimony was included and the individuals came to
3 testify. I think the Commission in the primary
4 recommendation did the appropriate, our staff did the
5 appropriate thing in looking at the expense and making
6 the appropriate adjustments, as we have done in many
7 other cases. And so, therefore, I think it's reasonable
8 for us to move forward with the primary recommendation.

9 **CHAIRMAN GRAHAM:** Any further discussion on
10 the primary recommendation? Seeing none, all in favor,
11 say aye.

12 (Vote taken.)

13 Any opposed?

14 **COMMISSIONER BROWN:** Nay.

15 **CHAIRMAN GRAHAM:** By your action, the primary
16 recommendation passes. So we've moved the primary
17 recommendation on issue number 1, primary recommendation
18 on issue number 2.

19 And we're now to issue number 3. Can I get a
20 motion?

21 **COMMISSIONER BROWN:** Move staff
22 recommendation.

23 **COMMISSIONER BRISÉ:** Second.

24 **CHAIRMAN GRAHAM:** It's been moved and
25 seconded, staff recommendation on issue number 3.

1 Seeing no discussion, all in favor, say aye.

2 (Vote taken.)

3 Any opposed? By your action, you've approved
4 the staff recommendation on issue number 3. Okay. So
5 that concludes item number 7.

6 (Agenda item concluded 9:59 a.m.)

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1 STATE OF FLORIDA)
 : CERTIFICATE OF REPORTER
2 COUNTY OF LEON)

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4 I, LINDA BOLES, CRR, RPR, Official Commission
5 Reporter, do hereby certify that the foregoing
6 proceeding was heard at the time and place herein
7 stated.

8 IT IS FURTHER CERTIFIED that I stenographically
9 reported the said proceedings; that the same has been
10 transcribed under my direct supervision; and that this
11 transcript constitutes a true transcription of my notes
12 of said proceedings.

13 I FURTHER CERTIFY that I am not a relative, employee,
14 attorney or counsel of any of the parties, nor am I a
15 relative or employee of any of the parties' attorney or
16 counsel connected with the action, nor am I financially
17 interested in the action.

18 DATED THIS 8th day of September, 2014.

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