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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida	Docket No. 160101-WS June 20, 2017

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CITIZENS' POST-HEARING BRIEF

The Citizens of the State of Florida, through the Office of Public Counsel, pursuant to the Orders Establishing Procedure (OEP) as amended by Order Nos. PSC-16-0578-PCO-WS, PSC-17-0032-PCO-WS, and PSC-17-0118-PCO-WS, hereby submit this Post-Hearing Brief.

STATEMENT OF BASIC POSITION

This is the first consolidated rate filing of all its systems under the jurisdiction of the Commission by Utilities, Inc. of Florida (UIF, Utility, or Company).

Burden of Proof

It is well established in case and statutory law that UIF has the burden of proof to demonstrate the reasonableness and prudence of the costs for which it seeks recovery in this docket. *Florida Power Corp. v. Cresse*, 413 So. 2d 1187 (1982). Pursuant to Section 367.081, Florida Statutes ("F.S."), "Except as provided in subsection (4) or subsection (6), a utility may only charge rates and charges that have been approved by the commission" and "the commission shall, either upon request or upon its own motion, fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. In every such proceeding, the commission shall consider the value and quality of the service and the cost of providing the service. . . ." The Commission has stated that:

> we are charged with the statutory responsibility of setting rates which are fair and reasonable. *It is neither our nor our staff's responsibility to make the utility's case.* The burden of proof is upon the utility to show that its present rates are unreasonable, fail to compensate the utility for its prudently incurred expenses, and fail to produce a reasonable return on its investment.

Order No. PSC-07-0129-SC-WS, issued February 14, 2007, in Docket No. 060262-WS (emphasis added). The Florida Supreme Court stated in *Cresse* that the "burden of proof in a commission proceeding is always on a utility seeking a rate change. . . ." 413 So. 2d at 1191. Thus, it is UIF's burden to demonstrate by a preponderance of evidence that its current rates are unjust, unreasonable, or insufficient, and that the changes UIF has requested are necessary and will result in rates that are just, reasonable, compensatory, and not unfairly discriminatory. It is neither the Commission's nor its Staff's or OPC's responsibility to help UIF meet its burden of proof or fill any holes or gaps in UIF's requested rate increase.

Filing deficiencies and missing pro forma support

From UIF's initial filing on August 31, 2016, this case has been problematic. On that date, UIF filed its application for rate increase, its minimum filing requirements (MFRs), its pre-filed direct testimony and witness exhibits. The Utility made two deficiency response filings on October 31, 2016 and November 22, 2016 in order to correct substantial deficiencies with its original petition. Although deemed complete by the Commission staff on November 22, 2016, there remained many holes in UIF's original, direct case. For example, UIF essentially included "placeholder" testimony in its application for many of its pro forma projects which contained no documentary evidence to support these pro form projects described in UIF Witness Flynn's direct testimony. UIF's self-inflicted deficiencies have cast a long shadow over this rate case, hampering the Staff and OPC's examination of UIF's direct case. The largest lingering deficiencies relate to UIF's request for pro forma plant investments of more than $30 million.

In its rebuttal case, UIF increased its requested pro forma amount to over $36.85 million. OPC asserts the Commission should not allow UIF to effectively, substantively and materially amend its original petition *on rebuttal* to increase its originally requested rate relief by means of discovery responses or through rebuttal testimony and exhibits. The amount of pro forma for consideration, review, and approval should be limited to the $30 million amount requested in UIF's original petition and supporting documentation (MFRs, testimony, and exhibits) that were deemed complete on November 22, 2016. No additional requests should be considered after UIF filed its direct case, and any originally requested amounts not supported by reliable documentation and evidence should be disallowed.

Unsatisfactory Quality of Service

OPC's quality of service analysis addresses three categories which the Commission should consider in determining the Utility's overall quality of service: (1) quality of the product sold to the customer, including secondary water quality issues; (2) customer complaints resulting from unsatisfactory quality of service; and (3) imprudent reliance on reactive maintenance practices, leading to increased costs and customer complaints. OPC Witness Vandiver testified that 8 out of the 12 systems have multiple quality of service problems with complaints greater than 1%, DEP compliance or complaint problems occurring within the last five years, and/or a history of customer complaints. Further, a review of the quality of service information provided through Staff Witness Hicks testimony demonstrates that there are numerous additional complaints contained in the Commission's Consumer Activity Tracking System (CATS) regarding secondary water quality problems such as bad odor, color, and taste. Moreover, UIF Witness Flynn testified that UIF has no preventative or predictive maintenance programs nor any written maintenance plans. Witness Flynn stated that without additional employees, UIF is relying on reactive maintenance, which negatively impacts the delivery of water and sewer service in a reliable way. (TR 1232) For all these reasons, UIF's quality of service should be deemed unsatisfactory and its return on equity (ROE) should be reduced by a minimum of 150 basis points or 1.5% reduction until it resolves all these unsatisfactory quality of service issues.

Summary of Engineering testimony and evidence

OPC Witness Woodcock provides testimony supporting several adjustments to excessive unaccounted (EUW) for water in various water systems, excessive inflow and infiltration (I&I) in various wastewater systems, and used and useful (U&U) adjustments to various water and wastewater systems. He found EUW in ten systems, excessive I&I in three systems, and made U&U adjustments to seven wastewater plants and two wastewater collection systems.

In addition, Witness Woodcock reviewed UIF's requested pro forma plant additions for both prudence of the project and reasonableness of the costs based upon UIF's MFR's or its responses to discovery requests received within a reasonable time prior to the filing of his testimony. Of the total $30,835,444 requested in UIF's original filing, Mr. Woodcock determined that $21,256,538 was prudent, reasonable and supported by UIF's direct testimony and exhibits.

Appropriate Overall Revenue Requirement

As part of UIF's original petition and supporting information, it requested a $6,915,454 rate increase. OPC Witness Donna Ramas' testimony provided recommended revenue requirement for each of UIF's systems, incorporating her and Witness Woodcock's recommended adjustments. Her Exhibit DMR-2 (HE 114) presents the revenue requirement per Company for each of the systems. Based upon OPC's recommended adjustments, UIF's initial request of $6.9 million should be reduced by at least $4.4 million.

In its rebuttal testimony and exhibits, UIF increased the total amount of its requested pro forma plant from approximately $30 million to $36.85 million. This increase materially and substantially changes UIF's rate case. The $6.85 million in additional plant, if allowed, will increase UIF's original request by approximately $1 million over its original MFRs.

Conclusion

OPC's brief provides a thorough analysis of quality of service, lack of prudent maintenance practices, inadequately supported pro forma projects, bonus depreciation, used and useful, and other issues in this case. Based on the evidence adduced at hearing, OPC recommends a fair and reasonable annual rate increase of $2,250,445.

Attached to this brief is a document entitled: "Brief Exhibits" and it contains OPC's Recommended Adjustment Schedules as well as three tables summarizing all 47 pro forma projects under review.

POSITIONS AND ARGUMENT ON DISPUTED ISSUES

Quality of Service

ISSUE 3: Is the overall quality of service provided by the Utility satisfactory, and, if not, what systems have quality of service issues and what action should be taken by the Commission?

POSITION: *Based on the evidence presented in this docket, UIF's overall quality of service for all systems should be deemed unsatisfactory. UIF has failed to adequately meet secondary water quality standards; has had multiple compliance issues and complaints with DEP; and failure to implement any preventative or predictive maintenance systems. Therefore, UIF's ROE should be cumulatively reduced by a minimum of 150 basis points. *

ARGUMENT:

Section 367.0812, F.S., requires the Commission to consider the extent to which UIF provides water service the meets secondary water quality standards as established by DEP. In addition, Rule 25-30.433(1), F.A.C., specifies what the Commission must consider:

> The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of utility's product (water and wastewater); operational conditions of utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and county health departments or lack thereof over the preceding 3-year period shall also be considered. DEP and county health department officials' testimony concerning quality of service as well as the testimony of utility's customers shall be considered.

OPC Witness Denise Vandiver's testimony provided a summary of the numerous letters, testimony, exhibits and discovery that addresses quality of service issues occurring during the test year. (TR 531) Staff Witness Rhonda Hicks addressed the complaints in the Commission's CATS system and Commission inquiries. In addition, various witnesses testified that UIF lacked any systematic preventative or predictive maintenance system for maintaining its numerous water and wastewater systems. (HE 326)

Witness Vandiver's Testimony

In preparing her testimony, Witness Vandiver reviewed several sources of quality of service information. She reviewed UIF's pre-filed testimony, exhibits and MFRs. (TR 532) She researched the DEP Oculus public database and responses to DEP deficiencies. (TR 532) She assembled the customer letters filed in this docket, complaints filed with UIF's MFR's, and its responses to deficiency letters. In addition, she summarized the customer testimony presented at the eight Customer Service Hearings. (TR 532) Her testimony provided a summary format for the Commission to consider relating to UIF's quality of service. (TR 532)

Witness Vandiver summarized in Exhibit DNV-2 the DEP Quality of Service issues. Most notably for UIF's water systems, there were: (1) one Consent Order for LUSI; and (2) three systems with deficiencies identified for the sanitary surveys for Labrador, Sanlando, and UIF-Pasco. (TR 533) For UIF's wastewater systems, the most notable were: (1) two systems with a consent order for Sandalhaven and Sanlando; and (2) seven systems with deficiencies noted on the Compliance Inspection Report for Cypress Lakes, Eagle Ridge, Lake Placid, LUSI, Mid-County, Pennbrooke, and Sanlando. (TR 534) Commission Staff Witness Kleinfelter from DEP also summarized her findings for 2014 through 2016 regarding UIF's DEP compliance and complaints status (Exhibit JMK-2) and formal enforcement actions (JMK-3). (TR 871) In JMK-2, she included fifteen incidents for UIF's water systems: LUSI, Sanlando, UIF-Seminole, Lake Placid, Cypress Lakes Pennbrooke, and Labrador. (HE 135) Witness Kleinfelter in JMK-2 also included ten incidents for UIF's wastewater systems: Sanlando, Sandalhaven Lake Placid, Eagle Ridge, LUSI, Labrador, Mid-County. (HE 135)

UIF Witness Hoy alleged that, except the one tank replacement at Eagle Ridge, DEP is satisfied with the manner in which UIF is operating its water and wastewater systems. (TR 37) While Witness Kleinfelter testified that none of these non-compliance or enforcement issues seemed unusual or excessive, she acknowledged that she based this assessment in part on the fact that the issues did not reach the district level. (TR 882) However, under cross-examination, Witness Kleinfelter acknowledged that she did not actually analyze the records herself; therefore, it was possible that something could have been missed. (TR 881, 888) She further conceded that she did not conduct any analysis or studies to determine if UIF's level of non-compliance or complaints was excessive or unusual. (TR 883-884) In fact, the Sanlando wastewater consent order was issued based upon the discharge of approximately 750,000 gallons of untreated wastewater into Sweetwater Creek on November 23, 2014. The same consent order indicated that 1,000,000 gallons of treated wastewater effluent was discharged into wetland due to berm breach a few days later. (HE 136) As Witness Vandiver testified, it is important the Commission consider these DEP issues even if the Utility has subsequently come into compliance, because the Utility should not be allowed to operate in a non-compliant manner during the test year and then receive a clean bill of health. (TR 534)

Witness Vandiver reviewed customer complaints and tabulated the quality of service complaints in DNV-3. She noted that water systems had higher rates of complaints than wastewater service. (TR 536) Witness Vandiver calculated an average annual complaint rate by comparing the average number of complaints for 2011-2015 to the total customers at the end of 2015 for each of the systems. Eight systems had an average annual complaint rate greater than 1% which prompted a more in-depth review. (TR 536) Ms. Vandiver discovered a multitude of common issues regarding the color, taste, and smell of the water and low pressure for the following systems: Cypress Lakes, Labrador, Lake Placid, LUSI, UIF-Marion, UIF-Pasco, UIF-Pinellas, and UIF-Seminole. (TR 537)

Witness Vandiver also summarized the 750 customer letters filed in the docket as of the date of her testimony in DNV-4. These complaints included issues related to yet another rate increase for some systems and secondary water quality issues for others. (TR 540-541) Her analysis of the complaints at the customer service hearings also showed that high rates and quality of service were the main focus. (TR 543-544) She included a selected sample of representative complaints in her testimony. (TR 544)

Witness Hoy unsuccessfully attempted to rebut Witness Vandiver's analysis. He tried to argue that these past complaints with DEP and customers do not reflect current conditions. (TR 1493-1494) He also blamed the rate case for the increase in the number of quality of service complaints. (TR1494) However, Witness Vandiver testified that past Commission decisions have frequently determined quality of service based on the Utility's "attempts" to address customer satisfaction. (TR 552) She noted that there was very little evidence provided by UIF to show how it has competently and expediently addressed the secondary water concerns that were repeatedly articulated in customer letters, complaints, and testimony at the Service Hearings. (TR 552) In addition, Witness Vandiver testified that the evidence reflects problems that continue year after year with the quality of water and customer service issues, and DEP violations. (TR 553) These concerns occurred before the test year and during the test year, and are relevant to the determination of the overall quality of service. (TR 553)

Witness Vandiver testified that, even if some of the secondary quality standards may have been resolved, the Commission should still consider whether there is a pattern or history of abuse with respect to the quality standards. If a company has had secondary quality violations for the past five years which have only been resolved within the last two months, the Commission should consider this a long standing problem and should give it greater weight than the fact the problems may have been recently resolved. (TR 563) Furthermore, customer complaints made during the rate case are just as valid as those made at other times. Witness Vandiver noted that this is probably one of the few venues that allows customers the knowledge that they can complain. (TR 581)

Of UIF's 12 systems, the Commission should find unsatisfactory quality of service for the following 8 systems: Cypress Lakes (DEP Deficiencies, >1% average customer complaints, past history of customer complaints), Labrador (prior Commission orders, >1% average customer complaints), LUSI (Consent Order), Mid-County (prior Commission Orders, customer complaints at DEP), Pennbrooke (Current and past history of customer complaints), Sandalhaven (Consent Order), Sanlando (Consent Order, customer complaints at service hearing), UIF-Pasco/Summertree (prior Commission Orders, >1% average customer complaints), and UIF-Seminole (>1% average customer complaints). (TR 554-555) The Commission should reduce the ROE for unsatisfactory systems by a minimum of 50 basis points (systems with history of issues). (TR 555)

Witness Hick's Testimony

Staff Witness Rhonda Hicks testified that there were 218 consumer Complaints logged into the Commission's CATS from January 1, 2010 through December 31, 2016, against UIF in accordance with Rule 25-22.032, F.A.C., the "Customer Complaint Rule." (TR 899) She further testified that of the 218 consumer Complaints logged with the Commission, approximately 68% of the Complaints pertained to billing issues while the remaining 32% related to service issues such as "improper disconnections, outages, and other miscellaneous quality of service issues." (TR 899)

However, the Commission's CATS system does not include any customer complaints or inquiries related to secondary water standards. Witness Hicks testified that the Commission classifies a customer contact regarding a utility as either an information request ("Information Request") or a complaint ("Complaint"). (TR 904) Consequently, none of the 218 consumer Complaints addressed by Witness Hicks in her testimony include any grievances or data from Information Requests. Witness Hicks further explained that a customer contact is deemed to be an Information Request if it pertains to issues that are "outside" the Commission's jurisdiction. (TR 905) She testified that because grievances concerning secondary water quality issues – such as water color, odor or taste – are "outside" the Commission's jurisdiction; therefore, these contacts are categorized as Information Requests, and were not included in her total of 218 Complaints filed against UIF. (TR 905) This appears inconsistent with Section 367.0812, F.S., which mandates that the Commission shall consider all complaints against a utility for secondary water standards filed by customers with the Commission, DEP, a local governmental entity, or county health department for the past five years.

Pursuant to the Rule 25-22.032, F.A.C., there is a defined process for gathering and maintaining customer contacts determined to be Complaints within the Commission's jurisdiction and logged into the CATS system as a Complaint. However, there is no defined process for gathering and maintaining or cataloging customer contacts determined to be Information Requests. (TR 909-910, 913-914)

OPC requested the Complaint files from CATS for each of the Complaints listed in Exhibit RLH-1. In response to OPC's POD No. 1, the Commission provided 1,267 pages of Information Requests from CATS. (TR 906, HE 290)[1] A quick review of customer contacts labeled as Information Requests demonstrates they include a large number of secondary water quality related complaints. There are 823 separate UIF customer contacts among the Information Requests with

[1] On or about April 26, 2017, the Commission made a supplemental response providing 841 pages of the appropriate Complaint related documents as originally requested. (HE 290)

roughly 20% of the customer contacts complaining about secondary water quality issues. (HE 290) Of the sixty-two customers in Seminole county logged in as Information Requests, 25.81% express problems about the water appearing brown in color, the presence of a "black substance" continually coming out of faucets and toilets, and the water is "undrinkable". (HE 290) There are seven Information Requests from Cypress Lakes customers with 52.38% complaining of the cloudiness and poor taste of the water. (HE 290) Labrador has twenty-one Information Requests with 52.38% of customers addressing concerns about the frequency of boil water notices, the water being undrinkable, and the necessity of having to purchase bottled water. (HE 290) There are seventy-one Information Requests related to Pennbrooke with 16.9% complaining of the poor taste of water, the costs of purchasing whole-house filtering systems in order to use the water provided by the Utility, and complaints the water leaves a film on toilets as well as homes. (HE 290) Pinellas has three hundred and eighty-six Information Requests with 24.87% complaining about secondary water quality issues. (HE 290) Tierra Verde has twelve Information Requests with 8.33% of the ratepayers complaining of secondary water quality. (HE 290)

Although Witness Hicks testified that secondary water quality issues were outside the Commission's authority (TR 905), the Legislature in 2014 enacted Section 367.0812, F.S., titled: "Rate fixing; quality of water service as criterion." This statute unequivocally mandates that the Commission consider secondary drinking water standards when setting rates. In order to be considered, such complaints must be appropriately identified and preserved. Here, the Commission's misclassification of secondary drinking water grievances has the effect of segregating and eliminating these complaints from consideration.

In addition, written protests were filed in the docket by customers between February 23, 2017, and May 5, 2017. (HE 347) An examination of the protests filed during this period reveals an additional 530 customer complaints for secondary water quality issues. (HE 347) The vast majority of the complaints pertain to Cypress Lakes relating to the necessity of buying bottled water and water filtration systems because the water is not fit to drink or use for cooking. (HE 347) Additionally, many customers complained that the water smells, and is harsh on their hair and skin. (HE 347) Witness Hicks testified that she did not review the written protests filed in the docket as part of her analysis. (TR 912) OPC respectfully requests the Commission to include all applicable information properly admitted into the record in this case in determining fair, just and reasonable rates.

The magnitude of complaints regarding secondary water quality found among both the Information Requests and the written protests clearly supports a finding by the Commission of unsatisfactory quality of service and a reduction of UIF's ROE by a minimum of 50 basis points.

Lack of Preventative and Predictive Maintenance Program

During her review of the Service Hearing transcripts, Witness Vandiver noted that UIF Witness Hoy made statements concerning infrastructure needs. (TR 551) Witness Hoy stated that Florida gets a C+ in terms of the condition of the water and wastewater infrastructure by the American Society of Civil Engineers (ASCE) and it would cost over $16.5 billion over the next few years to rectify these problems. (TR 551) He acknowledged that UIF has some of these same challenges with infrastructure. (TR 551) This statement requires careful consideration. (TR 551)

As noted by Witness Vandiver, the ASCE provides these reports every 4 years. (TR 551) In its last report card prepared in 2013, ASCE stated that there is a "**significant backlog of overdue maintenance** across our infrastructure system" (emphasis added) and a "pressing need for modernization." (TR 551) Witness Vandiver recommended that the Commission should consider whether Witness Hoy's statements suggest that UIF's capital improvements are really for planned improvements or **for overdue maintenance** as a few customers noted. (TR 551) In any event, OPC has concerns with the volume of customer complaints and whether they are the result of deferred or neglected maintenance. Moreover, OPC questions whether any neglected maintenance has resulted in higher future costs that will be included in this and future rate cases. (TR 551-552) Witness Vandiver also raised the concern that UIF has never submitted or discussed proactively developing an improvement plan for its Florida operations. (TR 552) She testified that it would make sense for a utility the size of UIF to have a five or ten-year capital improvement plan that identifies futures needs, problem areas, and other concerns, as well as how the Utility plans to address these issues. (TR 552)

The evidence in this case demonstrates that UIF has not implemented any preventative or predictive maintenance programs or best maintenance practices for any of its systems. (TR 1232) In response to OPC POD No. 113, UIF confirmed its lack of any systematic preventative or predictive maintenance system for maintaining its numerous water and wastewater systems. (HE 326) In its response to OPC 13th Interrogatories No. 299(a) and (b), UIF admitted that it completed necessary maintenance tasks "in a sporadic way across various water and wastewater systems" and that maintenance tasks were performed "on a sporadic basis, certainly not in a comprehensive, programmatic way." (HE 329; HE 328) When asked to provide copies of its written preventative and predictive maintenance plans, UIF admitted "UIF is lacking a structure, well written preventative maintenance plan" and "Predictive maintenance plans and activities will be component of OMS when it is implemented. . . ." (HE 326, responses to POD Nos. 113, 114) UIF Witness Flynn acknowledged that, in general barring accidents, reactive maintenance results in shorter service lives than if a preventative and predictive maintenance system is in place. (TR 1320)

Witness Flynn further testified that UIF's parent company, Corix, has established as a policy and goal that a preventive program be implemented. (TR 1325) UIF's proposed Operations Management System (OMS) is described in PCF-50 and in Witness Flynn's testimony. (TR 1232;

HE 247). Florida is the pilot for this nationwide overhaul of UI's subpar maintenance practices. (TR 1325) Witness Flynn claimed that UIF began working on such a program in 2014, but acknowledged that UIF did not address any preventative programs in its direct case. (TR 1323) Under cross examination, he noted that another subsidiary of Corix had experienced a 5% to 10% reduction in O&M costs due to implementation of an asset management program. (TR 1264, 1324; HE 247, pages 13-14 of 43) Further, he acknowledged that a preventative maintenance program would be good for customers because it would keep O&M costs down which would keep rates down. (TR 1324-1324) Yet, UIF failed to include any of the projected O&M savings in its request for rate relief in this case. While UIF is *currently* planning to implement UI's new Operations Management System (OMS) and Computerized Maintenance Management System (CMMS) combined with the GIS project to enable UIF to properly maintain its systems (TR 1232), the evidence clearly demonstrates that UIF has *not* been providing the level of maintenance expected of the largest privately owned water and wastewater provider in Florida.

In this case, UIF is requesting three additional employees for Sanlando, Mid-County, and LUSI to perform required maintenance tasks which UIF admitted it has not previously undertaken except on a "sporadic basis." (HE 329; 328) UIF attempted to argue that without additional employees it would not be able to take a proactive approach to asset maintenance in a comprehensive way, but instead would have to rely on reactive maintenance, which negatively impacts the delivery of water and sewer service in a reliable way. (TR 1232) However, Witness Flynn's statement underscored the concerns raised by Witness Vandiver that UIF's default management style is *reactive* which they acknowledge leads to bad results in the delivery of water and wastewater services. Witness Vandiver provided an example of this delayed maintenance approach. (TR 552) She cited a customer's comment that UIF had purchased Summertree many years ago, a system that obviously needed improvements, yet no material improvements had been implemented by UIF in the 25 years that it has owned this system. The Utility had continued to add cost to its rate base; however, the customers never saw an improvement in the quality of its water until the customers took the initiative to vote to interconnect with Pasco County. (TR 552) Further, she testified it is the duty of a utility, not the customers, to proactively solve these types of quality of service issues. (TR 552) Since UIF does not currently have a written plan in place for preventative or predictive maintenance, UIF cannot demonstrate how it needs additional maintenance employees. Moreover, UIF failed to submit any persuasive evidence, other than its admitted failure to prudently maintain its systems, to justify why its current workforce cannot perform those basic tasks. (TR 1232; HE 247; HE 328; HE 329)

Instead of implementing preventative or predictive maintenance activities, UIF has imprudently relied upon reactive (fix-it-when-it-breaks) maintenance practices which logically leads to the following problems adversely affecting quality of service and increasing customer rates: (1) increased O&M costs to repair or maintain failing infrastructure; (2) premature retirement, replacement, or refreshing of expensive existing plant and infrastructure; (3) problems attempting to comply with DEP requirements (more violations and consent orders); and (4) increased customer complaints. Furthermore, Witness Flynn admitted that UIF does not properly conduct annual hydrant maintenance, flushing of dead end lines on a cyclical basis, drawdown tests of lift stations, distribution valve exercising, annual testing of pressure relief valves on hydro-pneumatic tanks, or manhole inspections. (TR 1232).

Because of the fundamental changes to UI's core business practices and maintenance culture which UIF proposes to implement through the rollout of the Operations Management System, the Commission should carefully monitor the implementation process and costs. The Commission should require UIF to provide regular reports, at least semi-annually, demonstrating UIF's progress implementing OMS, its activities (present and future), and incurred and projected future costs.

Since UIF imprudently lacked any preventative or predictive maintenance plans prior to, during, or after test year, UIF's systems and customers have suffered as a result. Further, UIF has made no attempt to quantify even the lowest estimated 5% reduction in O&M costs after it successfully implements its OMS program. It is generally understood that reactive maintenance activities are more costly over the long term than planned maintenance activities. In reviewing the evidence in this docket, the Commission should take into consideration UIF's past actions or inactions before, during and after the test year, and not rely upon the Utility's mere promises of better future behavior. UIF's failure to implement any adequate maintenance plans in the past is a telling sign of how this Utility operates. Based upon the evidence presented, the Commission should find UIF's maintenance practices to be unsatisfactory and reduce its ROE by a minimum of 50 basis points.

Summertree System

Witness Flynn admitted there have been unexpected operational issues in the Summertree system and that UIF has had difficulty maintaining the disinfectant levels in the system since interconnecting to Pasco. (TR 381-382, 385-386) U.S. Water, retained by the Summertree customers, made several recommendations to correct these problems, including a specific type of flushing program and chlorine burn to remove all biologic materials absorbing the ammonia in the water. (TR 379-380, 388-389) UIF planned to implement a chlorine burn on May 5, 2017 and that burn was to continue for an indefinite period of time. (TR 389-390; HE 278) Therefore, while the secondary water quality issues may have improved, other very significant quality of service issues remain. Given the unexpected water quality issues that have arisen from the interconnection with and transition to Pasco County water source, the Commission should maintain the unsatisfactory finding for the Summertee system until those issues have been fully resolved.

Conclusion

Based on the evidence presented in this docket, UIF's overall quality of service for all systems should be deemed unsatisfactory for the reasons discussed above. UIF has failed to adequately meet secondary water quality for many of its systems. It has had multiple compliance issues and complaints with DEP. Moreover, UIF's management has failed to implement an appropriate, state-wide preventative or predictive maintenance systems. This failure has resulted in higher costs to their customers and poorer quality of service. Therefore, the Commission should reduce UIF's ROE should be reduced by a minimum of 150 basis points to reflect this overall unsatisfactory quality of service. UIF should be required to prove in subsequent proceedings that they have prudently and effectively implemented the planned OMS plan and addressed the customer's secondary water quality complaints before the Commission considers removing the ROE reduction.

<u>Allocation Threshold Issue</u>

<u>Issue 4:</u> What is the total ERCs applicable to Florida, by county, and by system as of December 31, 2015, for allocation purposes?

POSITION: *The total ERCs applicable to Florida are 64,183.9.*

ARGUMENT:

Staff auditors requested a list of ERCs from UIF and received a schedule that showed 71,049.7 Florida ERCs (including 841 ERCs for an unregulated company). (HE 201 Audit WP 45 Series) The auditors used this schedule in its audit of allocated expenses; however, when this number of ERCs was applied, there was a significant difference between the expenses contained in the MFRs and the amounts calculated by the auditors. (HE 138 Audit Finding 10) The auditors requested UIF provide an explanation for the different numbers, and they received an ERC schedule with different ERC counts for each system. (TR 949)

UIF's response to OPC Interrogatory No. 283 includes the original ERC count of 71,049.7 that was provided to the auditors and a statement that these ERCs are reflected in the MFRs. (HE 316) However, a review of the B-12 Schedules indicates the allocated expenses are based on a different ERC count. For instance, looking at Page 12 of 13 for Sanlando (December allocations), the allocated State expenses of $62,165 are 33.29% of the total expenses. UIF's response to OPC Interrogatory No. 283 indicates a different allocation percentage of 35.61% to Sanlando. (HE 316)

UIF's response to Staff POD No. 28 includes a separate listing of ERCs which indicates a total ERC count of 64,183.9 for Florida. (HE 315) This schedule shows an allocation percentage of 33.22% for Sanlando. While this aligns more closely with the B-12 schedules (HE 86) in the MFRs, it still cannot be reconciled.

Under cross examination, Utility Witness Deason attempted to explain the difference by stating that one set of ERCs is based on operators' time but there are other employees, such as the President, whose time is allocated to all systems. (TR 1120) When asked to explain why the ERCs used for operator allocations would differ from the ERCs used for other salary allocations, Witness Deason admitted that he had no further explanation for the discrepancy. (TR 1121-1122)

When questioned by Commissioner Polmann, Witness Deason confirmed that UIF's response to OPC Interrogatory No. 283 includes ERCs "at each individual system". (HE 316, TR 1157) Witness Deason further stated that UIF's response to Staff POD No. 28 includes operators and other staff. (HE 315, TR 1159) While there was further discussion about operators and non-operators, there was no explanation why there are two sets of ERCs. (TR 1159-161)

Rule 25-30.450, F.A.C., states that it is the utility's burden to support any schedule submitted, as well as any adjustments or allocations relied on by the utility. Witness Deason confirmed his understanding that this rule addresses the audit process. (TR 1086) However, UIF provided conflicting ERC counts for the Florida systems as of December 31, 2015 and was unable to explain the differences. Therefore, the Utility has failed to meet its burden on this issue and the ERC count that should be used is the count included in Staff POD No.28 as that appears to be ERC count included in the MFR B-12 Schedules. (HE 315)

Rate Base

Issue 5: What adjustments, if any, should be made to account for the audit adjustments related to rate base?

POSITION: *Rate base should be reduced by $101,294 for the water systems and $632,920 for the wastewater systems.*

ARGUMENT:

Audit Finding #1: Staff Witness Dobiac testified the Cypress Lakes rate base should be increased by $37,035 for water and decreased by $135,012 for wastewater. (TR 934) Utility Witness Deason disagreed with the amount and argued the adjustments of $39,790.92 in account 1850 and $797.19 in account 2050 were excluded from the calculation in Table 1-1. (TR 1079) Upon review of the Staff audit work papers, it appears that these two amounts were excluded from the calculation as well as an amount ($37,500) for account 1090. (HE 201, WP 28-1.2) Therefore, the Cypress Lakes water rate base should be increased by $15,653 and the wastewater rate base should be decreased by $134,214.

Audit Finding #2: Witness Dobiac testified that LUSI's water rate base should be increased by $42,077 and the wastewater rate base should be increased by $35,016. (TR 935) Witness Deason agreed with this adjustment. (TR 1079) Therefore, these adjustments should be made.

Audit Finding #3: Witness Dobiac testified that the water rate base for the five counties in the UIF system should be decreased by $481,461 and the wastewater rate base should be decreased by $244,129. (TR 935) Witness Deason agreed with the audit finding. (TR 1079) However, upon further review of the Staff audit work papers, there are several additional adjustments that should be made for the following two systems:

Orange County: The audit adjustment to accumulated amortization of CIAC was $51,072. (HE 138, Page 15 of 32) The MFRs include a positive $12,404 for the balance. (HE 86, Schedule A-1) However, the auditor included a negative balance of $12,404 in the calculation of the adjustment. (HE 201, WP 28-5.2) Therefore, the audit adjustment should be reduced to $26,264 to properly reflect the positive balance.

Pasco County: The audit adjustment to the wastewater plant is an increase of $666,675. (HE 138, Page 15 of 32) The Commission's last order for this system included total plant of $1,366,638 for the wastewater system.[2] However, the audit calculation indicates a beginning balance of $1,639,974. (HE 201, WP 16-14.2.2) This is a difference of $273,336. Thus the audit adjustment should be reduced by this amount to result in an increase of $393,339.

Audit Finding #4: Witness Dobiac testified that Pennbrooke's wastewater rate base should be decreased by $239,460. (TR 936) Witness Deason agreed with this adjustment. (TR 1079) Therefore, this adjustment should be made.

Audit Finding #9: Witness Dobiac testified that the total water rate base should be increased by $379,306 and the wastewater rate base should be increased by $223,203. (TR 939) Witness Deason agreed with this adjustment. (TR 1081) Therefore, these adjustments should be made.

ISSUE 6: What are the appropriate amounts of regulatory assets for each system that is associated with the Utility's Project Phoenix Financial/Customer Care Billing System?

POSITION: *None. UIF did not include these assets in its MFRs or rebuttal testimony. Moreover, the Utility did not provide any supporting schedules, organized in a systematic and rational manner, so as to enable appropriate and timely verification. Therefore, the Commission should not allow the regulatory assets associated with the costs related to the Project Phoenix Financial/Customer Care Billing System.*

[2] See Order No. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities. Inc. of Florida.

ARGUMENT:

UIF did not include in its MFRs any regulatory assets associated with the Project Phoenix Financial/Customer Care Billing System. (HE 86) Utility Witness Hoy confirmed that the assets were not included in the Utility's direct or rebuttal testimony and exhibits. (TR 129) However, attached to an e-mail dated May 2, 2017, less than one week before the start of the hearing, UIF attempts to include these assets by providing an Excel schedule that purports to be a calculation of such assets. (HE 265)[3] Rule 25-30.450, F.A.C., provides that the

> utility must be able to support any schedule submitted, as well as any adjustments or allocations relied on by the utility. The work sheets, etc., supporting the schedules and data submitted must be organized in a systematic and rational manner so as to enable Commission personnel to verify the schedules in an expedient manner and minimum amount of time. The supporting work sheets, etc., shall list all reference sources necessary to enable Commission personnel to trace to original source of entry into the financial and accounting system and, in addition, verify amounts to the appropriate schedules.

Commission Order No. PSC 14-0521-FOF-WS[4] addresses the creation of regulatory assets for the Project Phoenix Financial/Customer Care Billing System and states that UIF would be authorized to create a regulatory asset or liability. However, the Order did not require the creation of these assets, and UIF did not provide any evidence in its filings, audit or discovery that it had created these assets or how it calculated these assets. Nevertheless, well after the discovery deadline, the Utility provided a schedule attached to an e-mail. The Commission's rule is clear that it is UIF's burden to support its case, and UIF has not met this burden regarding the regulatory assets. Therefore, the regulatory assets associated with the Project Phoenix Financial/Customer Care Billing System costs should not be included in rate base.

Issue 7: Should any adjustments be made to test year plant-in-service balances?

POSITION: *Yes, water plant should be decreased by $762,433 and wastewater plant should be reduced by $8,690 to reflect the removal of fully depreciated assets in the UIF-Marion and Lake Placid systems, to reflect the capitalization of engineering fees for Sandalhaven, to reduce the pro forma cost for the Splitter Box in the LUSI system, and to remove the pro forma project for the Myrtle Lake Hills expansion in the Sanlando system.*

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[3] OPC objected to including this information in this case; UIF failed to provide this information until after it filed its rebuttal testimony.

[4] See Order No. PSC-14-0521-FOF-WS, issued September 30, 2014, in Docket No. 120161-WS, In re: Analysis of Utilities, Inc.'s financial accounting and customer service computer system.

ARGUMENT:

LUSI: UIF includes a pro forma addition of $84,000 for a splitter box in Lake Groves in the LUSI system. (HE 86) UIF provided no testimony on this project and there was no supporting documentation provided with its direct testimony. The utility provided an invoice supporting $78,000, only. (HE 145, Staff ROG No. 89) Therefore, only the $78,000 should be included, net of the related retirement. Therefore, plant should be reduced by $1,500.

Sanlando: UIF included a pro forma addition of $658,854 to design and construct water facilities to serve up to 116 homes in the Myrtle Lake Hills subdivision. (TR 326) Utility Witness Flynn testified the project was designed to provide service from the Sanlando system to serve future customers in a neighborhood developed many years ago. (TR 1355) The Commission approved UIF's request to extend its service territory to provide service to the Myrtle Lake Hills subdivision in Order No. PSC-16-0107-PAA-WU, issued March 15, 2016. Page 4 of that Order states, in part:

> In its petition, Sanlando is not seeking to implement a service availability charge on the Utility's entire customer base. The cost of construction of water lines and soft costs associated with this proceeding, such as permitting costs and legal expenses, will be reimbursed by the 116 lots to be added to the system. The Utility's remaining 10,172 existing customers and any future customers of Sanlando added to the system outside this proceeding will remain unaffected. Sanlando has provided us with the preliminary costs of the proposed main extension to serve the additional 116 lots, allowing us to calculate a just and reasonable charge for the new customers to be added to the system, satisfying the purpose of Section 367.101(1), F.S.

OPC Witness Ramas testified this Order made it clear that the project would not affect the existing Sanlando customers, and indicated the project's costs would be reimbursed by the lots being added to the system and providing for a main extension charge to cover the costs. In this case, the Company has included the project costs in its requested rate base. As there is no revenue included in the filing for the future customers who will receive service as a result of the extension and no CIAC offset associated with the future customers paying the main extension charges, UIF's proposal would pass on the costs of the extension to the existing Sanlando customers. This would clearly be an unfair result and inconsistent with Order No. PSC-16-0107-PAA-WU. (TR 787) This project is a post-test year project where the Company is essentially asking for a special exception to go beyond the test year to include it in the revenue requirement but it has not included the CIAC that has been or will be collected on that system nor any revenues from the new customers that are being hooked up to that system. (TR 845) Therefore, the Commission should not deny the inclusion of this project.

Lake Placid and UIF-Marion:

UIF includes several plant accounts in its filing that are fully depreciated; however, these accounts continue to be depreciated by the Utility. (HE 86 – Lake Placid and UIF-Marion)	Plant	Accumulated Depreciation	Depreciation Expense
Lake Placid – Water (304.3–WTP Structures & Improvements)	13,191	15,945	525
Lake Placid – Wastewater (352.1 – Franchises)	1,250	1,314	31
Lake Placid – Wastewater (382.4 – Outfall Sewer Lines)	1,940	2,081	49
Lake Placid – Wastewater (398.7 – Other)	7,821	10,618	876
UIF-Marion – Water (304.2 – Structures & Improvements)	62,271	64,468	1,936
UIF Marion – Water (307.2 – Wells and Springs)	28,117	29,874	938

OPC Witness Ramas testified these amounts should be removed from plant to avoid being over-depreciated.[5] (TR 755-756 and 806-807) Utility Witness Swain agreed that the depreciation expense should be removed but disagreed that the assets should be removed from plant as it was an asset of the Utility, and should remain on the books. (TR 1430) However, Witness Swain did not present any alternatives to avoid this from happening in the future. Therefore, these amounts should be removed from plant.

Sandalhaven: Consistent with the discussion in Issue 43 regarding capitalizing engineering invoices in the amount of $3,821, plant should be increased by this amount.

Miscellaneous: There were eleven pro forma projects for which the Utility included lower amounts in its MFRs than were included in its testimony. OPC has included adjustments that represent the amounts supported by the evidence even though the MFRs were incorrect.

UIF Pro Forma			
Project	Exhibit	MFR A-3	PCF
Cypress Lakes Hydrotank Replacement	PCF-1	20,000	26,000
LUSI Oswalt WM Replacement	PCF-6	100,000	181,000
LUSI TTHM & HAA5 Study	PCF-8	67,819	79,000
LUSI TTHM & HAA5 Study	PCF-9	-	330,832
Longwood Church Ave Relocation	PCF-11	170,000	253,524
Sanlando Lift Station RTU	PCF-23	327,000	591,200
Sanlando Markham Wood Relocation	PCF-24	64,396	65,900
Sanlando Myrtle Hills Extension	PCF-25	658,854	695,450
Tierra Verde Gravity Main Replacement	PCF-31	47,300	85,000
UIF-Seminole Electrical Imp Little Wekiva	PCF-36	165,000	281,181

[5] Witness Ramas testified that Account 398.7 – Other should be included but the amounts were inadvertently omitted from her calculations, but have been included here.

Issue 8: What adjustments, if any, need to be made to rate base to appropriately reflect the impacts of the abandonment and decommissioning of the Summertree water supply assets?

POSITION: *The utility's adjusted test year rate base should be decreased by $535,690 to reflect the impacts of the abandonment and decommissioning of the Summertree water supply assets.*

ARGUMENT:

UIF included several rate base adjustments to the UIF-Pasco MFRs to reflect the abandonment and decommissioning of the Summertree water supply assets. (HE 86) OPC Witness Ramas reviewed the adjustments included in the MFRs and Commission Order No. PSC-16-0505-PAA-WS[6] which previously addressed these same adjustments. These adjustments removed 100% of the non-land plant in service balances in its Source of Supply and Pumping Plant accounts and Water Treatment Plant accounts. (TR 790) However, these accounts are for both the Summertree system and the Orangewood system but the adjustment should be only for the Summertree assets. Therefore, UIF should not have removed 100% of the plant in service balance.

However, in Docket No. 150269-WS, the Commission addressed the Summertree system interconnection with Pasco County and the associated abandonment of the Summertree water supply assets. In Order No. PSC-16-0505-PAA-WS, the Commission addressed the recovery of the abandoned wells and the associated amortization expense. Page 8 of that Order states the projected net cost to retire and the estimated salvage value of a hydro tank that was to be relocated were to be reviewed in this rate case.

Pursuant to the Commission's previous Order, the plant to be retired is $715,518, the related accumulated depreciation is $275,034, the related CIAC is $160,460, and the accumulated amortization of the CIAC is $83,673, for a net retirement of $363,697. (Schedule 1 of the Order) That Order further allowed $8,008 for a working capital allowance. Utility Witness Swain agreed that the entries associated with the decommissioning should be consistent with the Order. (TR 1437) Witness Swain also argued that the revised estimated cost of the decommissioning, net of salvage, of $176,826 (HE 233) should also be included. However, OPC Witness Woodcock testified there was insufficient supporting documentation for the "revised" decommissioning cost and, thus, the amount should not be included. (TR 630,662) Since UIF failed to meet its burden on the issue of decommissioning cost, the net adjustment to the adjusted rate base should be a decrease of $534,690 based upon the changes discussed above.

[6] See Order No. PSC-16-0505-PAA-WS, issued October 31, 2016, in Docket No. 150269-WS, In re: Application for limited proceeding water rate increase in Marion, Pasco, and Seminole Counties, by Utilities, Inc. of Florida.

<u>ISSUE 9</u>: Should adjustments be made to the Utility's pro forma plant additions?

POSITION: * Yes, adjustments should be made to each system for the pro forma projects included in UIF's initial filing, as discussed in testimony and exhibits of OPC Witnesses Woodcock and Ramas. The pro forma plant adjustments are shown on a table in the Brief Exhibit attached hereto. *

ARGUMENT:

<u>UIF's Direct Case - Original August 31, 2016 rate case application</u>

The evidence in the record demonstrates UIF filed an incomplete application on August 31, 2016. UIF essentially included placeholder testimony in its application, and provided no documentary evidence to support many of the pro form projects described in UIF Witness Flynn's direct testimony. Witness Flynn stated that UIF planned to file updated information for his pre-filed Exhibits PCF-6, 9, 12, 13, 17, 20, 28, 33, and 34 within 30, 60, or 90 days after filing its initial application. (TR 320-331) While Witness Flynn testified that UIF intended to file updates for these projects, the evidence shows more supporting information and documentation was missing from his August 31, 2016 filing than originally indicated.

According to the Comprehensive Exhibit List (HE 1), the following 16 pro forma exhibits were missing from Witness Flynn's direct testimony: Exhibits PCF-6, 9, 12, 13, 17, 20, 22, 23, 24, 25, 26, 27, 28, 29, 33, and 34 (identified as HE Nos. 43, 46, 50, 51, 55, 58, 60-67, 71, and 72 (HE 1, pages 4-7))[7] UIF failed to provide any cost support for these projects in its original filing and these exhibits were not admitted into the record at the hearing.[8] Thus UIF failed to meet its burden of proof for these pro forma projects and they should be denied.

<u>UIF's Revised Direct Case - Responding to application deficiencies</u>

On October 31, 2016, in response to staff's first deficiency letter, UIF refiled and page numbered all of the exhibits attached to Witness Flynn's direct testimony. These replacement exhibits included some new information and documents not contained in UIF's original application. The refiled Flynn exhibits also included some information for the following pro forma projects identified in Exhibits PCF-6, 12, 22, 23, 24, 25, 26, 27, and 29. However, UIF provided no supporting documentation for Exhibits PCF-9, 13, 17, 20, 28, 33, and 34. Instead, the exhibit simply stated "Held For Future Use." Flynn Exhibit PCF-13 (HE 51) was also not included in the October 31, 2016 deficiency filing. These seven missing exhibits total approximately $3.7 million in pro forma plant additions.

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[7] PCF-5a (HE 42) was also listed, but it was not identified in Witness Flynn's direct testimony.

[8] At the end of Mr. Flynn's direct testimony during the technical hearing, the Commission declined to move the 16 missing pro forma projects into the record (TR 510-511; HE Nos. 42, 43, 46, 50, 51, 55, 58, 60-67, 71, and 72; HE 1, pages 4-7).

OPC's Initial Discovery to UIF regarding its pro forma projects

On September 16, 2016, OPC served its First Set of Interrogatories and First Request for Production of Documents. (HE 282) Staff subsequently determined UIF's initial application was deficient, and UIF Witness Flynn refiled the revised exhibits on October 31, 2016. (TR 631, lines 1-7) UIF's application was deemed completed on November 22[9], and UIF eventually began responding to OPC's discovery on January 9, 2017. (HE 282) UIF's response to OPC Request for Production No. 15, requesting information on the pro forma projects, was first provided on February 6, 2017. (HE 282)

UIF Witness Flynn's direct hearing exhibits excluded from the evidentiary record & lack of evidence to support the reasonableness of costs

Witness Flynn's direct hearing exhibits in Staff's Comprehensive Exhibit List were based upon UIF's initial August 31, 2016 filing (identified as HE 37-87). Staff's Exhibit List did not include his updated, revised hearing exhibits that were re-filed on October 31, 2016. The hearing record for UIF's direct case was largely if not exclusively based upon UIF's initial application filed on August 31, 2016. Witness Flynn's revised direct hearing exhibits, which OPC Witness Woodcock references in his testimony, were not moved into the evidentiary record. (TR 510-512). Thus, there is no supporting documentation or exhibits for 16 of Witness Flynn's 47 exhibits. Simply put, there is no evidence in the record to support the reasonableness of the following 16 pro forma projects: PCF-6, 9, 12, 13, 17, 20, 22, 23, 24, 25, 26, 27, 28, 29, 33, and 34. (TR 510-512) Therefore, UIF failed to meets its burden and the costs of these projects should be denied.

OPC testimony

In order to develop its testimony, OPC first served discovery on UIF on September 16, 2016. OPC Request for Production No. 15 sought all documents related to all pro forma projects described in Witness Flynn's direct testimony and exhibits. (HE 282) UIF did not provide any responses to OPC or Staff's discovery until January 9, 2017, with the first responses to OPC Request for Production No. 15 provided on February 6, 2017. (HE 282) In the course of his investigation, Witness Woodcock conducted a site visit and inspection of many of these projects. (TR 590) The next batch of pro forma discovery responses was received from UIF on February 25, 2017, and contained inadequate information related to PCF-27, which additionally showed that the cost of this project had nearly doubled. (TR 629-630; 680) The last batch of pro forma discovery responses from UIF was received on March 2, 2017, after 5:00 pm, less than 96 hours before the substantive testimonies of OPC Witnesses Woodcock, Vandiver, and Ramas were due to be filed on March 6, 2017. (HE 282, TR 611, 631, 659, 675, and rev OEP) By March 2, Witness Woodcock's pre-filed testimony was largely complete. (TR 675) Because Mr. Woodcock's pro forma recommendations needed to be incorporated into Witness Ramas' testimony and her excel schedules with sufficient time to make all the adjustments, the receipt of this documentation *for the first time less than four (4) days before the testimony filing deadline* was simply too late for Witness Woodcock to conduct

[9] November 22, 2016 is the "Official Date of Filing" for this rate case.

a thorough evaluation and analysis of this information and incorporate it into his testimony as well as Ms. Ramas' testimony and exhibits. (TR 688)

OPC filed its testimony on March 6, 2017, basing its positions on discovery responses received through February 25, 2017, but not on the information received after business hours on March 2, 2017 or any subsequent discovery responses provided after March 6, 2017. As identified in Hearing Exhibit 276, OPC objected to exhibits consisting largely of responses related to pro forma projects that was provided on or after March 2, 2017, as well as information requested by Staff that was requested and provided after the discovery cutoff date. OPC renewed its objection to these exhibits at the conclusion of the hearing and stated that UIF, and not Staff or any other party, has the burden of proof to support the Utility's rate request. (HE 276; TR 512 & 1571) OPC maintains that including discovery in the record over the objection of a party and then relying upon that objected to information to support a finding of fact (i.e. – that the utility has met its burden of proof) violates the customers' due process rights.

OPC Woodcock reviewed every pro forma project requested in UIF Witness Flynn's direct testimony and exhibits (as revised on October 31, 2016) for prudence and reasonableness. (TR 617-632) The criteria that Witness Woodcock used when evaluating UIF's forty-seven (47) pro forma projects is found on pages 31-37 of his testimony. (TR 617-623). He organized his analysis of the projects into four cost recovery categories, and recommended cost recovery for projects in Categories 1 and 2, but not for Categories 3 and 4. (TR 618; 623-632) However, after filing his pre-filed testimony on March 6, the costs of a number of pro forma projects increased, some quite dramatically.

UIF's Rebuttal Revised its Original Rate Case

Based on its rebuttal testimony, UIF revised its original rate relief request by adding more than $6 million in new pro forma project costs to its original application. This increased UIF's original request by approximately $1 million annually. UIF attempts to justify the cost increases contained in its rebuttal testimony by absurdly arguing these additional costs will be offset by Commission adjustments to UIF's original request. However, UIF should not be allowed to continually update its original petition for rate relief through incremental accretion of new cost information. While this may sometimes occur in proposed agency action (PAA) rate cases where a utility is allowed to update its MFRs and cost estimates in a limited fashion, this rate case is a Section 120.57(1), F.S., administrative hearing and is subject to the rules governing such proceedings.

Allowing new cost information in rebuttal after UIF filed its completed set of MFRs and after OPC and Staff filed testimony violates the customers' due process. In response to discovery propounded by Staff and OPC, as well as in its rebuttal testimony and exhibits, UIF continued its attempts to supplement, update, and amend its original filing. The net effect of these actions increased the Utility's original request well beyond the $6.9 million included in its initial petition.

UIF may try to argue that it is administratively efficient to allow them to capture the latest cost information and avoid a subsequent rate case; however, ever changing rate case information adversely affects OPC's ability to identify the costs at issue and impairs the Commission's ability to conduct a fair and impartial hearing for the UIF's ratepayers without violating their due process.

Staff's Hearing Exhibits, HE 142-202, Aids UIF with its Burden of Proof

Staff prepared a Hearing exhibit for this case containing responses to discovery that Staff attempted to move into the record. Staff's Hearing exhibits are identified as HE 142-205 on the Comprehensive Exhibit List (HE 1). In these hearing exhibits, Staff included (1) UIF's responses to Staff and OPC discovery (HE 142-196); (2) OPC's responses to Staff and UIF discovery (HE 197-200); (3) Staff's responses to OPC discovery (HE 201-202); and (4) UIF Witness Swain's late-filed deposition exhibits (HE 203-205). Summertree objected to the entirety of Staff's Hearing exhibits (HE 142-205). OPC specifically objected to UIF's discovery responses related to pro forma projects provided to Staff and OPC on or after March 2, 2017. (HE 276; TR 512 & 1571)

Pro forma Project Catch-22 & the Burden of Proof

In this case, the evidence demonstrates UIF submitted an inadequate initial filing and an inadequate revised filing that failed to support its request for rate relief. As a result, UIF placed OPC and Staff in a Catch-22 situation where conducting any substantive discovery, if such discovery was later admitted into the hearing record, would serve to assist UIF in meeting its burden of proof by filling-in-the-gaps in its insufficient application. Instead of carrying its burden in either its initial filing or revised filing that was deemed complete on November 22, 2016, UIF effectively shifted the burden to OPC and Staff to analyze and rebut UIF's case through discovery and OPC's testimony. Ironically, if OPC and Staff had not conducted any discovery or if OPC had not filed any substantive testimony on the pro forma projects, UIF would have been unable to attempt to satisfy its burden of proof for many of its projects. Under normal circumstances, cost recovery would have been summarily denied as being unsupported.

It is not OPC's burden of proof

OPC asserts UIF had more than enough time and expertise to provide support for the projects OPC is contesting in this case. As of February 25, 2017, it had been 179 days since UIF filed its original petition on August 31, 2016, 116 days since it filed Mr. Flynn's revised exhibits on October 31, 2016, and 95 days since the Commission deemed UIF's MFRs to be complete. (TR 629) By March 2, 2017, additional time had passed since these events. After OPC filed Witness Woodcock's testimony on March 6, UIF continued providing updates to its pro forma projects.

During cross examination, Witness Woodcock was asked numerous questions which in effect attempted to shift the burden to OPC such as: (1) why he did not continue to review discovery responses for reasonableness and prudence; (2) why he only performed a cursory review of those updated projects; (3) why he did not thoroughly review those updated responses; (4) and why he did not file supplemental testimony. (TR 670-671; 675-678; 683-686) Witness Woodcock responded that he was unable to thoroughly analyze the discovery responses provided a mere four days before his testimony was due, and that he could not form an opinion and develop written testimony on information that was provided at the last minute. (TR 686-688) It is undisputed UIF has the burden of proof in this case and the burden to *timely provide documents* to support the reasonableness of its requested rate relief. It is inappropriate to attempt to shift this burden to Witness Woodcock because UIF was not fully prepared to support its original request. In addition, the burden did not shift to OPC simply because UIF continued in its attempts to inappropriately supplement its rate petition after OPC's testimony was filed on March 6.

Summary of All 47 Pro Forma Projects Under Review

OPC has summarized UIF's pro forma projects into three tables attached to the end of this brief in the Brief Exhibit. **Table 9-1, Table 9-2, and Table 9-3** identify which projects are in dispute and which are not in dispute. **Table 9-1** summarizes all the pro forma projects under review, when the information was provided, the estimated project amounts, and citations to the hearing transcript and record.

Non-Contested Pro Forma Projects

Table 9-2 summarizes pro forma projects with sufficient cost justification. However, where there is a difference between Witness Woodcock's and Witness Flynn's rebuttal, great weight should be given to Witness Woodcock's recommendation because he physically inspected a number of UIF's proposed pro forma projects. (TR 590) The project amounts recommended for incorporation into UIF's rate base and revenue requirement are also highlighted.

While UIF and OPC may largely agree on the costs of these projects in Table 2, the amounts shown in the MFRs often do not agree with the amounts in Witness Flynn's testimony or exhibits.[10] OPC does not understand how UIF could embed one pro forma cost in its MFRs and then support another cost in Witness Flynn's testimony and a different cost in his exhibits. There are other instances where project costs were higher in the MFRs and lower than the amount in testimony. As a result of these inconsistencies, the MFRs must be carefully reviewed to ensure only the costs supported by testimony and evidence are included in customer rates.[11]

[10] Note: The utility supported $84,673 for Project PCF-31 (Tierra Verde). However, the MFRs included $47,300 which reflects the fact that the invoice for $37,373 from Environmental Equipment Sales (HE 69) was recorded in the 2015 General ledger on February 17, 2015 in Account 361.2. (HE 172)

[11] For example, Witness Flynn testified the GIS Mapping Service (PCF-47) would cost $350,000. (TR 331) However, PCF-47 attached to his direct testimony supported an amount of $244,321 (HE 85) and OPC Witness Woodcock agreed this amount was reasonable. (TR 625) However, OPC Witness Ramas testified the actual amount included in the MFRs was $688,559. (TR 747)

Contested Pro Forma Projects

Table 9-3 summarizes contested pro forma projects without sufficient cost justification.OPC contests and submits should be disallowed for UIF's failure to meet its burden of proof. Table 9-3 identifies (1) the projects that were inadequately supported; (2) the projects with no supporting information; and (3) the projects to which UIF added new costs and documents in rebuttal. Table 9-3 is organized according to the four cost recovery categories that Witness Woodcock describes in his testimony. (TR 618) Some projects that Witness Woodcock initially agreed with in his testimony are now in dispute because of increases included in Witness Flynn's rebuttal testimony and exhibits. Great weight should be given to Witness Woodcock's recommendation since he physically inspected some of the proposed pro forma projects in dispute. (TR 590 & 1303-1304)

Category 1 – Pro Forma Projects initially with Adequate Cost Justification (TR 618)

PCF-10 and PCF-10a - LUSI, US 27 Utility Relocation

In his direct testimony, Witness Flynn requested $1,869,000 for the LUSI, US 27 Utility Relocation project; however, his original and revised exhibits PCF-10 & 10a requested $62,990 and $2.7 million respectively. (TR 323; HE 47; 48) OPC Witness Woodcock analyzed both projects in his cost analysis, and determined that the Utility only supported $1,806,000 for recovery. (TR 623-624) In rebuttal, UIF reiterated its request for the amounts initially requested in Witness Flynn's direct exhibits, and not the amount in his direct testimony. (HE 214; 215) UIF failed to adequately support any increase over the amount recommended by Witness Woodcock. Therefore, the Commission should deny the amount contained in the Utility's rebuttal and approve the $1,806,000 specified in Witness Woodcock's testimony. (TR 623-624)

PCF-11 - Longwood, Church Ave. Relocation

In his direct testimony, Witness Flynn requested $193,880 for the Longwood, Church Ave. Relocation project (TR 323), and his original and revised exhibit PCF-11 included that amount. (HE 49) OPC Witness Woodcock analyzed the project and determined UIF supported the requested amount. (TR 623-624) However in rebuttal, Witness Flynn's Amended PCF-11 increased the original amount by $61,564 to $253,524. (TR 1238; HE 216) UIF argued this was necessitated by the City of Longwood (TR 1238; HE 216); however, UIF provides no supporting evidence in rebuttal from the City to corroborate that change. Thus, UIF failed to meet its burden to support increasing the cost of this project beyond that requested in its original filing, and the additional amount of $61,564 should be denied.

PCF-23 - Sanlando, Lift Station RTU Installation

In his direct testimony, Witness Flynn requested $353,200 for the Sanlando, Lift Station RTU Installation project (TR 326), but failed to provide any supporting exhibit with his testimony (HE 61). His refiled exhibit PCF-11 included the amount of $353,200; however, the refiled exhibit was not moved into the hearing record. (HE 49). Notwithstanding, OPC Witness Woodcock analyzed the project and determined the Utility provided adequate cost justification for $353,200. (TR 623-624) In rebuttal, Witness Flynn's Amended PCF-23 increased the initial amount to $591,200 allegedly based on two purported one-page "bids" received from electrical contractors in November 2016. (TR 1238; HE 226) Amended PCF-23 includes a contract for $217,250 dated January 12, 2017; however, UIF failed to provide this contract in its February 6, 2017 response to OPC's discovery request, nor was it provided to OPC on February 25 or to Staff on March 2. As such, OPC Witness Woodcock was deprived an opportunity to review this new information prior to the filing of his testimony. As such, UIF has failed to meet its burden to support the amount of $591,200, and the Commission should approve this project in the amount of $353,200.

PCF-26 - Sanlando I&I Study and Remediation

In his direct testimony, Witness Flynn requested $1,726,384 for the Sanlando I&I Study and Remediation project (TR 326), but failed to provide a supporting exhibit for this amount (HE 64). His refiled exhibit PCF-26 included the amount described in his testimony; however, this refiled exhibit was not moved into the hearing record. OPC Witness Woodcock analyzed and determined that the Utility adequately supported $1,573,884. (TR 623-624) In rebuttal, UIF did not contest Mr. Woodcock's recommendation and offered no changes to the amount included in Witness Flynn's direct testimony and refiled exhibit. (HE 228) Therefore, there is no evidence to support increasing this project beyond the amount of $1,573,884 and this is the amount the Commission should approve.

PCF-35 - Lake Tarpon Water Main Replacement

In his direst testimony, Witness Flynn requested $800,000 for the Lake Tarpon Water Main Replacement project. (TR 328-329) OPC Witness Woodcock analyzed and determined that UIF adequately supported $800,000 for this project. (TR 623-624) In rebuttal, UIF seeks $1,218,146 for this project. (TR 1238; HE 234). OPC asserts that UIF is entitled only up to the amount it originally requested in its direct testimony and supported in its MFRs.

PCF-41- UIF – Seminole Weathersfield Northwest FM

In his direct testimony, Witness Flynn requested $120,000 for the UIF – Seminole Weathersfield Northwest FM project. (TR 330; HE 79) OPC Witness Woodcock analyzed and determined that the Utility adequately supported $120,000 for this project. (TR 623-624) In rebuttal, UIF seeks $688,631 for this project and claims the City of Altamonte Springs and Seminole County pipe disposal requirements added $568,631 to its original request. (TR 1238-1239; HE 240) However, the Utility produced no documentation from the City or County to support these additional requirements or costs. (HE 240) Therefore, UIF did not meet its burden to prove up the $688,631 amount and is entitled to recover only $120,000 which it supported in its direct testimony and MFRs.

Category 2 – Pro Forma Projects with Cost Justification Supporting Less than Requested (Cost Less Than Requested) (TR 618)

PCF-3 - Eagle Ridge, WWTP EQ Tank and Headworks

In his direct testimony, Witness Flynn requested $350,000 for the Eagle Ridge, WWTP EQ Tank and Headworks project and provided 14 pages to support the project cost. (TR 321; HE 39) OPC Witness Woodcock analyzed and determined that the Utility properly supported a cost of $106,388. (TR 625; HE 110) In rebuttal, UIF attempts to increase this project to $938,140 and as support, submitted 64 pages of documents, including a contract for $700,363.11 dated March 8, 2017, two days after OPC filed testimony. (TR 1239-1240; HE 209) This additional information was not timely provided to OPC and Staff in order to be sufficiently analyzed, and should not be considered by the Commission. UIF did not meet its burden, and the appropriate amount to approve for this project is $350,000.

PCF-19 - Mid-County, US Hwy 19 Relocation

In his direct testimony, Witness Flynn requested $230,000 for the Mid-County, US Hwy 19 Relocation project. (TR 325; HE 57) OPC Witness Woodcock analyzed and determined that UIF properly supported $172,879 for this project. (TR 625; HE 110) In rebuttal, the Utility increased its request for this project by an additional $57,121; however, Witness Flynn's testimony and exhibits fail to explain why additional costs are required. (TR 1240; HE 222) (compare HE 57 to HE 222) UIF failed to meet its burden to prove up the additional $57,121 and the appropriate amount to approve for this project is $230,000 as supported in UIF's original filing.

PCF-25 - Sanlando, Myrtle Hills WM

In his direct testimony, Witness Flynn requested $695,450 for the Sanlando, Myrtle Hills WM project. (TR 326; HE 63). OPC Witness Woodcock analyzed and determined the Utility properly supported $684,271 for this project. (TR 625; HE 110) In rebuttal, UIF failed to provide any testimony or documentation contesting Mr. Woodcock's recommendation (HE 227); therefore, the appropriate amount to approve for this project is $684,217. Other concerns with PCF-25 were already addressed in Issue 7.

PCF-30 - Sanlando, Wekiva WWTP Rehabilitation

In his direct testimony, Witness Flynn requested $1,803,000 for the Sanlando, Wekiva WWTP Rehabilitation project. (TR 327; HE 68) OPC Witness Woodcock disagreed with UIF's inclusion of the estimated sales tax because the contractor did not include it. (TR 626-627). As a result, Witness Woodcock determined that the Utility provided cost justification supporting $1,729,034 for this project. (TR 625; HE 110) In rebuttal, Witness Flynn testified an additional $16,848 (or 1% of the $1,684,850 project cost) should be included in rate base (TR 1240-1241), making the final amount $1,701,698 ($16,848 + $1,684,850). This amount is lower than Witness Woodcock's recommendation and the $1,837,324 included in in Witness Flynn's rebuttal exhibit.

(TR 1240-1241; HE 230) Given the conflicting testimonies and exhibits, the Commission should approve the lower amount.

Category 3 – Pro forma projects Lacking Adequate Cost Justification (TR 618)

PCF-14 - Mid-County, Electrical Improvements

In his direct testimony, Witness Flynn requested $900,000 for the Mid-County, Electrical Improvements project. (TR 323-324; HE 52). OPC Witness Woodcock disallowed cost recovery for this project because UIF did not provide sufficient binding bids to support the estimated costs. UIF subsequently provided one actual binding bid and a one-page document purported to be a "bid" at or about the time OPC filed Mr. Woodcock's testimony. The actual binding bid showed the project cost increased to over $1.01 million. (TR 619-622; 627-629; HE 112) UIF's documentation should be disregarded as insufficient support for this project. Witness Woodcock testified that typically three competitive bids with a binding bid price are provided. (TR 621; 628) He explained the APG Electric bid was valid because it was signed by an APG representative and included a date, contract price, list of subcontractors, and other information needed to evaluate bids. However, the "bid" by EMS of Central Florida was un-signed and un-dated on a single sheet of paper. (TR 628-629; HE 112) As a result, Witness Woodcock determined the EMS offer should be rejected as an invalid bid, and that this project should be re-bid. (TR 629; HE 212)

In rebuttal, Witness Flynn provided a revised PCF-14 that included the APG contract and invoices. He also testified that EMS had provided a revised, after-the-fact bid with the missing information. (TR 1243; HE 219) However, in comparing the one-page document provided in Mr. Flynn's amended PCF-14 to the one-page document in Mr. Woodcock's ATW-18, they are identical. (HE 219, p. 40; HE 112, p. 1) Thus, UIF clearly failed to provide any revised "bid" as stated by Mr. Flynn in his rebuttal. Therefore, the "bid" from EMS should be disregarded, and the Commission should adopt OPC's recommendation of $0 recovery in rates for this project.[12]

*PCF-20 ** - Pennbrooke, WTP Electrical Improvements*

Witness Flynn's direct testimony initially requested $270,000 for the Pennbrooke, WTP Electrical Improvements project. (TR 325; HE 58). However, UIF provided no documents to support this request when it filed the rate case on August 31, 2016. When UIF refiled Witness Flynn's hearing exhibits on October 31, 2016, the exhibit PCF-20 (HE 58) stated "Held for future use." Moreover, at the conclusion of Witness Flynn's direct testimony, PCF-20 (HE 58) was not moved into the record. (TR 510-512) OPC Witness Woodcock disallowed cost recovery on the basis UIF failed to provide any cost information until March 2; but he revised his testimony, deleting this project from the list of projects that contained no supporting information. (TR 627-630; 662; 667)

[12] Should UIF attempt in a subsequent proceeding to recover the costs for the APG contract, the Commission should conduct a careful review of these costs to ensure they are prudent and reasonable based upon UIF's failure to prudently secure multiple binding bids for this project before executing the APG contract.

When questioned about why he revised his testimony in this manner, he testified that the documentation was still insufficient to support the costs for PCF-20. (TR 674) While OPC moved this project to the list of Pro forma projects lacking adequate cost justification, OPC still recommends total disallowance for this projects.

In rebuttal, UIF submitted Amended PCF-20 (HE 223) containing additional documents purporting to show the project costs had increased to $420,937. However, Witness Flynn provided no other corroborating written or live testimony concerning this project nor explanation why the project costs significantly increased. UIF is relying solely on these new documents to support the reasonableness of the project costs.[13] Therefore, UIF failed to meet its burden of proof, and any costs for this project should not be approved.

PCF-27 - Sanlando, Shadow Hills Diversion Project

In his direct testimony, Witness Flynn requested $4,243,423 for the Sanlando, Shadow Hills Diversion project. (TR 326-327; HE 65) UIF provided no supporting documentation for this project in its August 31, 2016 filing. While UIF did provide some planning documents in its filing on October 31, 2016, this refiled exhibit was not moved into the record. (TR 510-512)

On February 25, 2017, UIF submitted documentation in response to Staff's discovery indicating this project had increased to approximately $7.8 million. These documents contained bids for the four most expensive phases and executed contracts dated February 20, 2017. (TR 626-627). From his perspective as a professional engineer, Witness Woodcock expressed major concerns that the project had increased almost 88% from UIF's initial filing and the fact this was a six-phase project with five different contractors. He testified such a substantial increase warranted additional investigation. Moreover, by providing all these new documents for the first time on February 25 shortly before his testimony was due, Witness Woodcock did not have sufficient time to thoroughly review and analyze these documents. (TR 626-627) Therefore, he recommended this project be excluded from rate base. (TR 626-627)

UIF cross-examined Witness Woodcock on why he did conduct a more thorough analysis of the Shadow Hills project. He responded that he did not have ample time to perform a review and render a formal opinion given how much the project had changed from the original filing. (TR 660; 669-670) The evidence shows UIF was clearly in control of timely providing this new information. It had binding bids in early January, but failed to provide them until February 25, 2017, despite providing responses to OPC's discovery request on all 47 of UIF's pro forma projects on February 6, 2017. (TR 629; HE 282)

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[13] The documents in the amended exhibit are pure hearsay for which there is no exception. *See* Section 120.57(1)(c), F.S. None of the documents provided in the amended exhibits would be admissible over objection in civil actions; therefore, they cannot be the basis for a finding of fact to support this project's cost. (*Id*.)

In rebuttal, UIF provided Amended PCF-27, containing documents purporting to show the costs increased had to $7,781,739. (HE 232) Witness Flynn[14] attempted to explain why UIF's original cost estimate of $4,243,423 was so erroneous, claiming it was based on recent contract bids and other assumptions. Yet, after filing its petition in this case, UIF changed the scope of the project, used more updated cost estimates, and added 2,000 square foot for the Des Pinar field office. (TR 1241-1242) While the Des Pinar field office added more than $1,000,000 to the cost of the Shadow Hills diversion project, Mr. Flynn's explanation does not adequately explain or support why the costs increased from $4.2 million to over $7.7 million. For these reasons, and the reasons provided by Witness Woodcock, UIF failed to meet its burden of proof, and this project should not be included rate base.

*PCF-33 ** - Orangewood, Buena Vista WM Replacement*

In his direct testimony, Witness Flynn requested $1,200,000 for the Orangewood, Buena Vista WM Replacement project. (TR 328; HE 71). However, UIF provided no documents to support this request in its August 31, 2016 filing. (TR 510-512) UIF filed updated exhibits on October 31, 2016, for this project which simply stated "Held for future use". At the conclusion of Witness Flynn's direct testimony, PCF-33 (HE 71) was not moved into the record. (TR 510-512) OPC Witness Woodcock disallowed cost recovery for this project based on UIF's failure to provide any cost information until March 2. Witness Woodcock later revised his testimony to move this project from his list containing no supporting documentation; however, it does not change his position that UIF failed to adequately support this project for recovery. (TR 627-630; 662; 667)

In rebuttal, UIF provided Amended PCF-33 containing documents purporting to show the costs had increased to $2,174,118. (HE 232) However, Witness Flynn provided no corroborating written or live testimony concerning this project nor explanation why the project costs significantly increased. UIF is relying solely on these new documents to support the reasonableness of the project costs.[15] Therefore, UIF failed to meet its burden of proof, and any costs for this project should not be approved.

*PCF-34 ** - Summertree, Well Abandonment*

In his direct testimony, Witness Flynn requested $200,000 for the Summertree, Well Abandonment project. (TR 328; HE 72). However, UIF provided no documentation to support this request in its August 31, 2016 filing. UIF filed updated exhibits for this project on October 31, 2016, which simply stated "Held for future use". At the conclusion of Witness Flynn's direct testimony, PCF-34 (HE 72) was not moved into the record. (TR 510-512) OPC Witness Woodcock disallowed cost recovery for this project based on UIF failure to provide any cost information until March 2. Witness Woodcock later revised his testimony to move this project from his list containing no

[14] Witness Flynn references PCF-18 instead of PCF-27, which is the correct exhibit for the Shadow Hills project.

[15] The documents in the amended exhibit are pure hearsay for which there is no exception. *See* Section 120.57(1)(c), F.S. None of the documents provided in the amended exhibits would be admissible over objection in civil actions; therefore, they cannot be the basis for a finding of fact to support this project's cost. (*Id.*)

supporting documentation to his list of projects lacking adequate cost justification; however, it does not change his position that UIF failed to adequately support this project for recovery. (TR 627-630; 662; 667)

In rebuttal, UIF provided Amended PCF-34, containing documents purporting to show the costs decreased to $176,826. (HE 233) However, Witness Flynn provided no corroborating written or live testimony concerning this project nor explanation why the project costs changed. UIF is relying solely on these new documents to support the reasonableness of the project costs.[16] Therefore, UIF failed to meet its burden of proof, and any costs for this project should not be approved.

**OPC moved these pro forma projects from Category 4 to Category 3 as a result of Witness Woodcock's corrected testimony.

Category 4 – Pro forma projects Without Any Cost Justification (TR 618)

PCF-13 - Longwood, Groves I&I Remediation

In his direct testimony, Witness Flynn requested $450,000 for the Longwood, Groves I&I Remediation project. (TR 323; HE 51). However, UIF provided no documents to support this request in its August 31, 2016 filing. UIF filed updated exhibits for this project on October 31, 2016, which simply stated "Held for future use". At the conclusion of Witness Flynn's direct testimony, PCF-13 (HE 51) was not moved into the record. (TR 510-512) OPC Witness Woodcock disallowed cost recovery on the basis UIF failed to provide any adequate cost information until March 2.

In rebuttal, UIF provided Amended PCF-13 containing documents purporting to show the costs decreased to $323,717. (HE 218) However, Witness Flynn provided no corroborating written or live testimony concerning this project nor explanation why the project costs changed. UIF is relying solely on these new documents to support the reasonableness of the project costs.[17] Therefore, UIF failed to meet its burden of proof, and any costs for this project should not be approved.

PCF-17 - Mid-County, Excess I&I Remediation

In his direct testimony, Witness Flynn requested $600,000 for the Mid-County, Excess I&I Remediation project. (TR 324; HE 55). However, UIF provided no documents to support this request in its August 31, 2016 filing. UIF filed updated exhibits on October 31, 2016, which simply stated

[16] The documents in the amended exhibit are pure hearsay for which there is no exception. *See* Section 120.57(1)(c), F.S. None of the documents provided in the amended exhibits would be admissible over objection in civil actions; therefore, they cannot be the basis for a finding of fact to support this project's cost. (*Id.*)

[17] The documents in the amended exhibit are pure hearsay for which there is no exception. *See* Section 120.57(1)(c), F.S. None of the documents provided in the amended exhibits would be admissible over objection in civil actions; therefore, they cannot be the basis for a finding of fact to support this project's cost. (*Id.*)

"Held for future use". At the conclusion of Witness Flynn's direct testimony, PCF-17 (HE 55) was not moved into the record. (TR 510-512) OPC Witness Woodcock disallowed cost recovery on the basis UIF failed to provide any adequate cost information until March 2.

In rebuttal, UIF provided Amended PCF-17 containing documents purporting to show the costs decreased to $147,577. (HE 221) However, Witness Flynn provided no corroborating written or live testimony concerning this project nor explanation why the project costs changed. UIF is relying solely on these new documents to support the reasonableness of the project costs.[18] Therefore, UIF failed to meet its burden of proof, and any costs for this project should not be approved.

Conclusion

UIF has the burden to prove the prudence and reasonableness for all pro forma projects it is requesting to include in rates. It had control of this information and it should have been provided as part of its original petition for rate relief in accordance with the applicable Commission rules. Certainly, UIF should not be allowed to substantively enlarge its rate request in rebuttal. For the reasons contained here, the Commission should disallow cost recovery for all pro formal projects where UIF failed to meet its burden.

ISSUE 10: What are the appropriate plant retirements to be made in this docket?

POSITION: *Each pro forma addition replacing existing plant must be reviewed to determine the appropriate retirement amount. Application of the 75% factor is appropriate for some projects; however, it should not be utilized where it results in retirement amounts exceeding the respective plant account balance. The retirement of existing plants should not result in a negative accumulated depreciation balance with zero associated plant balance, otherwise the negative balance will increase rate base in perpetuity.*

ARGUMENT:

Retirements Associated with Pro Forma Replacement Plant Additions

In calculating the amount of pro forma retirements associated with the pro forma plant additions, UIF applied a 75% factor to the projected plant addition amount, removing 75% of the new project costs from the respective plant in service and accumulated depreciation accounts. (TR 723) UIF applied a 75% factor because (1) it was "…established by the Commission in those instances where the original cost of the retired asset cannot be determined" and (2) it "…has been established by the Commission as reasonable and has been followed by UIF in numerous prior rate cases." (TR 723 and HE 173, OPC Interrogatory No. 1-69).

[18] The documents in the amended exhibit are pure hearsay for which there is no exception. *See* Section 120.57(1)(c), F.S. None of the documents provided in the amended exhibits would be admissible over objection in civil actions; therefore, they cannot be the basis for a finding of fact to support this project's cost. (*Id.*)

While application of the 75% factor may be appropriate for many projects in situations in which UIF does not know the original cost of the plant being retired, it is not appropriate in all instances. In several instances, UIF's application of the 75% factor results in adjustments removing plant amounts that exceed the entire balance of plant actually recorded in the respective plant account. The Utility conceded that the retirement adjustments for several of its projects remove more from the books than actually exists on the books. (TR 723 and HE 173, OPC Interrogatory No. 1-68(b))

Clearly, it is not appropriate to remove a larger amount of plant from UIF's books associated with the replacement and retirement of an existing asset than what was actually recorded to begin with. Application of the 75% methodology in determining the plant retirements results in negative accumulated depreciation balances for several accounts. (TR 722-723) Negative accumulated depreciation is an increase to rate base. There can be a situation where a temporary negative accumulated depreciation balance occurs, such as retiring a plant before the end of its depreciation life without special early retirement loss recovery provisions. However, regular on-going negative accumulated depreciation balances are not the norm (TR 720-721 and TR 850-851), and should be avoided since they result in an increase to rate base.

Rule 25-30.140(1)(j), F.A.C., defines depreciation accounting as the process of charging the book cost of depreciable property, adjusted for net salvage, to operations over the associated useful life of that property. As assets are depreciated, the accumulated depreciation balance increases. Once an asset is fully recovered, the accumulated depreciation balance will cover the full asset cost. (TR 720-721) In this case, UIF's inclusion of pro forma retirement adjustments at amounts that exceed the full plant account balances causes a distortion in the depreciation process as potentially significant negative accumulated depreciation balances result that will not be removed over time since there is no corresponding plant value to depreciate. Thus, it becomes a windfall to UIF as it would allow it to earn a return on the increased rate base in perpetuity.

For each pro forma plant addition approved in this case that pertains to the replacement of existing plant, the corresponding adjustment to retire the existing plant should be capped at the test year-end balance of the impacted plant account or at a lower amount where appropriate. The adjustment to plant in service and accumulated depreciation for the associated plant retirement should be either: (1) the result of the application of the 75% factor to the new plant additions; or (2) if a negative plant in service balance for the account would result from applying the 75% methodology, the actual balance in the impacted plant in service account as of the end of the test year. Additionally, where circumstances warrant, a lower retirement amount than the existing end of test year plant balance may be appropriate. (TR 724) UIF agreed that for some of the replacement projects contained in its filing, application of the 75% methodology resulted in retirement exceeding the actual plant balances. UIF also agreed that in such instances, a more appropriate estimate of the original cost of the retired plant assets should be used. (TR 1424) Further, the Utility agreed with

OPC's recommended application of the retirement caps so that amounts are not retired in excess of the actual per-book balances. (TR 1424)

The pro forma retirement adjustments, either applying the 75% methodology or capped at the actual plant balances, have a $0 overall impact on rate base in this case as an equal amount is removed from both plant in service and accumulated depreciation under both methods. However, depreciation expense is impacted as the depreciation rates are applied to the remaining plant balance after retirement. (TR 1424) While application of the cap may result in higher depreciation expense, it is the correct approach to utilize as depreciation expense would not be artificially reduced through removal of plant in excess of the actual plant balances on the books.

The appropriate pro forma retirement adjustments to be recognized in this case should be determined based on OPC's recommended pro forma plant additions addressed under Issue 9.[19] A majority of the pro forma retirement adjustments recommended by OPC are based on the application of the 75% methodology. Each instance in which the retirement amount should be less than the result of the 75% methodology are addressed below.

Longwood: For the Church Avenue Relocation Project in the Longwood wastewater system, applying the 75% factor results in removing significantly more than the plant balance existing on UIF's books. The pro forma retirement adjustment should be capped at the balance in Account 360.2 of $23,870. To implement this $23,870 retirement cap, UIF should increase plant in service $103,630, increase accumulated depreciation by $101,903 and increase depreciation expense by $3,454. (TR 759-760 and HE 119, pp. 3 and 5) The Utility has agreed with the retirement cap for this project based on the actual balance in the respective plant account. (TR 1431)

UIF-Orange: For the Crescent Heights Water Main Replacement Project in the Orange County water system, applying the 75% factor results in removing significantly more than the plant balance existing on UIF's books. The pro forma retirement adjustment should be capped at the balance in Account 331.4 of $199,193. To implement this $199,193 retirement cap, coupled with OPC's recommended reduction to this pro forma plant addition , UIF should increase water plant in service by $1,153,967, increase accumulated depreciation by $1,153,967 and increase depreciation expense by $26,817. (TR 788-789 and HE 127, p. 7) The Utility has agreed with the retirement cap of $199,193 for this project. (TR 1437)

UIF-Pinellas: For the Lake Tarpon Water Main Replacement Project in Pinellas County, applying the 75% factor results in removing significantly more than the plant balance existing on UIF's books. The balance in the associated plant in service account, Account 334.1, was $549,517

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[19] The associated adjustments to reflect the appropriate retirements to plant in service and accumulated depreciation for each of the OPC recommended pro forma replacement plant additions are also presented in Table 9-1 referenced in Issue 9.

with an accumulated depreciation balance of $86,151. However, the system being replaced is nearly 50 years old and has already exceeded the 43 year assumed depreciable life used by the Utility and therefore, should already be fully depreciated on UIF's books. The Utility indicated in response to discovery that the balance in Account 331.4 was associated with the replacement of galvanized pipe in a previous 2014 capital project. Hence, very little if any balance remains on the books associated with the water mains being replaced. Thus, OPC recommends that no pro forma retirement adjustment be made associated with this project. To implement the recommended removal of the pro forma retirement adjustment, UIF should increase water plant in service by $750,000, increase accumulated depreciation by $750,000 and increase depreciation expense by $17,442. (TR 803-804 and HE 129, pp. 3 and 5) The Utility agrees that a retirement of $0 for this project is acceptable. (TR 1438-1439)

UIF-Seminole: For the Seminole County Water Main Replacement Projects, applying the 75% factor results in removing significantly more than the plant balance existing on UIF's books. The retirements reflected in the MFRs would remove $6,413,913 from plant in service and accumulated depreciation; however the balance in the respective plant account, Account 334.1 – Transmission & Distribution Mains, was only $1,922,100 at the end of the test year with an accumulated depreciation balance of $645,696 for a net plant balance of $1,276,404. Additionally, the account includes significant investments made by the Utility in 2013 in Park Ridge, as well as investments in Jansen and Wethersfield. The actual plant balances in Account 334.1 in December 2000, which was prior to these more recent plant additions, was $885,984. Thus, OPC recommends that the retirements associated with these projects be limited to $886,000 to ensure that the plant additions since 2000 that remain in service are not removed from UIF's books. Accordingly, the pro forma retirement adjustment should be capped at $886,000. To implement this $886,000 retirement cap, coupled with OPC's recommended reduction to this pro forma plant addition , UIF should increase water plant in service by $5,489,669, increase accumulated depreciation by $5,516,978 and increase depreciation expense by $127,572. (TR 808-811 and HE 126, p. 9) The Utility has agreed with the retirement cap based on the December 31, 2000 plant balance for this project. (TR 1440)

For the Northwestern Force Main Replacement Project in the Seminole County wastewater system, applying the 75% factor results in removing significantly more than the plant balance existing on the Utility's books. The pro forma retirement adjustment should be capped at the balance in Account 360.2 of $28,207. To implement this $28,207 retirement cap, coupled with OPC's recommended reduction to this project, UIF should increase wastewater plant in service by $16,793, increase accumulated depreciation by $193,329 and increase depreciation expense by $563. (HE 127, p. 10) The Utility has agreed with the retirement cap of $28,207 for this project. (TR 1440)

As addressed previously herein, OPC recommends several of UIF's proposed pro forma projects be rejected for inclusion in rates. For any of these replacement projects in which the Commission disagrees with OPC's recommendations, such projects should be individually reviewed to ensure that the associated pro forma retirement adjustment does not result in amounts being removed from plant in service and accumulated depreciation that exceed the actual plant in service balance for the impacted plant in service accounts as of the end of the historic test year.

Retirements Associated with Plant Not Being Replaced

Where UIF is currently carrying negative accumulated depreciation balances on its books but the corresponding plant account has a zero balance, presents a significant problem that should be rectified by the Commission. Because there will be no depreciation expense recorded on the books for that asset account in the future as there is $0 asset balance in the account, this results in a negative accumulated depreciation balance associated with that asset account which will never go away and remain on the books, thus increasing rate base in perpetuity unless the negative accumulated depreciation balance is removed. (TR 721)

For example, UIF's filing includes several adjustments to plant in service and accumulated depreciation to reflect the recent retirement of the Sandalhaven WWTP, impacting plant accounts 354.4, 355.4, 380.4 and 381.4. After the Utility's adjustments to retire this asset, the plant in service balances for these accounts total $0, while the accumulated depreciation for these four accounts, on a combined basis, total negative $163,421. Additionally, UIF's retirement adjustment results in Plant Account 389.4 having a balance of $239 with the associated accumulated depreciation balance being ($6,121). Absent a revision to the Utility's pro forma adjustments, the negative accumulated depreciation balance of ($169,542) will increase rate base in perpetuity, resulting in customers paying a return on this balance indefinitely. (TR 780-781)

The Commission addressed the Sandalhaven WWTP plant retirement adjustments in its recent Order No. PSC-16-0013-PAA-SU. (TR 781). While the adjustments contained in UIF's MFRs are consistent with that Order, the result of requiring UIF's customers to pay a return on a now non-existent plant in perpetuity is not fair, just or reasonable. OPC submits there are two options to address the negative accumulated depreciation balances: (1) remove the remaining accumulated depreciation from the Utility's books, reducing rate base by $169,542; or (2) amortize the negative balance over a specific period of time, such as the ten-year period approved for the net loss on the WWTP addressed at page 11 of Order No. PSC-16-0013-PAA-SU. (TR 782-783) OPC recommends that the first option, removing the $169,542 from rate base be adopted in this case as an expedited way to resolve this problem. (TR 783)

In response to OPC's recommendation to resolve the $169,542 of negative accumulated depreciation for Sandalhaven, UIF proposed an adjustment in its rebuttal filing to ensure the negative accumulated depreciation balance does not remain in rate base. (TR 1470-1471) The Utility argues the remaining accumulated amortization of CIAC, along with the negative accumulated depreciation balance, be factored into the determination of the loss on retirement. The balance would then be amortized over a ten-year period with the unamortized balance included in working capital and the amortization expense being recognized. (TR 1435 and HE 249) This position was subsequently modified during the hearing when Ms. Swain indicated that any net loss should instead be deferred and amortized over a period dictated by the Commission's rules and not over a ten-year period. (TR 1471) During cross, Witness Swain also agreed that there was an error in her calculation of the net loss on the retirement of the Sandalhaven WWTP plant with regards to the amount of accumulated amortization of CIAC included in UIF's calculations presented in her Exhibit DDS-3 Revised, which was presented as Hearing Exhibit 249. (TR 1472-1474)

OPC continues to recommend the best option to address the negative accumulated depreciation balance resulting from the Sandalhaven WWTP retirement is to reduce rate base by $169,542. However, if UIF's alternative approach is adopted, at a minimum, the error in the accumulated amortization of CIAC balance in the Utility's calculation must be corrected and the amortization period should be modified to reflect the appropriate amortization period under Rule 25-30.433(9), F.A.C, which provides the calculation for determining the amortization period for the prudent retirement of plant assets before the end of their depreciable lives.

Longwood: UIF includes an adjustment for the Longwood wastewater system to divert the flow from the Shadow Hills WWTP to the Wekiva WWTP. As part of that project, the Utility included an adjustment to reflect the retirement of the Shadow Hills WWTP. The Utility's adjustment to retire the Shadow Hills WWTP results in the Treatment and Disposal Plant in Service balances being $0 and the associated accumulated depreciation balancing becoming negative, with a balance of ($1,639,137). Under this scenario, the $1,639,137 negative accumulated depreciation balance would remain in rate base in perpetuity. (TR 756-757) This is clearly not fair, just or reasonable as UIF would permanently receive a return on an asset that would no longer exist. (TR 758)

In rebuttal, UIF agreed that retirement of the accumulated depreciation associated with the Shadow Hills WWTP should be limited to the balance in the account. The Utility also recommended that the net loss on retirement be amortized over ten years, with the unamortized balance included in working capital. (TR 1431). As discussed earlier, OPC is not recommending this project be approved. However, if the Commission does approve this project, then OPC continues to recommend the retirement adjustment to the accumulated depreciation account be limited to the account balance, with the net loss on retirement being addressed in a future proceeding.

ISSUE 11: Do any water systems have excessive unaccounted for water and, if so, what systems and what adjustments are necessary, if any?

POSITION: *Yes. OPC Witness Woodcock calculated the excessive unaccounted for water (EUW) percentages for each UIF water system. The table below reflects the ten systems with excessive unaccounted for water, percentages, and recommended adjustments as calculated by OPC Witness Ramas.*

System	Excessive unaccounted for water (expressed as a percent of total water pumped or purchased)	Expenses related to excessive unaccounted for water (in dollars)
Labrador	4.60%	(460)
Lake Placid	3.06%	(108)
Pasco – Orangewood et. al.	7.66%	(1,234)
UIF Marion	1.35%	(203)
UIF Pinellas – Lake Tarpon	10.20%	(415)
UIF Seminole – Ravenna Park et. al.	0.95%	(76)
UIF Seminole – Little Wekiva	4.81%	(66)
UIF Seminole – Oakland Shores	2.23%	(282)
UIF Seminole – Phillips	1.56%	(28)
UIF Seminole – Weathersfield	1.31%	(338)

ARGUMENT:

OPC Witness Woodcock conducted an excessive unaccounted for water (EUW) analysis for each UIF water system. (TR 591-593; HE 96) Any unaccounted for water (i.e., water that was not sold, used for flushing, or other utility purposes) over the 10% threshold pursuant to Rule 25-30.4325(1)(e), F.A.C., was deducted from the used and useful calculation. (TR 591-592; see EUW Table on TR 592; HE 96) According to Witness Woodcock's calculations, ten (10) UIF water systems had EUW above the 10% threshold, requiring an adjustment. In rebuttal, UIF Witness Seidman only disputed Witness Woodcock's EUW finding for UIF Seminole-Ravenna Park asserting that the 1% EUW should be 0% because Ravenna Park and Crystal Lake systems are interconnected. (TR 118-1181) Witness Woodcock calculated the EUW for Ravenna Park to be 0.95% for Ravenna Park. (TR 592; HE 96) The Commission should adopt Witness Woodcock's EUW calculations, including Ravenna Park, and reduce the expenses by the amount Witness Ramas' schedules (summarized above). (TR 592)

<u>ISSUE 12</u>: Do any wastewater systems have excessive infiltration and/or inflow and, if so, what systems and what adjustments are necessary, if any?

POSITION: *Yes. OPC Witness Woodcock calculated the infiltration and/or inflow (I&I) percentages for each UIF wastewater system. The table below reflects the systems with excessive infiltration and/or inflow, percentages, and recommended adjustments as calculated by OPC Witness Ramas.*

<u>System</u>	**Test Year Excessive I&I (gallons)**	**Test Year Excessive I&I <u>(as a percent of WWTP flow)</u>**	**<u>Expenses related to excessive inflow and infiltration (in dollars)</u>**
Sandalhaven	4,225,819	8.37%	(28,486)
UIF Pasco – Wis Bar	951,518	17.22%	(33,025)
UIF Seminole – Lincoln Heights	8,717,900	37.41%	(69,439)

ARGUMENT:

OPC Witness Woodcock conducted an infiltration and inflow (I&I) analysis for each UIF wastewater system. He explained how I&I increases the cost of wastewater treatment while decreasing the amount of available wastewater treatment capacity. (TR 594-596; HE 97) Witness Woodcock's I&I calculation, consistent with Order No. PSC-16-0013-PAA-SU (Sandalhaven), used the actual reported wastewater flows treated by the WWTP and estimated flows returned to the WWTP, applying a factor of 80% of billed water for residential connections and 90% of billed water for non-residential connections. (TR 594-595) Consistent with the Commission's I&I methodology, he determined that three systems experienced excessive I&I during the test year. (TR 594-595)

UIF Witness Seidman agreed with Witness Woodcock's excessive I&I calculation for the Wis-Bar system, but disagreed for Sandalhaven and UIF Seminole – Lincoln Heights. (TR 1181-1183). Instead of applying the Commission's updated I&I methodology, Witness Seidman relied on two older prior Commission orders, dating back to 2007, for his I&I calculation methodology and inputs. The Commission should disregard Mr. Seidman's recommendations for the following reasons. For Sandalhaven, Mr. Seidman cited to Order No. PSC-07-0865-PAA-SU, which applied a 2007 methodology for calculating I&I, without submitting any new facts to support his recommendation that the Commission revert to its old methodology. On the other hand, Witness Woodcock cited to Order No. PSC-16-0013-PAA-SU, Sandalhaven's most recent rate case. In that 2016 docket, the Commission declined to continue its prior 2007 I&I methodology. Therefore, there is no reason in this case to depart from the Commission's 2016 I&I methodology and utilize Witness Seidman's recommended outdated I&I methodology.

For Lincoln Heights, sometimes referred to as Ravenna Park or Ravenna Park/Lincoln Heights, Witness Seidman cited to Order No. PSC-07-0505-SC-WS, which applied a 2007 I&I methodology. In a 2014 rate case for this system, the Commission did not address the percentages used for I&I methodology; however, UIF did make a 2011 pro forma plant addition to correct the I&I situation at Ravenna Park. *See* Order No. PSC-14-0025-PAA-WS, in Docket No. 120209-WS at 28-29. Despite the 2011 pro forma project, excessive I&I issues continue to linger as shown by the excessive amount of I&I in this docket. Since the 2014 case, the Commission has issued two orders setting forth its I&I methodology. These orders, Order No. PSC-15-0282-PAA-SU (Highlands County) and Order No. PSC-16-0013-PAA-SU (Sandalhaven), utilize the current I&I methodology which Witness Woodcock applied in his I&I calculation for this system.

Furthermore, UIF provided no additional evidence or support to demonstrate that the 2007 I&I methodology for Sandalhaven and Lincoln Heights is still reliable and should be utilized in this proceeding. Therefore, the expenses related to excessive I&I should be reduced by the amounts described in Witness Woodcock's testimony and Witness Ramas' schedules (summarized above). (TR 595-596)

Witness Seidman did identify a potential error in Witness Woodcock's I&I percentage for Lincoln Heights and argues the excessive I&I should be 32.62%. (TR 1183) OPC agrees that there is an error in Mr. Woodcock's calculation; however, the corrected calculation for the excessive I&I changes the percentage from 37.41% to 35.63%, and not 32.62% recommended by Witness Seidman.

ISSUE 16: What are the appropriate used and useful percentages for the wastewater treatment and related facilities of each wastewater system?

POSITION: *Pursuant to Rule 25-30.4325, F.A.C. and OPC Witness Woodcock's testimony, the appropriate used and useful percentages should be as follows: LUSI – 53.55%. (HE 99); Mid-County – 93.67%. (HE 100); Lake Placid – 29.79%. (HE 101, 102); Labrador – 40.59%. (HE 103, 104); Crownwood – 53.20%. (HE 106, 107); Sandalhaven Components: Englewood Water District Capacity Fees – 42.24%; Master Lift Station – 11.27%; Pumping Plant – 27.25%; Force Main – 13.55%. (HE 108, 109)*

ARGUMENT:

Section 367.081(2)(a)2., F.S., prescribes the Legislature's used and useful policy applicable to all water and wastewater systems regulated by the Commission. Section 367.081(2)(a)2., in pertinent part, states:

> Utility property [is] . . . used and useful in the public service, if:
> a. Such property is needed to serve current customers;
> b. Such property is needed to serve customers 5 years after the end of the test year . . . at a growth rate for equivalent residential connections not to exceed 5 percent per year; **or**
> c. Such property is needed to serve customers more than 5 full years after the end of the test year . . . only to the extent that the utility presents **clear and convincing evidence** to justify such consideration.

(emphasis added).

The Commission's used and useful methodology tracks Section 367.081(2)(a)2. a.&b., F.S., and Rule 25-30.432, F.A.C. The methodology used to determine the used and useful percentage is as follows: (1) the numerator is the current customers' test year flows plus calculated future customer flows applying the "5-year growth capped at 5% per year" procedure less any excess I&I; and (2) the denominator is the plant's capacity.[20] According to Section 367.081(2)(a)2.c, the Commission may depart from Section 367.081(2)(a)2.b if a utility provides *"clear and convincing evidence* to justify consideration." As the record evidence shows, UIF did not provide any clear and convincing evidence to depart from the 5-year growth allowance capped at 5% per year to calculate the future customer flows input to the used and useful calculation for LUSI and Sandalhaven. Further, the statute and rules have no express or implied provisions for including projected flows associated with prepaid customers as part of the future customer flow calculation. As the statute is silent on this point, there is no statutory authority to include future flows associated with prepaid customers in the numerator of the used and useful analysis.

<u>Used and useful policy</u>

Florida law allows a utility to earn a fair and reasonable return only on plant assets that are used and useful for its current customers with an allowance for future customers. This policy provides an incentive to the utility to prudently plan for future growth, protects the customers from imprudent growth planning or previously overbuilt capacity, and ensures that current customers pay for the portion of the plant capacity used in the public service. The Commission's allowance for funds prudently invested (AFPI) helps mitigate the effect of a used and useful adjustment, allowing a utility to be partially compensated for a portion of its non-used and useful plant when a new customer pays his or her service availability charge to connect to the system.

According to UIF Witness Seidman's Exhibit FS-2, all UIF systems, except LUSI, should be considered 100% used and useful in the public service. He determined LUSI to be 59.00% used and useful. (HE 36) In his direct and rebuttal, UIF Witness Hoy also addresses the Commission's application of the Legislature's used and useful policy. (TR D4; TR 1497-1498) He claimed, without any proof, that the application of the used and useful policy to utility investments will act as a "deterrent for future prudent capital investment to meet the state's future needs." (TR 1497) Witness Hoy also claimed that a liberal interpretation of the used and useful policy can be a further penalty, and attacked OPC Witness Woodcock's straightforward application of the used and useful analysis as being "liberal." (TR 1497) Witness Hoy further speculates that using Witness Woodcock's so-called liberal application of the used and useful policy "would deter any utility from making an investment in that system, or for that matter, in the state of Florida if that's the rule." (TR 1497-1498) However, pursuant to Florida Statutes, a utility owner is required to maintain its

[20] For example: if current customers test year flows were 200,000 gpd, projected future flows are 50,000 gpd, excess I&I is 25,000 gpd, and plant capacity is 300,000 gpd, then the plant is 75% used and useful ([(200,000 gpd + 50,000 gpd) – 25,000 gpd] / 300,000 gpd = .75)

investments irrespective of the Commission's used and useful determinations. Thus, the Commission should wholly disregard Mr. Hoy's testimony because he is essentially arguing the Commission should not apply the statutorily required used and useful analysis utilizing its traditional methodology.

Ironically, UIF Witness Seidman testified that his and Witness Woodcock's used and useful methodologies are the same, but that the application of the methodologies differs. (TR 1188) In other words, both OPC and UIF witnesses apply the same basic U&U formula or methodology, but they differ in their choice of inputs/data, thus resulting in different used and useful percentages for the same systems. In this case, OPC used the Commission's traditional inputs for calculating U&U percentages; whereas, UIF used non-traditional inputs for Sandalhaven and LUSI.

The Commission's traditional U&U analysis and methodology protects customers from oversized utility investments whether built by UIF or acquired in the purchase of an existing system. Current customers should not be penalized because UIF made costly planning decisions based on hoped for extraordinary growth or bought systems where the developer greatly oversized the capacity needed to serve current and future customers. Instead of requesting the Commission make a finding of imprudence for UIF's oversized investments, OPC requests the Commission simply apply its traditional used and useful analysis and methodology as used by OPC Witness Woodcock in his calculations.

Wastewater Systems at Issue in this rate case

OPC Witness Woodcock's used and useful analysis focused on Sandalhaven, LUSI, Mid-County, Lake Placid, Labrador, Eagle Ridge, and Crownwood systems that were not previously considered 100% used and useful. (TR 596) Mr. Woodcock calculated Eagle Ridge to be 84.49% used and useful; however, since this system built-out, he it should be considered 100% used and useful. (TR 607) He calculated used and useful adjustments for each of the remaining systems as discussed in his testimony. (TR 596-617; HE 108, 109)

Sandalhaven System U&U adjustment

The annual revenue impact difference between UIF's and OPC's calculated U&U percentages for Sandalhaven is approximately $579,000. Applying the Commission's traditional used and useful methodology to Sandalhaven will protect customers from oversized investments. The evidence shows that UIF made the decision to purchase capacity from Englewood Water District, as well as size the force main and lift stations for Sandalhaven, based upon developer projections of growth and prepaid CIAC (TR 1189) Yet, UIF's request for 100% U&U treatment for Sandalhaven is to relieve itself of the negative financial impact of buying and building too much capacity for planning purposes if the U&U methodology is correctly applied.

OPC is not challenging whether these past decisions to purchase the amount of capacity for planning purposes was prudent. (TR 609) Nevertheless, being prudent in making planning decisions does not justify a finding that all components of a system are 100% used and useful. (TR 609) It is neither fair nor reasonable for current customers to pay for costly decisions of a utility owner who anticipates extraordinary growth that never materializes. Instead of penalizing customers for UIF's capacity expansion decisions, OPC requests the Commission simply apply its 2007 used and useful analysis and methodology to Sandalhaven. The Commission's traditional methodology was previously used by the Commission for Phase One rates in Sandalhaven's 2007 rate case (Order No. PSC-07-0865-PAA-SU, in Docket No. 060285-SU at 11[21]) and in Sandalhaven's 2003 rate case (Order No. PSC-03-0602-PAA-SU, in Docket No. 020409-SU). Both Orders provide a thorough analysis of how to traditionally calculate used and useful.

In Sandalhaven's 2016 rate case, the Commission departed from its prior methodology for calculating future flows. Instead of relying on the traditional growth allowance set forth in Section 367.081(2)(a)2.b., F.S., and inputs,[22] the Commission included estimated flows from *prepaid customers* and *unbuilt guaranteed revenues* in the numerator of its used and useful analysis. This departure from its traditional used and useful methodology prompted OPC to protest Order No. PSC-16-0013-PAA-SU, in Docket No. 150102-SU. In settling that protest, OPC and UIF expressly agreed that the Commission's used and useful decision in that 2016 rate case would be revisited in this consolidated rate case. Order No. PSC-16-0151-FOF-SU at 1-2 ("the protested issues of the PAA should have no precedential effect or value and can be raised in any future rate case").

The chief rationale in the 2016 Sandalhaven Order for including estimated flows from the prepaid customers in the U&U calculation was flawed. That Order stated: "we find that the estimated flows for the unbuilt guaranteed revenue and *prepaid customers* shall be included in the U&U calculations because, having already been paid for the capacity, *the utility is obligated* to be capable of providing service to these customers *on demand*." Order No. PSC-16-0013-PAA-SU at 15. (emphasis added) However, that is legally incorrect. Sandalhaven is not obligated to provide any wastewater service to the prepaid customers until those customers pay the increased plant capacity charges currently in effect. *See H. Miller & Sons, Inc. v. Hawkins*, 373 So. 2d 913, 916 (Fla. 1979). The 2007 Sandalhaven Order includes an extensive analysis of why unconnected, prepaid customers must pay the plant capacity charges currently in effect before receiving service. *See* Order No. PSC-07-0865-PAA-SU at 45-47.

[21] The 2007 Phase One calculation: "We calculated a 5-year growth capped at 5% per year for the 223 customers to be 56 ERCs in accordance with Section 367.081(2)(a)2.b.2., F.S. Using the designed 190 gallons per day (gpd) per ERC for the 279 (223 plus 56) future customers, the resulting wastewater flow is 52,963 gpd. Dividing the 52,963 gpd by the 300,000 gpd capacity reserved from the EWD yields a used and useful percentage of 17.65%."

[22] The traditional growth allowance and inputs are property needed to serve customers 5 years after the end of the test year at a growth rate for equivalent residential connections not to exceed 5 percent per year which is translated as 5-year growth capped at 5% per year.

According to MFR Schedule F-6 for Sandalhaven, the largest bulk of prepaid capacity was acquired from February 2003 to September 2006 and those plant capacity charges were substantially lower than the charges currently in effect today. (HE 108, 331) The plant capacity charge in effect was $1,250. Order No. PSC-07-0865-PAA-SU at 44. In the 2007 Sandalhaven Order, the plant capacity charge was increased to $2,628. Order No. PSC-07-0865-PAA-SU at 47. In the 2016 Sandalhaven Order, it was increased to $3,270. Order No. PSC-16-0013-PAA-SU. Therefore, Sandalhaven is not obligated to provide service to any of the prepaid customers until they first pay an additional $2,020 per ERC to connect to Sandalhaven's system. According to Schedule F-6, of the total 862 prepaid customers, 833 have only paid the $1,250 plant capacity charge. Prior to interconnecting, these prepaid customers are required to pay the additional $2,020 in plant capacity charges before interconnecting.[23] *See* Order No. 07-0865-PAA-SU (citing *H. Miller & Sons, Inc. v. Hawkins*, 373 So. 2d 913, 916 (Fla. 1979)). Thus, the 2016 Sandalhaven U&U analysis is flawed because Sandalhaven is not currently obligated to serve these prepaid customers on demand.

U&U calculation for Sandalhaven

OPC Witness Woodcock testified that it is speculative and inappropriate to use estimated flows from prepaid customers and unbuilt guaranteed revenues because prepaid growth may never interconnect. (TR 609-613, 616-617) He also testified that it was inappropriate to use expected peak flow rather than the average flow because it is not an apples-to-apples comparison of capacity. (TR 616-617). He testified the 2016 Sandalhaven method for calculating used and useful was a substantial departure from the Commission's historical method for calculating U&U. (TR 616)

As previously mentioned, the annual revenue impact difference between UIF's and OPC's recommended percentages is substantial. If the Commission returns to its traditional method of calculating U&U as described in the 2007 rate case, that will save the customers, on a standalone or consolidated basis, a significant amount of money. Therefore, as described in OPC Witness Woodcock's testimony (TR 615-617) and Exhibit ATW-14 and ATW-15 (HE 108, 109), the appropriate used and useful percentages for the Sandalhaven Components are: (1) Englewood Water District Capacity Fees – 42.24%; (2) Master Lift Station – 11.27%; (3) Pumping Plant – 27.25%; and (4) Force Main – 13.55%. (HE 108, 109)

If the Commission departs from its traditional used and useful policy, and incorporates estimated flows from prepaid customers and unbuilt guaranteed revenues, and uses expected peak flow rather than average flow to calculate the used and useful percentages for the Sandalhaven system, then the Commission must correct the following factual errors to inputs to the used and useful calculation.

[23] Before those 833 prepaid customers can interconnect, developers must pay an additional $1,682,660 in plant capacity charges (833 ERC x $2020/ERC).

Overstated Wastewater Flows and Prepaid ERCs

MFR Schedule F-6 for Sandalhaven (HE 108; 109; 331) describes the status of the prepaid commitments for Sandalhaven as well as ERCs not built going back to 1995. According to this Schedule, there are 862 unused ERCs. (HE 109; 331) Presumably, if the Commission follows its revised 2016 Sandalhaven methodology, then these 862 ERCs would be multiplied by 190 gpd to arrive at the flows associated with those prepaid customers. This will result in an overstatement of wastewater flows. To correct this, the 190 gpd/ERC should be reduced to the average historical rate of 101 gpd/ERC for Sandalhaven. (TR 611)

Overstated prepaid ERCs should be reduced by the number of future customers who will never connect to Sandalhaven. Through discovery and confirmed by Witness Flynn on cross, OPC learned that at least 378 ERCs will not connect to Sandalhaven. (TR 1366-1369; HE 331). Therefore, UIF is no longer responsible for reserving capacity for those non-future customers. The original developer of the Placida Commons/Coral Caye project initially prepaid for 418 ERCs, but the project went bankrupt and was redeveloped into a 96 lot community called Coral Caye. (TR 610; TR 1366-1369) As a result of this redevelopment, 322 prepaid Coral Caye ERCs will never be used for that development. (TR 1366-1369) According to Witness Seidman, prepaid ERCs are non-refundable. (TR 1189). However, since there is virtually no possibility that the 322 prepaid Coral Caye ERCs will ever connect to Sandalhaven, UIF is essentially not obligated to serve those 322 ERCs. Without an obligation to serve these customers within the 5-year period, there is no basis to include prepaid customers in the U&U flow calculation. Thus, the flows associated with those 322 ERCs should be removed from the future flow calculation.

In addition, the 56 ERCs associated with Shamrock Shores should be removed. Witness Flynn agreed that MFR Schedule F-6 showed 56 prepaid ERCs for the Shamrock Shores development. (TR 1365; HE 331) HE 331 contains responses to OPC Interrogatory Nos. 251, 253, and a color map of the Shamrock Shores development. Witness Flynn agreed that UIF had no record of any payment for 56 ERCs for the Shamrock Shores development. (TR 1364-1365) If there is no record of payment for Shamrock Shores, Sandalhaven cannot be obligated to serve those customers. Thus, the flows associated with the 56 Shamrock Shores ERCs should be removed from the used and useful calculation. Thus, 378 (322+56) prepaid customers should be subtracted from the total number of unused ERCs on Schedule F-6 for Sandalhaven. (HE 331).

Peaking factors should be removed

Witness Woodcock testified how and why using peaking factors instead of average annual daily flow (AADF) in the U&U calculation overstates the U&U percentage. (TR 616-617) He testified that when doing a U&U analysis, it is crucial that the basis of flow (AADF, peak hour, maximum day) be the same for both the numerator (the adjusted flow) and the denominator (the facility capacity). (TR 617) Without an apples to apples U&U analysis, the flows will be overstated. (TR 617) Thus, peaking factors should not be used when calculating U&U in any case.

Corrected gpd capacity for key components

Witness Woodcock examined the design engineering documents for Sandalhaven, and discovered the wrong capacity (gpd) was being utilized for some of the Sandalhaven components – Master Lift Station, Pumping Plant, and Force Main. (TR 614-615) He used the corrected design capacity in his U&U calculation.[24] (TR 614-615)

Summary of Sandalhaven

Removing the never-to-be-used prepaid customers from the flow calculation, using apples to apples AADF in the numerator and denominator, using the historical per ERC flow rate, and using the corrected gpd capacity for key components will result in a substantially smaller U&U percentage for Sandalhaven as opposed to using the methodology from the 2016 Sandalhaven Order. For the reasons discussed above, OPC Witness Woodcock recommends that the Commission follow its traditional U&U calculation methodology and inputs as used in every Commission Order, with the exception of the 2016 Sandalhaven rate case.[25] (TR 610-611)

LUSI – 53.55%.

OPC Witness Woodcock calculated the LUSI WWTP to be 53.55% U&U as shown on ATW-5. (TR 602-603; HE 99) He disagreed with UIF's inclusion of 187 prepaid ERC connections at 280 gpd/ERC used in its growth allowance. (TR 602) Including prepaid connections inflates the U&U percentages and requires current customers to pay indefinitely for system capacity that may never be used by any future customers. (TR 599) It also double counts those connections and adds speculative growth assumptions to the U&U calculation beyond what is allowed by the applicable statutes and rules. (TR 602)

In his rebuttal, Witness Seidman disagrees with Witness Woodcock's removal of the 187 prepaid customers from the calculation. (TR 1187) However, Witness Seidman ignored the fact that Section 367.081(2)(a)2., F.S., does not contemplate the inclusion of prepaid connections in the growth rate; it is not expressly or impliedly mentioned as one of the factors to be included in the growth rate in the statute, nor any of the Commission's U&U rules. Therefore, prepaid connections must be removed from the used and useful calculation. After removing this excessive growth allowance, the LUSI used and useful percentage should be 55.55%. If prepaid connections are used, the Commission should use the average historical rate of 131 gpd/ERC calculated for LUSI and not the unreasonably high 280 gpd/ERC used by UIF. (TR 603)

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[24] The revised capacity amounts are described on page 28 and 29 of his testimony, the justification for using revised capacity amounts are supported by his Exhibit ATW-14 (HE 108), and these capacity amounts were used for his recommended used and useful percentages. (TR 614-615)

[25] The 2009 KWRU Final Order U&U calculation is distinguishable for the reasons described in Witness Woodcock's testimony. (TR 600) In the KWRU case, Monroe County reserved the remaining unused plant capacity for existing Stock Island residents who could not afford to connect to KWRU at that time. Those customers exist even if they had not connected to KWRU. In Sandalhaven, the future customers do not yet exist.

Mid-County – 93.67%

OPC Witness Woodcock calculated the Mid-County WWTP to be 93.67% used and useful as shown on ATW-6. (TR 603-605; HE 100) Using flow data obtained from the FDEP Discharge Monitoring Reports (DMRs), he calculated a U&U percentage which is slightly higher than UIF's calculation of 91.75% (using test year data) and the Commission's previously approved U&U percentage of 92% set by Order No. PSC-09-0373-PAA-SU. (TR 604; 1185-1186) Witness Seidman argued that Mid-County should be 100% used and useful because it is built-out, and he claims that new growth has not resulted in increases in flow. (TR 1185) However, since the test year, flows have increased as shown by DEP DMRs for Mid-County. (TR 604) Because there is potential for growth and flows are increasing, the Commission should rely upon OPC's recommended 93.67% U&U calculation instead of UIF's blanket request for it to be 100%.

Lake Placid – 29.79% U&U

OPC Witness Woodcock calculated the Lake Placid WWTP to be 29.79% used and useful (U&U). (TR 605; HE 101, 102) While UIF calculated it to be 20.83%, it initially requested it to be considered 100% used and useful (TR 605; 1187; HE 36) The Commission historically found Lake Placid to be 28.5% U&U. See Order No. PSC-14-0335-PAA-WS. (TR 605) Unrefuted evidence shows that growth has occurred since the last rate case. (TR 605; 1187; HE 102). In rebuttal, Witness Seidman admitted this system is experiencing new growth and that it should not be considered 100% U&U; however, he does not provide an alternative to OPC's calculation. (TR 1187) He also claimed that the remaining area for development was later designated as a scrub jay habitat (TR 1187); yet, he provides no documentation to support this assertion. Further, when UIF acquired this system from the developer, presumably the purchase price was adjusted for the low U&U percentage. Thus, it would be a windfall to UIF to have this system designated 100% U&U, simply because the developer decided not to develop the remaining service territory. Without any evidence to the contrary, the Commission should adopt OPC's recommended 29.79% U&U calculation for Lake Placid. (TR 605-606; HE 101, 102)

Labrador – 40.59%

OPC Witness Woodcock calculated the Labrador WWTP to be 40.59% used and useful. (TR 606) While UIF calculated U&U to be 40.27%, it claimed the system is built-out and should be considered 100% U&U. (TR 606; HE 103, 104) It is undisputed there is a 11.6 acre undeveloped parcel in the service territory and that there is extensive undeveloped land surrounding Labrador. (TR 606; HE 104) Therefore, the system is clearly not built-out because of the potential for new customer growth both inside and outside the service territory. (TR 606) In his rebuttal, Witness Seidman argues there is no expectation the 11.6 acre parcel will ever be built because Labrador residents have used that parcel for storing RVs and boats for many years. (TR 1186) This argument ignores the obvious fact that the owner of the parcel could develop the property at any time for a purpose that requires wastewater capacity. UIF should not receive a windfall increase in the U&U

percentage from 40.59% to 100% simply because the owner of the 11.6 acre parcel currently allows it to be used for storage.

Crownwood – 53.20%

OPC Witness Woodcock calculated the Crownwood WWTP to be 53.20% used and useful. (TR 608; HE 106) UIF argues it should be considered 100% U&U. (HE 36) According to MFR Schedule F-6, UIF calculated it to be 53.73% U&U, but claimed that Order No. PSC-14-0025-PAA-WS determined Crownwood to be 100% U&U. (See UIF-Marion-Golden Hills/Crownwood MFR Schedule F-6, page 1 of 2). However, the Order cited by UIF as justification for its proposal did not involve the UIF Marion County systems or Crownwood, thus, UIF's reliance on that Order is misplaced. (TR 608) OPC Witness Woodcock found, while the Crownwood development is built-out, there is extensive undeveloped land adjacent to this development. (TR 608; HE 107) In rebuttal, Witness Seidman provided the history of the development; yet he does not dispute that the land immediately adjacent to Crownwood is available for development. Rather, he claimed that the future developers would favor large lots and septic systems over connecting to Crownwood. (TR 1186-1187) However, Mr. Seidman's assertion is mere speculation and no support was provided for this statement. UIF agreed there is a potential for new development in the future. (TR 1186) Since there is a potential for new customer development adjacent to the service territory and the unused WWTP capacity could be used to serve those potential future customers, the Commission should make the appropriate 53.20% U&U adjustment.

Conclusion

The Commission should reject the results of UIF's used and useful analysis, and apply its traditional U&U methodology and inputs to all systems, as well as adopt the percentages calculated by Witness Woodcock.

ISSUE 18: Should any adjustments be made to test year accumulated depreciation?

POSITION: *Yes, water accumulated depreciation should be decreased by $117,948 and wastewater accumulated depreciation should be reduced by $11,176 to reflect the removal of fully depreciated assets in the UIF-Marion and Lake Placid systems, to reflect the capitalization of engineering fees for Sandalhaven, to reduce the pro forma cost for the Splitter Box in the LUSI system, and to remove the pro forma project for the Myrtle Lake Hills expansion in the Sanlando system.*

ARGUMENT:

This is a fall-out issue and reflects the adjustments related to Issue 7. Water accumulated depreciation should be decreased by $117,948 and wastewater accumulated depreciation should be reduced by $11,176 to reflect the removal of fully depreciated assets in the UIF-Marion and Lake Placid systems, to reflect the capitalization of engineering fees for Sandalhaven, to reduce the pro forma cost for the Splitter Box in the LUSI system, and to remove the pro forma project for the Myrtle Lake Hills expansion in the Sanlando system.

Issue 19: Should any adjustments be made to test year CIAC balances?

POSITION: *Yes. The LUSI wastewater CIAC balance should not be reduced through the application of a non-used and useful percentage as proposed by UIF. Removal of the Company's application of a non-used and useful percentage increases CIAC by $1,656,177. In addition, if the pro forma project for the Myrtle Lake Hills expansion is included in plant, a corresponding amount of CIAC should be imputed to reflect the Service Availability charges approved in Order No. PSC-16-0107-PAA-WU.*

ARGUMENT:

LUSI: The Utility's MFRs included an adjustment to remove $1,656,177 from rate base as an offset to its erroneous calculation of the used and useful adjustment. (HE 86 Schedule B-3) OPC Witness Ramas testified that in the last rate case before this Commission, the Utility made a similar adjustment which the Commission rejected. (TR 769) In fact, the Commission firmly stated:

> We find that the Utility's non-U&U adjustments to the CIAC accounts are not appropriate or justified . . . U&U adjustments apply only to prepaid CIAC and it is the utility's burden to prove that those adjustments relate to prepaid CIAC. We find that LUSI did not provide documentation supporting any prepaid CIAC. Prepaid CIAC for treatment plant is typically associated with Refundable Advance Agreements which the utility admitted that it does not have. Consistent with our practice, all CIAC associated with existing customers is considered 100 percent U&U, and as such, no U&U adjustments shall be made to CIAC.[26]

The prior Order also stated that "no approved adjustments were made to the Utility's CIAC" referencing UIF's attempt to reclassify CIAC. The Utility has again attempted to reclassify CIAC in this case in order to "qualify" it for the used and useful calculation by terming it a COA Add'l Adjust." (HE 86 Schedule A-12) However, no such adjustment was made by the Commission in its last case and UIF has provided no additional evidence to support its argument. The Commission was clear that it was the Utility's burden which the Utility has still not met. Therefore, the LUSI wastewater rate base should be decreased by $1,656,177 to reflect the removal of UIF's erroneous adjustment for CIAC.

Sanlando: UIF included the Myrtle Lake Hills expansion project as PCF-25. However, this project should not be included in rate base as it is to serve future customers (after the test year). If the Commission should decide to include this project in rate base, the related revenue impacts should also be included. Utility Witness Flynn testified that the associated revenue from serving the customers in Myrtle Lake Hills was not included in the MFRs. (TR 1359) He further testified that

[26] See Order No. PSC-11-0514-PAA-WS, issued November 3, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in in Lake County by Lake Utility Services, Inc., pages 16-17.

the service availability charges should be included in rate base if the project is included. (TR 1360) UIF provided information that there were 42 customers connected through April 13, 2017. Each of these customers paid $5,526 in main extension fees and $225 in plant capacity fees, which the Utility agreed should be credited to rate base. (HE 194, OPC Interrogatory No. 294) Therefore, if PCF-25 is included in rate base, the $241,542 in service availability charges should also be included in CIAC.

<u>Issue 20</u>: Should any adjustments be made to test year accumulated amortization of CIAC?

POSITION: *Yes. The LUSI wastewater accumulated amortization of CIAC should not be reduced through the application of a non-used and useful percentage as proposed by UIF. Removal of the Company's application of a non-used and useful percentage increases accumulated amortization by $573,138.*

ARGUMENT:

UIF's MFRs included an adjustment to remove $573,138 from rate base as an offset to its erroneous calculation of the used and useful adjustment. (HE 86 Schedule B-3) As discussed in Issue 19, the non-used and useful adjustment should not be applied to the CIAC balance. Therefore, for the same arguments set forth in that issue, no related adjustment should be made to the accumulated amortization account. The LUSI wastewater rate base should be increased by $573,138 to reflect the removal of UIF's erroneous adjustment for accumulated amortization of CIAC.

<u>ISSUE 21</u>: What is the appropriate working capital allowance?

POSITION: *The working capital balances included in UIF's MFR filing should be reduced by $758,114 based on updated and corrected pro forma project costs; deferral of a test year project; removal of decommissioning costs; and removal of prepaid income tax balances for the Eagle Ridge and Sandalhaven Systems. See Brief Exhibit Issue 21 for breakdown by system. UIF's untimely adjustment to the prepaid income tax balances for all remaining systems should be rejected as unsupported.*

ARGUMENT:

Cypress Lakes: Witness Flynn indicated in his direct testimony that the cost of the pro forma Cypress Lakes Sediment Removal project was $50,200 (TR 321), and the Utility confirmed this amount in its rebuttal filing. (HE 248 at line 38) However, UIF included the project based on a cost of $51,000 in its working capital adjustment to the Cypress Lakes system (HE 86, p. 27 of 1529). The necessary reduction to working capital included in the filing to reflect the actual project costs of $50,200 is $720 (HE 115, p. 7).

Labrador: During the test year, UIF was charged $10,000 from Gaydos Hydro Services, LLC to perform a water system alternatives analysis for the Labrador water system. The Utility charged the Labrador water system $5,020 and the wastewater system $4,980 for these non-recurring costs. As these are non-recurring costs that are entirely applicable to the Labrador water system, OPC recommends the expenses be removed from the water and wastewater operating expense and instead amortized over a five-year period with the costs impacting the Labrador water system only. The following adjustments are necessary to reflect this recommendation: water and wastewater system operation and maintenance expenses reduced by $5,020 and $4,980, respectively; water system working capital increased by $9,000, and amortization of $2,000 included for the water system. (TR 753-754 and HE 117, pp. 4 and 7) The Utility agrees with OPC's recommendation on this issue. (TR 1430)

UIF-Pasco: The appropriate treatment of the abandonment and decommissioning of the Summertree water supply assets for the Pasco County water system was addressed previously in Issue 8. In addition to the adjustment addressed in Issue 8, the Utility also included $180,000 in working capital for the estimated unamortized balance of the well decommissioning costs. (HE 86, p. 1266 of 1529) This $180,000 should be removed from working capital. (TR 790 and 794; HE 128, p. 7) The appropriate adjustments to the filing associated with the abandonment and decommissioning are addressed in Issue 8.

UIF-Pinellas: For the currently consolidated UIF counties, the Utility determined working capital on a consolidated basis which it then allocated to each of the respective county system based on the end of test year ERCs, with Pinellas County allocated 4.449% of the consolidated working capital requirement. However, in the Pinellas County MFRs, the Utility inadvertently increased working capital for accrued taxes instead of reducing working capital for the accrued taxes as it had done for the remaining county systems. UIF agreed that this was an error, and that a correction should be made to reduce the Pinellas County working capital by $3,924. (TR 805 – 806; TR 1439)

LUSI: In its original filing, UIF projected costs of $450,000 for engineering design and permitting services to address elevated TTHM & HAA5 values throughout the LUSI water system, identified as project PCF-9. (TR 323) The Utility included this costs for this project in working capital and increased the LUSI water system working capital balance by $450,000 (HE 86, p. 513 of 1529, line 8). In its testimonies, OPC recommended removal of the entire $450,000 project costs as unsupported and removed the $450,000 from working capital. (TR 630 and HE 120, p. 7) However, subsequent to OPC's testimony being filed, OPC Witness Woodcock agreed that additional documentation provided by UIF supported these project costs (TR 671), but at a lower supported amount of $330,832. (HE 200 – OPC response to UIF Interrogatory No. 6(c)) The Utility's rebuttal filing revised the project amount to $331,000 (HE 248 at line 4), consistent with the amount found reasonable and supported by OPC. Thus, the $450,000 included in working capital for the project should be reduced by $119,000 to $330,832.

Eagle Ridge: For the Eagle Ridge system, the Utility included negative, or prepaid, accrued taxes resulting in an increase in working capital of $82,809. (TR 752) In response to OPC Interrogatory No. 98, UIF indicated the negative accrued tax balance reflected income tax overpayments for which refunds have been requested. (HE 177) The Eagle Ridge system general ledgers provided by UIF showed the $82,809 accrued federal income tax amount was originally recorded by the Utility in December 2012 and has been on the Eagle Ridge books since that time. (TR 752-753) It is not appropriate to carry forward an accrued tax balance, such as the negative accrued tax balance of $82,809 for the Eagle Ridge system, for multiple years. Since UIF purports to have requested a refund for the balance, and it is not reasonable to have such balances in an accrued tax account for multiple years with no change in the balance, the impacts should be removed from the Eagle Ridge system working capital, reducing working capital by $82,809. (TR 752-753 and 853-854) The Utility agreed that the $82,809 should be removed from Eagle Ridge working capital. (TR 1430)

Sandalhaven: A similar negative accrued tax balance is included in working capital for the Sandalhaven system. In the prior Sandalhaven rate case, Order No. PSC-16-0013-PAA-SU, utilizing a test year ended December 31, 2014, the adjusted rate base adopted by the Commission included $70,647 of working capital based on the 1/8th O&M methodology. In the current case, the working capital for the Sandalhaven system requested by the Utility is $476,681 based on the balance sheet method, which results in an increase in working capital from the prior year rate case of 570%. (TR 777) Included in the Utility's rate base is an average test year negative accrued tax amount of $384,771, which increases working capital. Typically, liabilities reduce working capital, however, the negative balance in the accrued taxes liability account results in an increase in working capital. (TR 777) The electronic excel version of the MFRs for Sandalhaven provided in response to OPC's first set of PODs (See HE 172 – Exhibit USB for the electronic MFRs) shows that the $384,771 of negative accrued taxes included in the capital structure includes $389,275 for negative accrued (i.e., prepaid) Federal Income Taxes and $43,424 for negative accrued (i.e., prepaid) State Income Taxes, with each of these amounts remaining unchanged in every month of the test year. (TR 778) These balances should be removed from working capital, reducing Sandalhaven's working capital by $432,700 to remove the negative accrued Federal Income Tax balance of $389,275 and the negative accrued State Income Tax balance of $43,424. (TR 779-780 and HE 123, p.5) The Utility agrees that the balance associated with the Federal Income Tax amounts should be removed from the Sandalhaven working capital as the balance was subsequently written-off by the Utility. (TR 1435)

In responding to the OPC's recommended removal of the negative accrued income tax balances for the Eagle Ridge and Sandalhaven systems, UIF Witness Swain indicated the Utility made a correcting testimony after the end of the test year to remove the balances from its books, and that a similar adjustment was made to all of the UIF systems. (TR 1430) Witness Swain indicated the Utility reviewed the Accrued Income Tax accounts for all systems as a result of the OPC's recommendation and found that the Federal Income Tax portion was incorrect for all systems. As a result, UIF included adjustments for all systems in its rebuttal filing. (TR 1441 and HE 250) OPC agrees that its recommended adjustments for the Eagle Ridge and Sandalhaven systems should be adopted by the Commission as the issue was discovered early enough to allow for a more detailed review of the accrued income tax balances through the discovery process. (TR 839) However, the OPC does not have enough information to evaluate the appropriateness or reasonableness of the remaining adjustments contained in the Utility's rebuttal filing and incorporated in Hearing Exhibit 250 due to the untimeliness and lack of supportive information for the adjustments for the remaining systems.

OPC requested the full journal entry as well as the workpapers for these new adjustments presented in the Utility's rebuttal filing; however, the information provided by UIF did not include enough supporting documentation for OPC Witness Ramas to opine on whether the adjustments for the systems not addressed in her testimony were appropriate. (TR 839-840) It should be noted that the overall impact of the new adjustment presented with Witness Swain's rebuttal testimony is an overall increase in the working capital component of rate base as compared to the Utility's original filing, and evidenced in Hearing Exhibits 249 and 250. UIF has not supported this significant increase in working capital at such a late juncture in the case. Only the two systems addressed by OPC have withstood a reasonable level of review and analysis that is required for purposes of adjusting the working capital requirements in this case.

Issue 22: What is the appropriate rate base for the adjusted December 31, 2015, test year?

POSITION: *The water rate base should be $48,172,804 and the wastewater rate base should be $43,687,931. *

ARGUMENT:
This is a fall-out issue. See Position.

Cost of Capital

ISSUE 23: Should any adjustments be made to Deferred Tax Debits – Tap Fees Post 2000 included in the Accumulated Deferred Income Tax balance?

POSITION: *Yes. Deferred Tax Debits – Tap Fees Post 2000 should be removed from the accumulated deferred income tax (ADIT) component of the capital structure, consistent with the Commission's explicit findings in Order No. PSC-16-0013-PAA-SU (PAA Order). This increases the ADIT component of the capital structure by $2,750,256 on a UIF consolidated basis. The Utility has not presented evidence justifying the inclusion of the impacts of any Deferred Tax Debits – Tap Fees Post 2000 on ADIT.*

ARGUMENT:
As addressed in OPC Witness Ramas' testimony (TR 779), the Commission has clearly and concisely addressed UIF's attempt to include the Deferred Tax Debits – Tap Fees Post 2000 in the ADIT component of the capital structure. In Order No. PSC-16-0013-PAA-SU, the Commission

explicitly determined that this deferred tax debit item should be excluded. In that case, the Utility included a deferred tax debit (i.e., deferred tax debit – tap fees) in the capital structure for income taxes it paid on plant capacity fees received from property developers. The Order indicates that the CIAC resulting in the Deferred Tax Debit – Tap Fees: (1) consisted mainly of payments from multiple developers from 1995 through 2006 to reserve capacity to serve potential residents in planned developments; (2) these CIAC payments would not meet the definition of a customer connection fee defined by the IRS treasury regulations; and (3) that the Sandalhaven plant capacity charges are non-taxable CIAC. (HE 339) Order No. PSC-16-0013-PAA-SU, at page 19, determined the accumulated deferred income taxes at issue have been retired in conjunction with the retirement of the WWTP and must be removed from the ADIT balance. Page 19 of this Order, clearly states:

> In light of the above, we find that the debit ADITs from taxes paid on plant capacity charges shall be disallowed for ratemaking purposes. This same issue was addressed in the utility's last case before us in Docket No 060285-WS, and in that case, we also disallowed the inclusion of the debit ADITs. (footnote omitted) (HE 339)

In Finding 5 of the Auditor's Report, Audit Staff reiterated the Commission determined in its prior Order that the debit ADITs paid on plant capacity charges were disallowed for ratemaking purposes, citing IRS Treasury Regulation 1.118-2 at Paragraph (b)(4)(i) that demonstrates plant capacity charges are <u>non-taxable</u> CIAC if the charges were approved within 8½ months of the in-service date. (HE 138, p. 17 of 32) The Auditor's Report also identified the amount of ADIT debit balances included for each of the systems for the taxes paid on plant capacity fees received from developers, totaling \$3,368,384. (HE 138, pp. 17-18 of 32) However, \$618,138 of that total amount associated with the Sandalhaven system had already been removed from the ADIT balance included in the capital structure by the Utility in its MFRs. (HE 86, pp. 808, 840 and 847 of 1529) The remaining deferred debit – tap fees post 2000 identified in the Auditor's Report, totaling \$2,750,256, remain in the ADIT balances in the system capital structures and should be removed. Utility Witness Swain agreed that with the exception of the Sandalhaven system, the Utility did not adjust the deferred tax debits associated with the Post-2000 tap fees in its filing. (TR 1444, lines 6-8) Brief Exhibits for Issues 23 and 24 provide a breakdown of the amount of Deferred Debit Post-2000 tap fees that should be removed from the respective ADIT balances in the capital structure for each of the systems, and the amounts are consistent with the amounts identified in the Auditor's Report, with the exception of the Sandalhaven system discussed above.

Through discovery requests, Staff asked UIF to provide further details on the Deferred Tax Debits – Tap Fees Post 2000, seeking items such as: (1) documents associated with the collection of tap fees giving rise to the deferred tax debits; (2) documentation demonstrating that the Utility had, in fact, paid income taxes on the income from the Tap Fees Post 2000; (3) an explanation of the sources generating the deferred tax debits; and (4) corresponding balances of associated CIAC.

Instead of providing this requested information, the Utility merely responded on April 15 and 17, 2017 that "[a]lthough the Utility's position is that taxes were correctly paid on Post 2000 Tap Fees, the Utility is in agreement to remove ADITs associated with Post 2000 Tap Fees from the determination of revenue requirement." (HE 336 and 337)

The extensive supporting information requested by Staff was <u>never</u> provided by the Utility in this docket. However, a few days later on April 20, 2017, the Utility revised its position and stated an adjustment should be made, but ". . . only to remove the unamortized balance of ADIT on Post 2000 Tap Fees in all of its systems." (HE 338). UIF further stated that "[t]his ADIT should be amortized over the tax life of the related CIAC, with the debit to ADIT-Depreciation." (HE 338) While the Utility revised its position in the 11th hour in an attempt to receive partial inclusion of the balances, it still provided no supporting information and documentation requested by the Staff in its discovery.

Utility Witness Swain conceded that UIF changed its position a mere three days after indicating it agreed to remove the Deferred Debit – Post 2000 Tap Fees and subsequent to the Utility's rebuttal testimony being filed. (TR 1449-1454) While UIF's last minute post-rebuttal change in position now proposes to remove only the unamortized balance of ADIT on Post 2000 Tap Fees with amortization over the tax life of the related CIAC, the Utility has never amortized the ADIT on Post-2000 Tap Fees on its books. (TR 1456) Apparently, the Utility wishes to pretend that it has been amortizing these balances in an attempt to partially include the deferred tax debit in its capital structure, thereby increasing its overall rate of return.

The issue is not whether the Utility either has or should have been amortizing the deferred debit ADIT on Post-2000 Tap Fees, the issue is that the Commission has previously determined the Utility should have <u>never paid</u> the taxes resulting in the deferred debit ADIT balance. Since the Commission has determined these taxes should not have been paid, ratepayers should not be penalized by the reduction to the ADIT balance that results from the inclusion of the deferred tax on Post-2000 Tap Fees. (TR 842) Rather, the full amount of Deferred Tax Debits – Post 2000 ADIT balances included by the Utility as an offset to the ADIT component of the capital structure for each of the systems (with the exception of Sandalhaven) should be removed.

<u>ISSUE 24</u>: What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

POSITION: *ADIT of $13,756,149 (consolidated basis) should be included in the capital structure. The amount presented in the Utility's filing of $7,585,272 should be increased by $6,170,877 for: (1) removal of the Deferred Tax Debit - Post 2000 Tap Fees (see Issue 23); and (2) the impacts of the 50% bonus depreciation allowance on both the water and wastewater pro forma plant additions and the impacts of the OPC adjusted pro forma plant additions.*

ARGUMENT:

The Protecting Americans from Tax Hikes Act, signed into law on December 18, 2015, provides for the allowance of 50% bonus depreciation on qualifying plant additions placed into service during the years 2015 through 2017. (TR 739) In its filing, UIF included the impacts of its proposed post-test year plant additions on the ADIT balance in the capital structure, but failed to include the impacts of the 50% bonus depreciation allowed under current tax law in determining the ADIT impacts of the post-test year plant additions. (TR 739) The Utility agreed that the bonus depreciation should be included for certain pro forma plant additions resulting in an additional credit to ADIT for systems with the plant additions to qualified plant. (TR 1427 and 1443) In addition to applying the bonus depreciation allowances on water plant additions, the Utility is also taking bonus depreciation on its wastewater plant additions. (HE 192, OPC Interrogatory No. 254) UIF indicated that additions for "land and buildings" are the only pro forma plant additions for which it is seeking to include that do not qualify for bonus depreciation. (HE 192, OPC Interrogatory No. 255) Thus, the impacts of bonus depreciation on the ADIT balance in the capital structure should be included for any post-test year plant additions the Commission ultimately approves for inclusion in rate base, with the exception of pro forma land and building additions.

To calculate the appropriate ADIT balance, the electronic ADIT workpapers provided by the Utility in response to OPC's discovery request (HE 172, USB files) was modified to: (1) replace the per UIF pro forma plant additions with those recommended by the OPC; and (2) to revise the tax depreciation formulas to include the impacts of the 50% bonus depreciation on the OPC adjustment pro forma plant additions, excluding buildings. Using this modified version of electronic ADIT workpapers results in a $3,524,927 increase in the consolidated UIF ADIT balance included in the Utility's original MFRs. A breakdown of the $3,524,927 increase in ADIT associated with OPC's adjusted pro forma plant additions and bonus depreciation by system is presented in Brief Exhibits for Issues 23 and 24.

As a result of removing the impacts of the Deferred Tax Debit – Post 2000 Tap Fees (Issue 23) and including the impacts of bonus depreciation on OPC's recommended plant additions, the ADIT balance included in UIF's filing of $7,585,272 on a consolidated UIF basis should be increased to $13,756,149. A breakdown of the $13,756,149 ADIT balance for inclusion in the capital structure on a system by system basis is presented in Brief Exhibits for Issues 23 and 24.

<u>ISSUE 28</u>: What is the appropriate cost rate for long-term debt for the test year?

POSITION: *The appropriate cost rate for long-term debt for the test year should be 6.70%.*

ARGUMENT: See position.

<u>ISSUE 29</u>: What is the appropriate capital structure to use for rate setting purposes?

POSITION: *The impacts of the 50% bonus depreciation allowance on the OPC adjusted pro forma water and wastewater plant additions should be included in determining the amount of ADIT to include in the capital structure at zero cost. Further, the capital structure for each system should be synchronized with OPC's recommended adjusted rate base balances with capital structure. *

ARGUMENT:

The impacts of the 50% bonus depreciation allowance on the OPC adjusted pro forma water and wastewater plant additions should be included in determining the amount of ADIT to include in the capital structure at zero cost. (TR 740) Further, the capital structure for each system should be synchronized with OPC's recommended adjusted rate base balances with capital structure. (TR 742)

<u>ISSUE 30</u>: What is the appropriate return on equity (ROE) for rate setting purposes?

POSITION: *The Commission should utilize the leverage formula in effect at the time of the Commission's vote to calculate the ROE and then apply a minimum 150 basis points ROE reduction based on the Commission's determination of UIF's quality of service. *

ARGUMENT:

The Commission should utilize the leverage formula in effect at the time of the Commission's vote to calculate the ROE and then apply a minimum 150 basis points ROE reduction based on the Commission's determination of UIF's quality of service. Additional factors may also require further reductions to ROE based upon evidence adduced at the hearing. At the time of the hearing, the leverage formula produced a ROE for UIF of 10.40%. (TR 742) UIF Witness Swain argued in her rebuttal testimony that the appropriate ROE for the Longwood system was 11.61%. (TR 1427-1428) However, she conceded under cross examination that all UIF systems should have the same ROE, and that she calculated the Longwood ROE incorrectly. (TR 1478-1479) Thus, the ROE for the Longwood system should be 10.40%. (TR 742)

The ROE should be further reduced in accordance with the recommended reductions to ROE as addressed in Issue 3 due to UIF's failure to provide satisfactory quality of service. The ROE reduction recommended in Issue 3 is 150 basis points.

<u>ISSUE 31</u>: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure?

POSITION: *The appropriate cost rates are as follows: long-term debt – 6.70%; short-term debt – 2.32%; Common Equity – 10.40%; and customer deposits – 2.0%. The appropriate cost rates should reflect the most current leverage formula and any ROE reductions as a result of the Commission's decisions on Issues 3. (Ramas)*

ARGUMENT:

The appropriate cost rates are as follows: long-term debt – 6.70%; short-term debt – 2.32%; Common Equity – 10.40%; and customer deposits – 2.0%. The appropriate cost rates should reflect the most current leverage formula and the ROE reductions as a result of the Commission's decisions in Issue 3.

<u>Issue 32</u>: What are the appropriate test year revenues?

POSITION: *The test year revenues are $29,279,888 for water and wastewater.*

ARGUMENT:

This is a fall-out issue and the test year revenues are $29,279,888 for water and wastewater. The only additional adjustments that should be made to this amount would be to reflect any adjustments made for the Myrtle Lake Hills pro forma project and the late payments fees. Utility Witness Flynn testified that the associated revenues as a result of serving the customers in Myrtle Lake Hills were not included in the MFRs. (TR 1359) He further testified that the service availability charges should be included in rate base if the project is included. (TR 1360) Therefore, if the project is included in rate base, the associated billing determinants and revenues should also be included. This would result in 42 new customers (HE 194, OPC Interrogatory No.294) or 504 bills, times the current base facility charge of $15.19 (HE 86, Schedule E-1) which equals $7,656. In addition, the average residential consumption for Sanlando is 6,631 gallons. (HE 86, Schedule E-2 [682,677 gallons / 102,958 bills]) Applying this consumption to the 504 bills and the $1.89 gallonage charge results in $6,316 in additional revenues. Therefore, Sanlando test year revenues would be increased by $13,972 if the Myrtle Lake Hills project is included in rate base.

Issue 67 addresses late payment fees. Since the Utility has not previously implemented late payment fees for the majority of its systems (TR 304) and it has proposed a rather large late payment fee as indicated by Chairman Brown (TR 19), the estimated impact of the new fee should be imputed into test year revenues. UIF indicated that in the test year it had 21,497 late payments. (HE 157, Staff Interrogatory No. 192) Any late payment fee approved by the Commission should be computed for these late payments and imputed into test year revenues. If the fee as requested by UIF is approved, it would result in $190,033 in late fee revenues that would offset the service rates.

<u>Issue 33</u>: What adjustments, if any, should be made to account for the audit adjustments related to net operating income?

POSITION: *The Sanlando Materials & Supplies expense should be reduced by $10,399 and the Pennbrooke Taxes Other Than Income expense should be reduced by $1,805.*

ARGUMENT:

Audit Findings 6, 7, and 10 discuss adjustments to Operation & Maintenance Expenses and Taxes Other Than Income. (HE 138) The remaining Findings recommend adjustments to Rate Base with Fall-Out impacts on Depreciation Expense and are addressed in Issue 5.

Audit Finding 6: Staff Witness Dobiac testified the audit identified $12,999 that should be removed from Materials and Supplies expense for Sanlando as it was extraordinary and paid outside the test year. (TR 937) She further testified the Utility stated the expense was for the demolition of a steel tank; however, UIF failed to respond when the auditors requested supporting documentation regarding the original cost of the steel tank. OPC Witness Ramas testified the Utility provided invoices indicating two charges for sand and grit removal and the removal of a tank in the amounts of $2,108.50 and $10,890. These invoices were both for services in 2014. (HE 183, OPC Interrogatory No. 186) The Utility reclassified these charges from 2014 into 2015 expenses on September 30, 2015. Utility Witness Swain testified the expense is an extraordinary expense and it is appropriate to amortize it over five years. (TR 1436) Therefore, the expense should be reduced by $10,399 to reflect the $2,600 annual amortization. Witness Swain also testified that the full amount minus one year of amortization should be added to working capital as a deferred debit. (TR 1436) However, this does not recognize that the charges were actually incurred in May 2015; therefore, deferred debits included in the working capital allowance should reflect one year and seven months of amortization for a thirteen month average adjustment of $10,813.

Audit Finding 7: Witness Dobiac testified the auditors identified the Pennbrooke test year taxes other than income expense included a 2006 delinquent tax bill in the amount $1,695 as well as a tax bill of $110 that was recorded twice. (TR 938) Utility Witness Deason testified that he agreed with this audit adjustment. (TR 1080) Therefore, the test year taxes should be reduced by $985 for water and $820 for wastewater.

Audit Finding 10: Witness Dobiac testified that allocated expenses should be increased by over $70,000 pending the outcome of the issue regarding conflicting ERC schedules provided to the auditors to support the Utility's allocated expenses. (TR 939) The issue of the conflicting ERC schedules has been addressed in Issue 4. Because UIF has failed to meet it burden to support its allocation methodology, the auditor's recommended adjustment should not be made. Pursuant to Rule 25-30.450, F.A.C., the Utility must be able to support its allocations. Since UIF did not support this allocation, no adjustment is appropriate. Issue 36 will address further adjustments for allocated expenses.

<u>ISSUE 34</u>: Should any adjustment be made to salaries and wages expense?

POSITION: *Yes. The Utility's unsupported pro forma adjustments to include projected costs for three additional employees that have not been hired in the LUSI, Mid-County and Sanlando systems should be removed. This reduces salary and wage expenses by

$27,000 for each of these three systems. Additionally, salary and wages expense should be reduced by $47,495 for the Sandalhaven system to reflect the adjustment recently adopted by the Commission in Order No. PSC-16-0013-PAA-SU.*

ARGUMENT:

New Unfilled Positions Included in Pro Forma Adjustments

UIF included pro forma salary and wage adjustments in its MFRs to add five additional employees and the transitioning of an existing position from part-time to full-time. For the new positions, the costs of two (a new GIS technician and a senior financial analyst) were allocated to all of the systems based on ERCs, while the remaining three new employees were applied to the LUSI, Mid-County and Sanlando systems only. (TR 761-763, 766-767, and 784-785) The Utility provided no direct testimony explaining that its pro forma salary and wage adjustments included additional projected employees. Additionally, the LUSI, Mid-County, and Sanlando MFRs did not disclose that UIF's pro forma labor adjustments included costs for additional new employees, nor did the initial filing explain or justify the need for additional employees above the test year level.

Since the end of the historic test year, UIF's employee complement has increased by only two positions. (TR 762) OPC has not challenged the two new employees that are being allocated to all the systems since the employee complement has actually increased by a known and measurable two positions (TR 762), and OPC did not challenge the transition of a part-time employee to a full-time position.

However, OPC submits the three new positions for which the costs are applied entirely to the Mid-County, LUSI, and Sanlando systems, should be excluded. This results in reductions to salary and wages expense of: (1) $20,623 and $6,377 for the LUSI water and wastewater systems, respectively (TR 766-767 and HE 120, p.8); (2) $27,000 for the Mid-County wastewater system (TR 762-763 and HE 121, p.3); and (3) $14,963 and $12,037 for the Sanlando water and wastewater systems, respectively. (TR 784 and HE 124, p. 4) The Utility has not filled these positions, has not demonstrated that it needs to increase its employee complement directly assigned to these three systems, and has failed to meet its burden demonstrating that the expenses associated with these proposed new positions are prudent and reasonable. (TR 762, 766-767, and 784) While UIF did indicate in response to OPC Interrogatory No. 152 that the increase in salary and wage expense at Mid-County reflected the absence of one operator for approximately eleven months of the test year, it failed to demonstrate that it filled the position and that the employee complement assigned to the Mid-County system increased after the test year. (TR 762)

Further, the Utility made no attempt to explain or justify the three new positions that it applied specifically to Mid-County, LUSI, and Sanlando in its direct case. UIF made a late attempt to justify the proposed new position in Witness Flynn's Rebuttal Testimony. He attempted to justify the new positions by referencing a new asset management strategy and Operations Management System that had not been previously disclosed (TR 1232-1233). In requesting these new systems, UIF indicated that it was difficult to quantify the benefits of the Operations Management System; yet it then stated that the utility where this system had previously been implemented experienced "…year-over-year O&M costs savings in the range of 5-10%..." (HE 247 at pp. 13-14) Thus, while UIF is attempting to justify including expenses for three new employees that have not been hired, purportedly due to the new asset management strategy and Operations Management System yet to be implemented, it included no offsetting cost savings from implementing the new strategies and systems that purportedly drive the need for the new positions. Moreover, Witness Flynn indicated that these proposed three new positions were projected to be filled in the second quarter of 2017. (TR 1233) In response to discovery, the Utility indicated the new position in Mid-County was to fill an operator position that had been vacant for eleven months of the test year; however, there was no mention of this in Witness Flynn's rebuttal. As a result, UIF has failed to meet it burden to demonstrate these new positions are needed and the associated costs should be excluded from the adjusted test year.

Impact of Sandalhaven WWTP Decommissioning

As a result of the recent decommissioning of the Sandalhaven WWTP, the Commission determined in Order No. PSC-16-0013-PAA-SU , at pages 21-22, that salary and wage expense should be reduced by $45,778; benefit expense should be reduced by $13,284; and payroll taxes should be reduced by $3,947 to reflect the reduction in WWTP operators needed after decommissioning of the plant. That Order still allowed for 1.2 FTEs to continue operating the Sandalhaven wastewater system after decommissioning the treatment plant. (TR 773) While the Utility increased the purchased sewage treatment expense in its filing as a result of the WWTP decommissioning and reduced purchased power, materials and supplies and miscellaneous expenses for the plant decommissioning, it failed to include the Commission Ordered Adjustment to reflect the reduced WWTP operator staffing needs. (TR 772-773) UIF increased the test year salary and wage expense and benefits expense by a 3.75% gross-up factor. Thus, after considering the 3.75% gross-up factor applied by the Company, the Sandalhaven salary and wage expenses should be reduced by $47,495 to reflect the reduced WWTP operator staffing needs, consistent with the Commission's prior Order. (TR 773-774)

ISSUE 35: Should any adjustment be made to employee pensions and benefits expense?

POSITION: *Yes. Employee benefits expense should be reduced: (1) $24,300 to remove the benefits related to the unsupported pro forma expense for three additional employees (see Issue 34); (2) $13,782 for Sandalhaven to reflect the adjustment recently adopted by the Commission in Order PSC-16-0013-PAA-SU (see Issue 34); and (3) $26,410 to reduce benefits for a reserve adjustment made by WSC and allocated to UIF that is not reflective of normal annual expense levels.*

ARGUMENT:

New Unfilled Positions Included in Pro Forma Adjustments

The Utility's proposed pro forma adjustments to the Mid-County, LUSI, and Sanlando systems to include costs associated with three additional new positions should be rejected for the reasons set forth in Issue 34. In addition to the salary and wage expense impacts, the removal of these positions results in reductions to employee pension and benefit expense of: (1) $6,187 and $1,913 for the LUSI water and wastewater systems, respectively (TR 766-767 and HE 120, p.8); (2) $8,100 for the Mid-County wastewater system (TR 762-763 and HE 121, p.3); and (3) $4,487 and $3,611 for the Sanlando water and wastewater systems, respectively (TR 784 and HE 124, p. 4).

Impact of Sandalhaven WWTP Decommissioning

As discussed in Issue 34, the Sandalhaven employee benefits expense should be reduced to reflect the impacts of the Commission Ordered Adjustment to reduce costs for WWTP operators as a result of the impact of the recent Sandalhaven WWTP decommissioning. See Issue 34 and Commission Order No. PSC-16-0013-PAA-SU, pp. 21-22 The test year Sandalhaven employee benefits expense should be reduced by $13,782 based on the $13,284 reduction specified in the Commission's Order grossed up by the 3.75% increase applied to the test year labor expenses by the Company. (TR 773 and 774)

Removal of Health Insurance Reserve Adjustment to Normalize Expenses

As part of its MFRs, UIF is required to file a schedule comparing the test year expenses by account to the expenses in the test year in the most recent prior rate case, adjusted for customer growth and the consumer price index (CPI). The Utility is also required to explain the causes of variances over a certain level exceeding the changes attributable to customer growth and the CPI. The required variance schedules for each of the systems showed increases in the employee pension and benefit expense accounts, with most systems showing significant increases. In the required variance explanations, UIF indicated that the large variances were caused by a large increase in health care costs since the prior test years. (TR 743)

On December 31, 2015, Water Services Corporation (WSC) booked a health insurance reserve adjustment of $110,000 to the health insurance reserve expense subaccount. The costs included in WSC's health insurance reserve expense subaccount are allocated to the various operating companies, including the UIF operations and are booked in UIF's employee pension and benefits expense accounts. (TR 743-744) WSC's health insurance reserve expense is determined based on the accrual basis of accounting; however, the reserve adjustment booked on the last day of the test year caused the annual expense level to be skewed and is not reflective of the typical expense level. (TR 827-828) As explained by OPC Witness Ramas, this reserve adjustment, booked on the last day of the test year, was not supported by the Utility and had a significant impact on the test year expenses. In addition, the adjustment resulted in the test year expenses being inconsistent with the surrounding years' expense levels. (TR 744)

The expense level in the years prior and subsequent to the test year demonstrate the test year expense level is skewed and not reflective of a normal, ongoing expense level. The amount of health insurance reimbursements charged to the UIF systems from WSC went from $926,599 in 2014 to $1,153,840 in the test year and $1,034,444 in 2016. (HE 181 – Hearing Exhibit USB for response to OPC ROG 5-172 and TR 744) This reflects an increase of $227,241 between 2014 and the test year, and a subsequent decrease of $119,396 between the test year and 2016. Clearly, the 2015 expense does not represent a normal annual expense level. (TR 744) In order to calculate the test year expense level that is reflective of a normal on-going expense level, the impacts of the $110,000 reserve adjustment should be removed. This results in a $26,410 reduction to the test year employee benefits expense on a consolidated UIF basis. (TR 744 and HE 131).

<u>Issue 36</u>: Are the costs allocated from WSC appropriate and reasonable, and are the allocation factors appropriate going forward?

POSITION: *No, UIF did not satisfy its burden of proof. At a minimum, the allocation factors should be adjusted to the ERCs discussed in Issue 4. The allocated expenses should be reduced by $198,254 to reflect the corrected ERCs as well as to remove the expenses related to the Leadership Training and to remove a non-recurring entry for a "Fixed Asset Clean up".

ARGUMENT:

UIF did not present a direct case or any direct testimony to support its allocations or allocation methodology. Further, on cross-examination, UIF failed to satisfy its burden of proof to demonstrate that costs allocated from WSC were appropriate and reasonable or that the allocation factors were appropriate going forward. (TR 1139-1166) Absent a total disallowance of all WSC cost because UIF failed to satisfy its burden of proof, at a minimum, the following adjustments should be made:

Allocation Factors: Issue 4 discusses the ERCs to be used for allocations. Applying the corrected 64,183.9 ERC count and the audit work papers in WP 47 series (HE 201), the allocated expenses should be reduced by $104,985.

Leadership Training: The Staff auditor testified the audit identified leadership training expenses. (TR 946) Work paper 47 Lead indicates the audit traced the Leadership Team Meeting costs to source documentation. (HE 201) The audit work papers further indicate a total cost to "UI" of $32,069. In Order No. PSC-15-0233-PAA-WS, the Commission stated:

> [the] expense of leadership training is not necessarily impermissible on its face; however, the failure to provide detailed support documentation for this expense warrants an adjustment in this instance. UIF was put on notice of its burden to submit detailed support of this expense and it failed to do so. Thus, these costs shall be disallowed consistent with the Commission's decision in

a prior rate case where similar costs were removed due to inadequate detailed expense support documentation.[27]

While UIF did provide invoices to the auditors in this case (HE 201 WP Series 47-19), it did not explain or justify how those expenses were necessary for the provision of water and wastewater service to the customers. Therefore, the Florida allocated portion of these costs should be removed from expenses in the amount of $7,047.

Fixed Asset Clean up: OPC Witness Ramas testified that MFR Schedule B-12 for each of the systems shows the "Water Service Corp. Allocated State Expenses" in Account 403 – Depreciation Expense was significantly higher in March 2015 than in the remaining months of the test year. (TR 745) UIF argued this significantly higher level of March 2015 depreciation expense:

> was due to a Fixed Asset Clean up adjustment. Some time ago, Fixed Assets had depreciation but it was never recorded in the GL. So UIF had to do an adjusting entry to tie GL and Fixed Assets. It could be from the conversion or even before.

(HE 175, OPC Interrogatory No.88) The document provided with the response showed a fixed asset clean up entry of $87,296 was booked to the Florida depreciation expenses that are allocated to the systems. Witness Ramas recommended that the $86,222 recorded to the Florida regulated systems ($87,296 less $1,074 for non-regulated) should be removed. (TR 746) Utility Witness Swain agreed that the "Fixed Asset Clean up adjustment" appears to apply to a prior period and as such should be removed. (TR 1428)

<u>Issue 37</u>: Should any adjustment be made to purchased water expense?

POSITION: *Yes, purchased water expense should be increased by $55,721 to reflect the post test year interconnection of the Summertree water system with Pasco County and reduced by $61,485 to remove the temporary costs to purchase water while the interconnection between Crystal Lake and Ravenna Park was completed.*

ARGUMENT:

Pasco County: UIF recently interconnected the Summertree system with Pasco County. (TR 790) UIF included several adjustments related to the decommissioning of Summertree wells; however, it did not include the cost of purchased water expense resulting from the post test year interconnection. Witness Ramas calculated the adjustment to include this expense consistent with the methodology used in Order No. PSC-16-0505-PAA-WS[28] (TR 796), and updated it based on the

[27] Order No. PSC-15-0233-PAA-WS, issued June 3, 2015, in Docket No. 140060-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.
[28] Order No. PSC-16-0505-PAA-WS, issued October 31, 2016, in Docket No. 150269-WS, In re: Application for limited proceeding water rate increase in Marion, Pasco, and Seminole Counties by Utilities, Inc. of Florida.

flows included in the Utility's filing. (HE 86, Pasco County Schedule E-2 for Summertree) Utility Witness Swain agreed the adjustment should be made, subject to any revisions provided by Utility Witness Flynn (TR 1438); however, Witness Flynn's testimony is silent on this issue. Therefore, the expense should be increased by $55,721.

Seminole County: Witness Ramas testified regarding purchased water expense reflected in UIF's filing for Seminole County. The Utility indicated the loss of the Crystal Lake well required the purchase of bulk water until the pro forma project was completed. (HE 86, Seminole County Schedule B-7) The test year purchased water expenses for the Crystal Lake system (all amounts charged to account 252117.5435) include $61,485 for purchased water expense. (HE 142, Staff POD No.1-Interrogatory No. 41) Witness Ramas testified that, because the interconnection project is complete and Crystal Lake is being supplied by UIF's Ravenna Park wells, the purchased water expense should be discontinued. (TR 808) The Utility agreed that it was not a recurring cost (TR 339), but stated that it should be capitalized with the pro forma project costs. (HE 194, OPC Interrogatory No. 301) However, in Witness Swain's testimony, she stated the purchased water cost was incurred on a temporary basis and is a valid approximation of the operating costs in the absence of a more detailed analysis. (TR 1439-1440) The Utility also indicated that the purchased water expense should be excluded since that expense is not expected to recur. The Crystal Lake expenses decreased by $1,657 while the Ravenna Park expenses increased by $4,356, a difference of $2,699. (HE 171, Staff Interrogatory No. 327) While this is a net of multiple accounts, the amount is minimal, so an adjustment to the removal of the purchased water expense is a reasonable estimate. Therefore, the $58,786 ($61,485-$2,699) should be removed as a non-recurring expense.

Issue 38: Should any adjustment be made to purchased sewage expense?

POSITION: *Yes, in addition to the impacts of excess I&I previously addressed, the UIF-Pasco purchased sewage expense should be reduced by $11,088 to only reflect twelve months of expense.*

ARGUMENT:

Schedule B-6 of the UIF-Pasco MFRs (HE 86) includes Purchased Sewage Treatment expense of $213,646. The Utility provided a schedule showing all charges to this account for the test year. (HE 142, Staff POD No.1 for Interrogatory No. 53) This schedule includes 26 invoices from Pasco County for two bills each month for a period of thirteen months. The Utility attempted to explain this by saying that the December 2015 invoices "did not hit the GL until January 2016 and were therefore not included in the test year." (HE 192, OPC Interrogatory No. 266) However, a careful review of the general ledger (HE 172, OPC POD No. 5) compared with the schedule provided in HE 142 indicates that the December 2015 invoices are included in the test year as well as the December 2014 invoices. Therefore, the 2014 invoices of $11,088 should be removed from the test year.

Issue 39: Should any adjustment be made to sludge removal expense?

POSITION: *Yes, sludge removal expense should be increased by $59,055 to reflect the adjustment to sludge removal for Sandalhaven made in the prior Commission order, to remove an out of period expense for Mid-County, and to reflect the annual cost savings associated with the pro forma project at LUSI.*

ARGUMENT:

Mid-County: The test year expense for sludge hauling expense in Mid-County includes three December accruals. (TR 765) One of these accruals is for $3,600 and the invoice provided to support this accrual indicates it is for services provided in January 2016, which is outside the test year. (HE 186, OPC POD No. 85) While Utility Witness Swain stated that the UIF did not agree with the adjustment, she did not provide any explanation or support for her opinion. (TR 1432) Therefore, the Mid-County expense should be reduced by $3,600.

Sandalhaven: The Sandalhaven test year expense for sludge hauling expense is $13,455. (HE 86, Sandalhaven Schedule B-6) In Order No. PSC-16-0013-PAA-SU[29] entered in the last Sandalhaven rate case, the Commission ordered these expenses to be removed. The Utility did not dispute that the majority of the amount should be removed but argued the expense also reflects lift station cleaning which should not be removed. (HE 177, OPC Interrogatory No. 132) However, the Utility did not provide the normalized on-going level of expense associated with the lift station, even after repeated discovery requests. Utility Witness Flynn attempted to explain this expense reflects the annual cost of periodically cleaning fats, oil and grease from lift station wet wells and that it would be appropriate to include $2,000. (TR 1235) Yet, in response to discovery requests, UIF never provided sufficient support for its claim that the $2,000 represents an annual expense. The Utility was requested to provide the number of times the lift station wells were cleaned during 2013, 2014, 2015 and 2016. In response, UIF stated in 2015 seven lift stations were cleaned, no lift stations were cleaned in 2016 and seven lift stations were cleaned in March 2017. (HE 194, OPC Interrogatory No. 303) The Utility was requested to provide the invoices for the cleaning of Sandalhaven lift stations for each year, 2013 through 2017 year to date. In response, UIF only provided one invoice for $2,275 in 2014. (HE 193, OPC POD No.107) However, in response to another request, the Utility provided an invoice for $2,760 for 2015. No invoices were provided for 2016. (HE 160, Staff POD No.19) The burden is clearly on UIF to provide support for this annual expense and it failed to do so. It submitted invoices for only two years (when five years were requested) and it admitted that it did not incur any expense in 2016. Therefore, UIF has failed to meet it burden on this issue, and the full $13,455 should be removed.

LUSI: The LUSI test year expense for sludge hauling is $45,647. (HE 86, LUSI Schedule B-6) The Utility responded in discovery that the Lake Groves Sludge Dewatering Equipment is

[29] Order No. PSC-16-0013-PAA-SU, issued January 6, 2016, in Docket No. 150102-SU, In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.

anticipated to result in a "[r]eduction in sludge hauling expense of $3,500/month assuming the pilot test shows the efficacy of the equipment as designed." (HE 173, OPC Interrogatory No. 8) OPC Witness Ramas testified that while the project cost was included as a pro forma plant addition in the Utility's filing, the associated annual cost savings of $42,000 were not reflected. (TR 771) Excluding the cost savings is clearly not be a just or reasonable result. The revenue requirement should always attempt to match costs, revenues and savings. Moreover, the Utility's PCF-5 described the Project as a "cost reduction" project and indicated the "opportunity to eliminate annual sludge hauling expense of $42,278" was the primary consideration for this project. (HE 41, Add-Change Form)

Witness Flynn testified that during the pilot test of this new technology, it became apparent the dewatering facility will only work if the loading rate is reduced to half of the initial design rate. (TR 1234) However, when asked for all test results, reports and documents supporting this statement, UIF did not provide any support and merely stated that the statement reflects information provided to Witness Flynn by operations staff. (HE 193, OPC POD No.106) When Witness Ramas was asked on cross examination about the Utility's claim that only half the savings are being achieved, she testified no evidence had been presented by UIF to show the initial indications are what the final outcome will be. (TR 838) The Utility's own project management forms estimated annual cost savings of $42,000 and these savings should be included as an adjustment to test year expenses.

Issue 40: Should any adjustment be made to purchased power expense?

POSITION: *Yes, purchased power expense should be reduced by $48,009 for the water systems and $37,845 for the wastewater systems to remove a utility deposit, reflect expense after plant retirement, and remove the pro forma increases proposed by UIF.*

ARGUMENT:

Guarantee Deposit: The MFRs include $17,939 for purchased power expense for Sandalhaven. (HE 86, Schedule B-6) The Utility provided invoices for this expense and one invoice included $3,637 for a customer Guarantee Deposit Certificate. (HE 142, Staff POD No. 1 for Interrogatory No. 1) Utility Witness Deason agreed that this amount should be removed from the purchased power expense. (TR 1087-1088 and HE 296)

Plant Retirement: The Sandalhaven onsite WWTP was retired and taken offline in November 2015. The wastewater that had previously been treated at the Sandalhaven WWTP has now been diverted to Englewood Water District's treatment and disposal facilities. (TR 772) UIF included an adjustment related to decommissioning WWTP and diverting flows in its MFRs to reduce the expense by $6,000. (HE 86, Schedule B-3) However, the Utility did not provide any support for this adjustment. (HE 172, OPC POD No.4)

The Utility did attempt to support its expense for 2016 by submitting 165 invoices. (HE 160, Staff POD No.19) However, this documentation was deficient: (1) one invoice was for $29 for 2015 service; (2) 11 invoices totaling $799 were marked as "Final Bill;" (3) and there were no invoices for the billing period from mid-January to mid-February. The average of the 11 months provided is $766. Removing the expense for the first two items and adding the $766 as a reasonable substitute for the missing invoices results in an annual expense of $9,191. This is $5,111 less than the previously adjusted expense. The Utility clearly failed to meet its burden to support its adjustment; therefore, this expense should be further reduced by $5,111.

Pro Forma Increase: UIF included pro forma increases to purchased power in its MFRs for Longwood ($7,147), LUSI ($21,866), and Sanlando ($48,093). The description merely states "pro forma adjustment" or "pro forma adjustments related to anticipated increases." (HE 86, Schedule B-3) In its MFRs filed on August 31, 2016, the Utility did not provide support for these adjustments but merely stated that the increase was due to "termination of interruptible power tariff." No calculations or other documentation were provided. (HE 172, OPC POD No.4) However, in its rebuttal testimony filed on April 3, 2017, the Utility for the first time submitted testimony regarding the increases for Sanlando and LUSI.

Utility Witness Flynn described new United States Environmental Protection Agency (USEPA) requirements and the increasing frequency of load shedding. (TR 1233-1234) He also provided two new Exhibits in an attempt to show the calculation of the proposed increases. (HE 245 and HE 246) These exhibits and the information provided therein were not previously provided in response to discovery requests by OPC or Staff. Utility Witness Swain stated these calculations indicate a net reduction to the proposed LUSI increase of $6,200. (TR 1432-1433) Notwithstanding the $6,200 adjustment, the schedules present calculations which equal the proposed increases. However, UIF's own testimony indicates these adjustments do not include any cost savings that will occur with this change in operations. As in other areas of its filing, the Utility consistently neglects to consider cost savings and only includes the cost increases. (TR 1261, 1281, 1291)

In his rebuttal testimony, Witness Flynn admitted that when making the determination to cease the interruptible tariff the Utility considered the impact on the workforce and overtime expense, the cost of fuel consumed during load shedding periods, and the additional wear and tear on the generators. (TR 1234) As justification for cancelling its participation in the Sumter Electric Cooperative, Inc. (SECO) program, UIF stated that its staff must be

> responsive on a frequent basis to manually start our generators at the beginning of each load shedding event, transfer the load to our generators, and then reverse the process when the event ends. The projected cost savings in our SECO bills is outweighed by the negative impact on our staff schedules. Additionally, the cost of fuel and maintenance to run the generators so frequently is significant.

(HE 170, Staff Interrogatory No. 309) Witness Flynn stated the generators for the LUSI system are very sizeable units that burn diesel fuel at a significant number of gallons and are utilized for the load-shedding purposes on an almost daily basis. Thus, "the dollars associated with purchasing diesel fuel was significant." (TR 1339) However, Witness Flynn further testified that the Utility did not reflect those fuel and maintenance cost savings in its MFRs. (TR 1340) Witness Flynn also testified that running the generators required utility employees to be on-site earlier than the normal business hours or later than normal business hours which could result in overtime pay. (TR 1342)

In an e-mail dated July 5, 2016, cancelling its participation in the interruptible program, UIF references an analysis of the three applicable account histories in 2015. However, this information was never provided in discovery. The Utility admitted that its participation in the programs was no longer economically feasible but failed to quantify those savings resulting from decreases to its salaries, fuel costs, O&M costs for the generators, and other related costs. Thus, UIF failed to meet it burden to provide the net impact of this proposed increase and the pro forma increases for purchased power should be removed.

Issue 41: Should any adjustment be made to chemicals expense?

POSITION: *Yes, chemical expense should be decreased by $14,631 to reflect the adjustment to chemicals for Sandalhaven as made in a prior Commission order, to adjust the expense for Eagle Ridge to reflect the amount supported in the Utility's work papers, and to reflect the annual cost savings associated with the pro forma project at Mid-County.*

ARGUMENT:

Sandalhaven: The Sandalhaven MFRs included a reduction of $230 to the test year chemical expense of $3,375, resulting in an adjusted expense of $3,145. This adjustment is described as "To reconcile to chemical schedule." (HE 86 Schedule B-3) UIF provided a schedule in an attempt to support this expense; however, all purchases were for January 2015 through October 2015, which is prior to the WWTP closure and based on the 20.627 million gallons that were treated by the now decommissioned plant during the 2014 test year. Witness Swain testified that Witness Flynn provides an explanation for the appropriate amount in each of the expense categories identified by Ms. Ramas. (TR 1434) However, there is no testimony by Witness Flynn addressing this adjustment. Therefore, the Utility failed to meet its burden on this issue and the adjusted test year chemical expenses, based on the now decommissioned WWTP, should be removed in its entirety.

Eagle Ridge: The Eagle Ridge MFRs included an increase to chemical expense of $2,945, resulting in an adjusted expense of $44,507. (HE 86, Schedule B-3) The chemical expense workpapers provided by UIF show a calculation of chemical expense based on test year chemical units and unit prices, miscellaneous parts and supplies expense, freight and associated taxes, which result in a total cost for the test year of $37,241. (TR 751) Witness Swain testified she agrees that

Schedule B-3 included an erroneous expense amount which should have been a reduction to this expense; thus, the correct total test year amount is $37,241 as shown on the Company's Schedule of Chemicals. (TR 1429) Therefore, the adjusted test year expense should be reduced by $7,266 ($44,507 - $37,241).

Mid-County: UIF included a pro forma project to replace methanol pumps and add in-line nutrient analyzers for the Mid-County system. In OPC Witness Woodcock's testimony, he agreed with the inclusion of this pro forma plant addition at a revised cost. UIF provided a schedule indicating the projected cost savings associated with these pro forma plant additions which showed for this project that the "purchase of methanol is expected to decrease by as much as 10% through optimization of chemical feed rates, which amount to $4,220/yr (10% of $42,222 in methanol expense in TY)." (HE 173, OPC Interrogatory No. 8) Since the project is being included in the pro forma plant additions, it is appropriate to include the resulting projected cost savings in the adjusted test year. No utility witness addressed or disagreed with this adjustment. Therefore, the projected cost savings of $4,220 should be removed from the test year expense.

<u>Issue 42</u>: Should any adjustment be made to materials and supplies expense?

POSITION: *Yes, materials and supplies expense should be reduced by $44,194 to reflect a normalized expense for Eagle Ridge, to amortize a non-recurring expense for Mid-County, and to remove maintenance on the retired plant at Sandalhaven. *

ARGUMENT:

Eagle Ridge: Schedule B-8 of the MFRs for the Eagle Ridge system shows a 145.80% variance above the prior test year benchmark. (HE 86) This schedule explains the variance as "[n]ominal variance from year to year in repair activities, materials used and their unit costs." UIF later admits that the increase is not considered "nominal," that the explanation in the MFRs was stated in error, and that the "increases reflect the variance from year to year in repair activities and costs associated with them." (HE 177, OPC Interrogatory No. 100) OPC Witness Ramas testified that, given the large variance between the test year expense and the expenses incurred in prior years, coupled with the Utility's failure to demonstrate that the significant increase realized in the test year is reflective of on-going cost expectations, the test year materials and supplies expense should appropriately be adjusted to reflect the most recent three-year average expense level. (TR 750-751) The Utility provided the expense levels for the years 2011-2015. (HE 177). Applying these amounts, Witness Ramas calculated a three-year average of $58,475, which is a reduction of $16,517. (TR 751)

Utility Witness Flynn testified that he did not agree with these adjustments and stated that the analysis of materials and supplies expense clearly identifies a trend of increasing expense year over year for the last four years and reflects the aging of the infrastructure, the increases in the cost of materials and supplies due to price increases, and the ongoing need to purchase supplies and materials that are required to keep the facilities operational. (TR 1231) However, Witness Flynn failed to mention that the Utility included a significant pro forma project in its filing that replaced this failing infrastructure (HE 209) and that his reference to four years ignored the fact that the fifth year expense level was more than 145% higher than 2012. (HE 177) Witness Flynn further suggested that it would be more accurate to perform a linear regression analysis to project the annual cost, which would result in a value in excess of the test year expense. (TR 1323) However, neither Witness Flynn nor any other Utility witness performed such an analysis (TR 1353) nor did UIF provide the 2016 and 2017 expenses to support his assertion that the level of expense is continuing to increase. (HE 194, OPC Interrogatory No. 300) (TR 1354) Witness Ramas reviewed the expense levels referenced by Witness Flynn and did not believe those actual numbers used in a linear regression would result in an expense that exceeds the test year amount. (TR 852-853) Therefore, taking into account the fact that UIF's pro forma project will replace the failing infrastructure and that UIF failed to provide any analysis to support using a linear regression, the Utility did not meet its burden for this issue and the Eagle Ridge Materials and Supplies Expense should be reduced by $16,517.

Sandalhaven: Schedule B-6 of the MFRs for the Sandalhaven system includes a materials and supplies expense of $22,954. (HE 86) This expense is based on the test year expense of $92,427 reduced by $69,473 to reflect the retirement of the WWTP. UIF provided a schedule indicating the accounts included in the $69,473 adjustment. (HE191, OPC POD No. 94) However, this schedule does not include Company Codes 6334 and 6345. The Utility indicated that a series of invoices totaling $6,074 charged to these company codes are not recurring costs. (HE 192) Further, Utility Witness Deason agreed that the $6,074 should be removed from the test year's material and supply expense. (TR 1089) Therefore, the Sandalhaven materials and supplies expense should be reduced by $6,074.

Mid-County: Schedule B-8 of the MFRs for the Mid-County system includes a materials and supplies expense of $76,955 which is a 1,179% variance above the prior test year benchmark. (HE 86) The Utility's explanation provided in the MFRs states that the variance is due to the removal of grit and sediment from the Equalization Tank (EQ) tank in 2015 plus ongoing repairs, and UIF provided an invoice for $32,404 for the removal. (HE179, OPC Interrogatory No. 154) The Utility further admitted that this expense should be deferred and amortized over three years as that is the frequency with which this maintenance activity occurs. (HE 192, OPC Interrogatory No. 263) Therefore, the materials and supplied expense should be reduced by $21,603 to reflect one year amortization of $10,801.

<u>Issue 43</u>: Should any adjustment be made to contractual services – engineering expense?

POSITION: *Yes, contractual services – engineering expense should be decreased by $5,245 for water and $9,448 for wastewater to reflect the adjustment to sludge removal for Sandalhaven as made in the prior Commission Order, to remove an out of period expense for Mid-County, and to reflect the annual cost savings associated with the pro forma project at LUSI.*

ARGUMENT:

Mid-County: The Mid-County test year expense for contractual services – engineering expense includes an invoice for $2,380 from Excel Engineering. (HE 179) This invoice was for engineering services required to renew the WWTP operating permit. UIF's discovery response referenced CS-Other for the invoice; the general ledger reflected the invoice in CS-Engineering. (HE 172 OPC POD No. 5) UIF was requested to provide the total expenses associated with the permit renewal; however, it responded only by commenting that this invoice represented 60% of the total costs. The Utility did not provide any evidence or additional information to support this fact. Utility Witness Deason testified that non-recurring expenses should be amortized over three to five years. (TR 1175-1176) UIF failed to meet it burden to demonstrate that additional costs should be included; therefore, only the $2,380 should be amortized over five years.

Sandalhaven: The Sandalhaven test year expense for contractual services – engineering expense includes two invoices for $504.22 and $2,817 from CPH Engineering. (HE 298) These invoices dated January 9, 2015 list the following projects - Invoice 91892: Sandalhaven Master Lift Station and Force Main, and Invoice 91893: Sandalhaven Force Main Improvements for wastewater Flow Transfer. Witness Flynn and Witness Deason both testified that these amounts should be capitalized instead of expensed. (TR 399-400 and 1090) Therefore, these amounts should be removed from test year expense and capitalized.

Lake Placid: The Lake Placid test year expense for contractual services – engineering expense include two invoices from Excel Engineering for $2,979.20 and $875.00. (HE 300) Witness Deason testified that these were for WWTP Permit Renewal work. (TR 1093) Witness Deason further testified that these costs should be charged to wastewater only. (TR 1094) Witness Deason did not agree that these costs should be amortized over the ten year permit because not all of the systems renewed permits in the test year and UIF only records permit expenses in the year incurred. (TR 1095). However, these expenses are charged to Lake Placid and, for rate setting purposes for Lake Placid, these expenses relate to a ten-year period and should be amortized over that period. In addition, UIF should have a process established to amortize all fees so that any test year will accurately reflect the amortization of permit fees.

Sanlando: The Sanlando test year expense for contractual services – engineering expense includes an invoice from Kimley Horn for $6,000 for the Myrtle Lake project. (HE 143 Staff Interrogatory No. 65) UIF admitted that this expense should have been capitalized. (HE 305) Witness Deason also testified that it should have been capitalized. (TR 1100-1101) Therefore, $6,000 should be removed from expenses and included with the capital project. However, based on previous arguments regarding this project in Issue 7, this expense should be borne by the future customers.

<u>Issue 44</u>: Should any adjustment be made to contractual services – legal expense?

POSITION: *Yes, contractual services – legal expense should be decreased by $2,552 for water and $2,139 for wastewater to remove rate case expenses from the prior Labrador rate case and to remove legal fees included in PCF-25.*

ARGUMENT:

Labrador: OPC Witness Ramas testified that the test year legal expenses for the Labrador system includes $1,006 for charges from Friedman & Friedman, P.A., described as miscellaneous items related to the Labrador 2013 rate case. (TR 755) She recommends that these amounts be removed from test year expenses as they should be included in the rate case expenses approved to be amortized. Utility Witness Swain testified that while the amount is nominal, this adjustment is correct. (TR 1430)

Sanlando: Utility Exhibit PCF-25 (HE 63 and 227) includes four invoices from Friedman & Friedman, P.A., to support the pro forma project for the Myrtle Lake Hills water main. These four invoices total $3,685.08 and are included in the general ledger under test year contractual services – legal expense. (HE 86 OPC POD No. 5) These invoices should be removed from test year expense and included in the project for future customers to bear.

<u>Issue 45</u>: Should any adjustment be made to contractual services – testing expense?

POSITION: *Yes, contractual services – testing expense for LUSI and Sanlando should be decreased by $905 for water and $3,364 for wastewater to remove invoices for work performed in 2014.*

ARGUMENT:

LUSI: The test year contractual services – testing expense for LUSI included four invoices for work performed in 2014 that total $905. The Utility agreed that these were for work performed outside the test year, and Utility Witness Deason confirmed that these were for work performed outside the test year. (TR 1097; HE 301) Therefore, $905 should be removed from the LUSI expense.

Sanlando: The test year contractual services – testing expense for Sanlando included four invoices for work performed in 2014 that total $3,364. The Utility claimed this is due to the time lag between testing, receiving the invoice, and the invoice being booked to the GL. (HE 192, OPC Interrogatory No. 264) Since these invoices ($826 + $660 + $674 + $1,204) were for work performed outside the test year, they should be removed from the test year contractual services – testing expense for Sanlando.

<u>Issue 46</u>: Should any adjustment be made to contractual services – other expense?

POSITION: *Yes, contractual services – other expense should be decreased by $5,847 for water and $10,544 for wastewater to reflect the amortization of a water system alternatives analysis performed for Labrador, to amortize non-recurring expenses for Mid-County and UIF-Marion, and to remove an out of period invoice for Sandalhaven.*

ARGUMENT:

Labrador: UIF engaged Gaydos Hydro Services, LLC in 2015 to perform a water system alternatives analysis to address quality issues raised in Commission Order No. PSC-15-0208-PAA-WS. (TR 753 and HE 309) UIF recorded $10,000 for this analysis which Witness Ramas testified should be amortized over five years. Utility Witness Swain testified that she agreed with this adjustment. (TR 1430) Therefore, this expense should be reduced by $8,000 to reflect the amortization over five years.

Sandalhaven: The test year contractual services – other expense for the Sandalhaven system includes a December 1, 2015 journal entry to accrue $864. The invoice for the $864 payment is dated January 5, 2016, and this is a 13th payment in the test year. (HE 299) Utility Witness Deason agreed that this should be removed from the test year expense. (TR 1092) Therefore, this amount should be removed from test year expenses.

Mid-County: The test year contractual services – other expense for the Mid-County system includes an invoice from Pinellas Tree Service for $5,875. (HE 179, OPC Interrogatory No. 154g and HE 308) The Utility indicated this invoice is for tree trimming and removal services at the Mid-County WWTP site for work done in conjunction with the removal and replacement of the field office trailer at the plant. In addition, this tree trimming activity is performed there approximately every five years. Utility Witness Deason testified that this is a non-recurring expense, and that non-recurring expenses should be amortized over three to five years. (TR 1175-1176) Therefore, pursuant to Rule 25-30.433(8), F.A.C., the $5,875 should be amortized over five years and the test year expense should be reduced by $4,700.

UIF-Marion: The test year contractual services – other expense for the UIF-Marion system includes an invoice from Utility Services Associates for $3,533.53. This invoice includes the description "survey for and pinpoint leaks in the water distribution system." UIF provided conflicting evidence regarding this charge. It first stated that this "is not an annually scheduled service, but usually occurs every year." (HE 192, OPC Interrogatory No. 265) UIF then stated that the vendor has provided this service in 2015, 2016 and 2017. However, UIF did not provide any documentation to support that this is a recurring expense for this system. Furthermore, the UIF-Marion general ledger does not include any expense from this vendor for the years 2013 and 2014. (HE 172, OPC POD No. 5) The 2012 general ledger includes an invoice for $1,678; however, there is no description for the services provided. Since UIF provided conflicting statements and the documentation did not support the statement that this service was a recurring cost, UIF failed to meet its burden for this expense. Therefore, based on the information provided, the $3,533.53 should be amortized over 5 years pursuant to Rule 25-30.433(8), F.A.C., and the test year expense should be reduced by $2,827.

<u>Issue 47</u>: Should any adjustment be made to equipment rental expense?

POSITION: *Yes, The Utility reflected invoices for the Sanlando system totaling $5,593 for equipment that was rented during 2014. These invoices should be removed from test year expenses, which results in a decrease to wastewater expenses of $5,593.*

ARGUMENT:

Schedule B-8 of the MFRs for the Sanlando system shows equipment rental expense that is a substantial variance above the prior test year benchmark. (HE 86) OPC Witness Ramas testified that UIF indicated the amounts were "…due to invoices from Walker Miller for the renting of pumping equipment." (TR 785) Her review of the invoices indicated the charges booked in January 2015 were for equipment that was rented during 2014. While Utility Witness Swain disagreed that the expenses associated with the prior year should be removed, she provided no explanation or support for her opinion. (TR 1436) Although Witness Ramas testified the adjustment should be split between water and wastewater, a review of the expenses shown in the MFRs (Schedules B-5 and B-6) indicates the Utility reclassified all expenses in this account to wastewater. Therefore, the full adjustment to remove $5,593 for these invoices should be applied to the wastewater equipment rental account.

<u>Issue 48</u>: Should any adjustment be made to transportation expense?

POSITION: *Yes, the Utility incorrectly included in the Tierra Verde system a posting of fuel and fleet repairs that should have been allocated across all Florida systems. Since UIF does not have consolidated rates at this time, the allocations should be reflected in the other systems.*

ARGUMENT:

Schedule B-8 of the MFRs for the Tierra Verde system indicates that a 177.21% variance from the prior test year benchmark in Account 950 – Transportation Expenses was due to incorrect posting of fuel and fleet repairs that should have been allocated across all Florida systems. (HE 86) OPC Witness Ramas testified the Utility's position was that on "a prospective basis reallocating the transportation expenses is unnecessary as UIF is now one consolidated system and is moving to consolidated financials and rates." (TR 746). However, in its revised response, the Utility provided the corrected allocation of transportation expense, which decreases the Tierra Verde system expenses by $5,723 and increases the expense for other systems. Utility Witness Swain stated that, although "technically correct, the adjustment is immaterial." (TR 1428) Therefore, until UIF has consolidated rates and the Commission approves the Utility to reflect consolidated expenses, this adjustment should be made.

<u>ISSUE 49</u>: What is the appropriate amount of rate case expense?

POSITION: *Rate case expense should be reduced by $330,295 to remove imprudently incurred rate case expenditures, to allow only those expenses actually incurred, to remove all costs related to the correction of deficiencies and annual reports, to remove unusual, to excessive revisions to discovery responses, and to remove expenses associated with UIF's public relations and image enhancing which are below-the-line expenses and are not fair or reasonable for ratepayers to bear.*

ARGUMENT:

OPC Witness Ramas explained that adjustments are made to remove imprudently incurred costs. (TR 737) She further testified that adjustments are made to reflect the actual costs incurred instead of the projected costs contained in the Utility's original application. (TR 737) It is her understanding that Staff reviews actual costs incurred by the Utility for processing the rate case application. (TR 737)

UIF Witness Deason testified he provided an updated rate expense calculation in response to PSC Interrogatory No. 295 and POD No. 33. As part of his rebuttal testimony, Witness Deason included exhibit JD-4 which contained a summary of rate case expense. (TR 1079, HE 168, HE 206) Rate case expense shown on JD-4 is $271,937 less than the rate case expense in the MFRs. Therefore, the MFR expense should be reduced to this amount, with additional adjustments as discussed below.

Witness Deason acknowledged that in Exhibit JD-4, costs to cure MFR deficiencies were included. (TR 1124-1125) Witness Deason further admitted that it is Commission practice to remove costs related to deficiencies from rate case expense. (TR 1125-1126) UIF identified costs related to Mr. Seidman ($4,537) and Mr. Friedman ($1,404) as related to deficiencies and these were not removed from JD-4. (He 142) Thus, an additional $5,941 should be removed.

In addition, Witness Ramas testified that if any costs are included in the actual rate case expense related to revisions and corrections of past annual reports, such costs should also be disallowed. (TR 738) She noted that many of the discovery responses provided by the Utility were deficient or incomplete, and required revised and supplemental responses to be filed. (TR 738) Specifically, she cites to UIF's incomplete original response and subsequent supplemental responses to OPC POD No. 2, which requested all supporting workpapers. (TR 738)

UIF Witness Swain attempted to argue that, while the consultant's time for responding to requests was included in rate case expense, the work was not duplicative, revised, or redrafted. (TR 1426) She further claimed that the original responses were adequate and it was at OPC's request that clarification was provided. (TR 1426) Yet, on cross examination, Witness Swain contradicted herself and acknowledged that not all of the supporting workpapers for MFR adjustments were provided. (TR 1464-1465) And she stated that there were certain workpapers that UIF neglected to include with its response to OPC's request which were eventually provided when responding to

Staff's discovery request. (TR 1464-1465) She also claimed that no additional attorney time was spent reviewing or filing supplemental or revised responses because it was added to documents that the attorney filed with everything else. (TR 1462) However, it is clear from Witness Swain's testimony that she admits incomplete answers were provided by UIF which had to be subsequently supplemented or revised. Moreover, it is certainly not credible that no additional time was necessary to provide these supplemental and revised responses.

Due to the unusual and excessive levels of revisions and supplementation required by UIF to make its responses complete, any costs incurred by the Utility to revise, complete, or supplement these responses should also be disallowed. A review of the billing information for Witness Friedman showed 12 days where there was an e-mail and/or Notice of Filing referencing revised or supplemental discovery. (HE 168 and 206) While the specific tasks each day were not detailed by time spent, taking the total amount and dividing it by the number of tasks results in an approximate reduction of $3,969. In the alternative, an extremely conservative reduction based on an estimated .2 hours for each notice plus .4 hours to review revisions would result in a $2,592 (12 x (.4 + .2) x $360) reduction.

Witness Ramas also noted that only the actual costs prudently incurred for processing the rate case should be allowed. (TR 737) A review of the update rate case expense exhibit showed that there are several items that were not prudent or actually incurred. Rule 25-30.450, F.A.C., prescribes that "the utility must be able to support any schedule submitted, as well as any adjustments or allocations relied on by the utility." The rate case expense for Witness Swain increased in the update from $35,125 to $37,200. There were no supporting documents provided with this update to justify the increased $2,075. In addition, there was $1,760 included for Witness Friedman to travel for the Tallahassee hearing. However, Witness Friedman resides in Tallahassee; thus, he had no need to travel for the hearing. Moreover, the update included $13,500 for travel for UIF for meetings, depositions, and hearing. Since the depositions for Mr. Flynn and Mr. Hoy were taken telephonically, no travel was required for depositions. See, Notice of Deposition, filed April 7, 2017. In addition, the hearing concluded two days early. Therefore, only half of the Utility's travel should be allowed. UIF also included costs for the following WSC employees, which is an affiliated company: Michael Carin (South Carolina) - $1,210, Bob Hunter (South Carolina) - $1,060, and Nicole Winans (Nevada) - $14,504. However, Witness Deason acknowledged that these three employees are salaried employees in their respective states. (TR 1128) Thus the costs for these WSC employees should be disallowed; otherwise, UIF customers are paying these employees twice for their work.

Finally, UIF included $35,874 for Tucker/Hall. In its update, UIF listed these Tucker/Hall costs in two places - $23,499 listed under in actual and $12,375 listed under estimate to complete. (HE 168) However, JD-4 only includes $24,541 ($15,166 actual + $12,375 estimated). (HE 206) The Commission has a general policy that "advertising" considered to be institutional, goodwill, promotional or image-enhancing is not allowed for revenue requirement purposes, while informational or instructional materials related to health and safety have been allowed. See Order No. PSC-07-0671-PAA-GU, issued August 21, 2007, in Docket No. 070107-GU at p. 5. Witness Hoy acknowledged that he did not anticipate any significant reactions from customers or legislators. (TR 89-90) He also confirmed that Tucker/Hall was engaged approximately 10 days before the customer hearings, or three months after the initial filing. (TR 90) In fact, Tucker/Hall was engaged on December 29, 2017, a month after the MFRs were deemed completed on November 22, 2016. (TR 90 and HE 263)

The Utility insisted that it used Tucker/Hall for "customer communication" while studiously avoiding the fact that Tucker/Hall is well known for providing public relations and crisis management services to clients with a PR problem. (TR 1129, 1521-1523) When asked what value the customers received from the use of Tucker/Hall, Witness Hoy stated it was because the Utility does not have an in-house communications or media team. (TR 1521-1522) Witness Hoy also stated they used Tucker/Hall as a sounding board for communications at the service hearings. He discussed a letter that UIF included with the customer notices in an attempt to use more customer-friendly language to explain the aspects of the rate case. (TR 1522) However, he could not articulate a benefit that customers received from the use of this PR/crisis management firm for customer communications. (TR1522-1523) In fact, the description of the letter included with the customer notices appears to be an attempt to "promote" UIF's rate request, not explain the impact. Thus, it is readily apparent that Tucker/Hall was engaged more specifically for the purpose of enhancing and/or managing UIF's image during and after this rate case. As noted above, it is the Commission's general policy that such image enhancing, good will promoting, and crisis management type costs should be collected "below the line." Thus, all of the Tucker/Hall costs of $24,541 should be disallowed.

These adjustments total $58,358 and should serve to further reduce the rate case expense included in the MFRs.

<u>ISSUE 50</u>: How should unamortized rate case expense from prior dockets be treated for purposes of determining the revenue requirements in this proceeding?

POSITION: *Prior unamortized rate case expense that has been fully amortized before new rates become effective should be removed from the test year. For the systems where rate case expense is not fully amortized prior to rates becoming effective, the balance should be removed from the test year and addressed as a surcharge for each system until fully recovered. The Commission previously determined that a four-year recovery period was appropriate for these systems.*

ARGUMENT:

OPC Witness Ramas outlined several problems with the Utility's proposed treatment of the unamortized rate case expense from prior rate cases. (TR 731) These issues arise from UIF's request to consolidate rates and would also be applicable in rate banding. In general, the prior rate case expense is amortized over a four year period and rates are required to be reduced by the amount of the rate case expense after the recovery period ends. *See* Section 367.081(8), F.S. If a rate case is filed before the expiration of the amortization period and this prior rate case expense is included as part of test year expenses, nothing further has to be adjusted because the statute requires that rates be automatically reduced by the prior rate expense amount upon the end of the recovery period. However, since UIF has requested consolidated rates in this proceeding, it has proposed combining the prior unamortized rate case expense balances as of December 31, 2015 and the projected rate case expense for the current rate case. (TR 731) UIF then proposed to include in rates these combined rate case expense amounts, annualized to recover the amount over a future four-year amortization period. (TR 731) Finally, UIF requested that the amortized rate case expense amount be added to the test year without subtracting the rate case amortization expense already incorporated in the test year for many of its systems. (TR 731)

According to Witness Ramas, the first problem with this approach is that, assuming new rates will take effect August 1, 2017, and UIF includes unamortized rate case balances as of the end of the December 31, 2105 test year, UIF will have collected an additional 19 months for this unamortized rate case expense. (TR 731) She also noted that for some systems the total remaining unamortized rate case expense will have been fully collected. (TR 731-732) Clearly, ignoring this additional collection of the unamortized rate case expense will result in UIF double-recovering some of the rate case expenses from prior individual systems' rate cases. (TR 732) While UIF Witness Swain conceded this adjustment, she cautioned that care should be taken to ensure that interim rates do, in fact, include prior rate case expense amortization. (TR 1425) Yet, when asked if she had any reason to believe that interim rates do not include the prior rate case expense amortization, Witness Swain stated "no." (TR 1461-1462) The record evidence clearly demonstrates that UIF will have fully recovered the amortized amounts for prior rate case expense for the following systems before the new rates take effect: Sanlando Docket No. 110257-WS (February 2017); Sandalhaven Docket No. 2011-001-S (November 2016); Labrador Docket No. 110264-WS (April 2017); and Pennbrooke Docket No. 120037-WS (January 2017). (TR 732-733) These total $157,297 (Sanlando: $41,083 for water and $33,047 for wastewater; Sandalhaven: $37,384; Labrador: $16,714 for water and $16,581 for wastewater; and Pennbrooke: $6,812 for water and $5,676 for wastewater).

The second problem Witness Ramas identified relates to the effect of the requested four-year amortization period for the combined prior and current rate case expense. As noted above, amended Section 367.081(8), F.S., provides the Commission may establish a four-year amortization period unless a longer period can be justified and is in the public interest.[30] UIF Witness Swain argues that this is the applicable Section that the Commission should apply in this matter. (TR 1425) Prior to

[30] All prior rate case expense at issue in this proceeding was approved pursuant to Section 367.0816 (repealed 2016). This statute required recovery over a four year period and that rates be reduced immediately by the amount of the rate case expense previously included in rates.

2016, Section 367.0816, F.S., addressed recovery of rate case expense and provided only a four-year recovery period with no discretion for the Commission to approve a longer period. It is undisputed that all the prior rate case expense at issue in this proceeding was approved pursuant to Section 367.0816, for a four year period after which it must be immediately reduced. Thus, the prior rate case expense and automatic rate reduction is governed by the prior statute.

As Witness Ramas testified, the prior rate case expense recovery period for certain systems was already determined by prior Orders. (TR 733) Thus, UIF's proposal for a four-year amortization period to begin as of the effective date of new rates (e.g., August 1, 2017) would necessarily extend the previously established recovery periods beyond the initially four-year recovery periods required by Section 367.0816, F.S. (TR 733) For example, Sandalhaven has prior rate case expense that is expected to be fully recovered February 2020 pursuant to Order No. PSC-16-0013-PAA-SU, issued January 6, 2016; however, this recovery period would be extended to August 2021 under UIF's proposal. (TR 733-734) Similarly, Cypress Lakes has prior rate case expense that is expected to be fully recovered by October 2018, and it would be extended to August 2021 under UIF's proposal. (TR 735-736) UIF Witness Swain argued that allowing the consolidation of prior rate case expense with current rate case expense is the most practical, least costly method to implement when consolidating rates. (TR 1425) While it may be slightly easier for the Utility to administer, it would be inappropriate to approve UIF's proposal to establish a four-year amortization period that includes any prior unamortized rate case expense under the doctrine of Administrative Finality and the previously applicable statutory section.

The third problem Witness Ramas addressed is the issue created by not removing prior rate case expense from test year expense under UIF's proposal. (TR 732) As stated above under normal circumstances, when a rate case is filed before the expiration of a prior rate case expense amortization period and this prior rate case expense is included as part of test year expenses, nothing further has to be adjusted because the statute requires that rates be automatically reduced by the prior rate expense amount upon the end of the recovery period. However, in this case UIF has proposed combining prior unamortized rate case expense as of December 31, 2015 with the projected rate case expense for the current rate case and amortizing this over a four-year period in addition to the rate case expense included in the test year, because UIF is proposing to consolidate rates. (TR 731) This will result in a windfall for UIF to recover more rate case expense than what was originally approved in the prior rate case decisions because, at the end of the amortization period, UIF would only reduce rates with respect to the amortization of the amounts included on Schedule B-10. This would in effect allow UIF to continue to collect the prior rate case expense that is embedded in the test year expenses. (TR 736) UIF Witness Swain concedes this is an error and should be corrected. (TR 1425-1426)

<u>Issue 51</u>: Should any adjustment be made to miscellaneous expense?

POSITION: *Yes, miscellaneous expense should be decreased by $25,196 to reflect the amortization of permit renewal fees, the removal of expenses from outside the test year, and to amortize other non-recurring expenses.*

ARGUMENT:

Lake Placid: The Lake Placid test year expense for miscellaneous expense includes payment of $1,000 to the Florida Department of Environmental Protection related to the WWTP permit renewal. (HE 192, OPC Interrogatory No. 261) The Utility stated that the permit renewal was for ten years. These expenses are charged to Lake Placid and for purposes of setting rates for Lake Placid, these expenses relate to a ten-year period and should be amortized over that period. The Utility should also establish a process to amortize all fees so any test year will accurately reflect the amortization of permit fees.

Cypress Lakes: The Lake Placid test year expense for miscellaneous expense includes payment of $2,280.25 to Advanced Environmental Labs which was for services received in 2014. (HE 302, OPC Interrogatory No. 271) Witness Deason admitted this expense was incurred outside the test year. (TR 1097-1098) In addition, UIF provided two invoices included in the test year for Company Code 6370 which are included in miscellaneous expense. These two invoices were also for services provided outside the test year ($1,620 and $2,916). (HE 191, OPC POD No.103) Therefore, all three of these invoices should be removed from test year expenses in the total amount of $6,816.

Mid-County: The Mid-County test year expense for miscellaneous expense includes $10,625 for Company Code 6340: Sewer – Permits which includes $5,625 booked on December 11, 2015 for charges from the Florida Department of Environmental Protection and a $5,000 accrual booked on December 31, 2015. (HE 172) OPC Witness Ramas testified that the additional information provided by UIF for these charges appears to be a duplicate charge. (HE 182, OPC POD No. 56) Therefore, Witness Ramas recommended that the $5,000 be removed. (TR 764-765) There was no additional testimony or documentary support from the Utility on this issue prior to the filing of Witness Ramas' testimony. However, a month after Witness Ramas filed her testimony, UIF provided supplemental information indicating the charges are for two different permits. One is an annual NPDES permit fee and the other is a five year operating permit. (HE 192, OPC Interrogatory No. 274) Therefore, the five -year permit should be amortized over five years and only $4,000 should be removed from the expense.

Sanlando: The Mid-County test year expense for miscellaneous expense includes two December 31, 2015 journal entries in the amounts of $602.82 and $416.57 which appear to be for Progressive Waste Solutions and represent the 13th set of monthly payments. (HE 303, OPC Interrogatory No. 276) Witness Deason agreed that these invoices should be removed from the test year. (TR 1098) In addition, the miscellaneous expense includes an invoice for $4,422 for a landscaping upgrade at the Wekiva plant. (HE 306, OPC POD No. 49) Witness Deason testified that this was not a recurring cost. (TR 1102-1103) Therefore, this cost should also be removed and amortized over five years, which reduces the test year expense by $3,538. These two adjustments result in a reduction of $4,657.

Labrador: The Labrador test year expense for miscellaneous expense includes an invoice from Gaydos to perform a Water System Alternatives Analysis. The invoice was split between water and wastewater in the MFRs. (HE 309) Witness Ramas testified the $10,000 charge for this analysis ($5,020 charged to water and $4,980 charged to wastewater) is not an annual recurring event and should not be expensed as such. Additionally, the analysis was specific to the water system as it analyzed water system alternatives for addressing the water quality issues; thus, the costs should not be charged to the wastewater operations. (TR 753) Therefore, Witness Ramas recommended the $10,000 charge be amortized over five years in the water system. Utility Witness Swain agreed the $10,000 should be amortized over five years, and charged entirely to water. (TR 1430) In addition, the Utility provided the invoices included in the test year for Company Code 6370 which is included in miscellaneous expense. These invoices included two invoices for services provided outside the test year ($81 and $162). (HE 191, OPC POD No. 103) These amounts should also be removed from test year expenses. The total reduction to test year miscellaneous expense for the Labrador system is $8,243.

Sandalhaven: The Sandalhaven test year expense for miscellaneous expense includes an invoice recorded in Company Code 6340: Sewer – Permits for $500 from CPH Engineering. The invoice is for "professional services through December 31, 2014" for the "Reimbursement for Application Fees Paid on Behalf of Client." (HE 280) Utility Witness Flynn admitted that this is outside the test year and should be capitalized. (TR 399) Therefore, the appropriate adjustments should be made.

ISSUE 52: How should the cost savings, if any, resulting from the proposed consolidation of tariffs and accounting records be reflected in rates?

POSITION: *Based upon the deposition of UIF Witness Flynn and UIF's response to OPC Interrogatories Nos. 285, 286, and 287 (HE 266), UIF anticipates savings associated with the proposed consolidation; however, UIF has not quantified the amount of the anticipated savings. In addition, UIF should experience significant O&M savings associated with the OMS implementation and replaced or renewed pro forma plant items.*

ARGUMENT:

UIF anticipates future cost savings associated with its proposed consolidation; however, it has failed to calculate and include those savings. (HE 266, OPC Interrogatory 285-287) In addition, UIF is proposing to implement an Operations Management System which should lead to significant

O&M savings in the range of 5-10% per year. (HE 247, p. 13-14 of 43) Moreover, a number of the pro forma plant projects are renovating or replacing utility plant and infrastructure. (TR 332, 362, 1291) These plant additions should also result in significant cost savings in the near future as they will replace aging and inefficient plant.

In order to set fair, just and reasonable rates for UIF's customers, the Commission should take these anticipated savings into account. Witness Flynn anticipated savings with UIF's pro forma replacement projects. (TR 332, 362, 1291) and there is evidence to support a 5-10% O&M savings for implementing the OMS. (HE 247, p. 13-14 of 43) Therefore, the Commission should include a 5% O&M savings resulting from consolidation and UIF's infrastructure replacement projects and another 5% O&M savings resulting from the implementation of the Operations Management System. Alternatively, as a proxy for the anticipated savings, the Commission should make the other cost reduction adjustments recommended by OPC in other issues.

ISSUE 53: Should any further adjustments be made to the Utility's test year and pro forma O&M expenses?

POSITION: *UIF is proposing to implement an Operations Management System which should lead to O&M savings in the range of 5-10% per year. (HE 247, p. 13-14 of 43) As a result, UIF will experience significant cost savings in the near future. As a proxy for those anticipated cost savings, the Commission should make the other cost reduction adjustments recommended by OPC in other issues.*

ARGUMENT: See position.

Issue 54: Should any adjustments be made to test year depreciation expense?

POSITION: *Yes, depreciation expense should be increased by $139,109 for the water systems and decreased by $412,981 for the wastewater systems to reflect adjustments for the GIS system, pro forma plant adjustments, non-used and useful plant adjustments, and audit adjustments, and to remove depreciation on fully depreciated assets, and to adjust for the Summertree Decommissioning.*

ARGUMENT:

This is a fall-out issue. Depreciation Expense should be increased by $139,109 for the water systems and decreased by $412,981 for the wastewater systems to reflect adjustments for the GIS system, pro forma plant adjustments, non-used and useful plant adjustments, and audit adjustments, and to remove depreciation on fully depreciated assets, and to adjust for the Summertree Decommissioning.

Issue 55: Should any adjustments be made to test year amortization of CIAC expense?

POSITION: *Yes. The LUSI wastewater amortization of CIAC should not be reduced through the application of a non-used and useful percentage as proposed in the filing.

Removal of the Company's application of a non-used and useful percentage increases amortization expense by $49,890.*

ARGUMENT:

The Utility's MFRs include an adjustment to remove $49,890 from amortization of CIAC expense based on the application of the used and useful adjustment. (HE 86, Schedule B-14) As discussed in Issue 19, the non-used and useful adjustment should not be applied to the CIAC balance. Therefore, no related adjustment should be made to the amortization expense. The LUSI wastewater amortization expense should be increased by $49,890 to reflect the removal of the Utility's adjustment for accumulated amortization of CIAC.

Issue 56: What adjustments, if any, need to be made to net operating income to appropriately reflect the impacts of the abandonment and decommissioning of the Summertree water supply assets?

POSITION: *The Utility's adjusted test year operating expenses should be reduced by $1,492 to reflect the impacts of the abandonment and decommissioning of the Summertree water supply assets.*

ARGUMENT

UIF included operating expense adjustments to the UIF-Pasco MFRs related to the abandonment and decommissioning of the Summertree water supply assets. (HE 86) OPC Witness Ramas reviewed these adjustments and Order No. PSC-16-0505-PAA-WS[31] which previously addressed these same adjustments. The MFRs only included an increase of $20,000 to O&M Expense for the amortization of a proposed $200,000 decommissioning cost and a decrease of $55,110 to depreciation expense. However, in Docket No. 150269-WS, the Commission addressed the Summertree system interconnection with Pasco County and the associated abandonment of the Summertree water supply assets. In Order No. PSC-16-0505-PAA-WS, the Commission addressed the recovery of the abandoned wells and the associated amortization expense, as well as the increases and decreases to O&M expenses, depreciation expense, and taxes other than income. The Commission reduced O&M expenses by $48,609, depreciation expense by $21,974 and taxes other than income by $9,933. (Schedule 1) The Commission further allowed adjustments for purchased water, rate case expense, and the amortization of the loss on retirement. The purchased water and rate case expense adjustments are included in other issues (Issues 37 and 49). Utility Witness Swain agreed that the entries associated with the decommissioning should be consistent with the Commission's prior Order. (TR 1437)

The Commission also addressed the recovery of the abandoned wells and the associated amortization expense, calculating a preliminary cost of $558,697 for recovery, an amortization period of 12.24 years and an annual amortization expense of $45,633. (Page 8) The preliminary cost

[31] See Order No. PSC-16-0505-PAA-WS, issued October 31, 2016, in Docket No. 150269-WS, In re: Application for limited proceeding water rate increase in Marion, Pasco, and Seminole Counties, by Utilities, Inc. of Florida.

of recovery included $200,000 of projected costs to retire. Utility Witness Flynn revised the amount to $176,826 (HE 233); however, OPC Witness Woodcock testified that UIF did not provide sufficient documentation to support even the revised amount. (TR 630 and 667) Therefore, the Utility failed to meet its burden on this issue and this amount should be disallowed for recovery.

Witness Ramas further testified that the accumulated depreciation included in the unrecovered cost should be updated to reflect the fact that the assets remained in service until the interconnection with Pasco County, which occurred on December 21, 2016. (TR 798) UIF calculated the net loss based on accumulated depreciation as of November 30, 2015. UIF would have continued to depreciate the assets from the November 30, 2015 date through December 2016, resulting in 13 additional months of depreciation expense. (TR 798) Thus Witness Ramas calculated an annual amortization expense of $43,914. (HE 128, Page 10 of 10)

Based on the above, the Utility's adjustments should be removed and the adjustments from the Commission prior Order should be made for O&M expenses, depreciation expense, and taxes other than income. The revised amortization expense of $43,914, calculated by Witness Ramas, should also be included.

<u>Issue 58</u>: Should any adjustments be made to test year taxes other than income expense?

POSITION: *Yes. *Test year taxes other than income should be reduced by $52,601 for the water systems and $198,174 for the wastewater systems.

ARGUMENT:

This is a fall-out issue. Test year taxes other than income should be reduced by $52,601 for the water systems and $198,174 for the wastewater systems.

<u>Issue 59</u>: What is the appropriate revenue requirement for the adjusted December 31, 2015 test year?

POSITION: *The water revenue requirement should be $15,170,193 and the wastewater revenue requirement should be $16,360,140.*

ARGUMENT:

This is a fall-out issue. The water revenue requirement should be $15,170,193 and the wastewater revenue requirement should be $16,360,140.

<u>ISSUE 60</u>: What, if any, limits should be imposed on subsidy values that could result if stand-alone rates are converted to a consolidated rate structure for the water and wastewater systems?

POSITION: *OPC takes no position on the level of subsidies. However, the Commission's determination of the appropriate subsidy value, if any, is a significant policy issue that directly impacts every UIF customer by either increasing or decreasing their rates. As the statutory representative of all customers, OPC submits that if stand-alone rates are consolidated, it is imperative the customers know the subsidy values imposed by the Commission.*

ARGUMENT:

OPC takes no position on the level of subsidies. However, the Commission's determination of the appropriate subsidy value, if any, is a significant policy issue that directly impacts every UIF customer by either increasing or decreasing their rates. As the statutory representative of all customers, OPC submits that if stand-alone rates are consolidated, it is imperative the customers know the subsidy values imposed by the Commission.

ISSUE 67: What is the appropriate late payment charge?

POSITION: *The late payment charge should be determined on a reasonable allocation of labor costs and actual expenses required to process and mail the late payment notices. The revenue impact of the approved late payment charge times the 21,947 late payments experienced in the test year should be included in UIF's revenue requirement. Using the requested late payment charge results in $190,033 in additional revenues to be applied for purposes of determining the new service rates.*

ARGUMENT:

The late payment charge should be determined by the Commission based on a reasonable allocation of labor costs and actual expenses required to process and mail the late payment notices. The Commission should consider whether it takes two people 10 minutes each to hand prepare the late payment charges and why this is not performed by the billing system. If it is to be performed by hand, OPC submits that only one person would be necessary to research or do the required "legwork" for this task. (TR 300) Moreover, UIF did not justify why it would take a supervisor the same amount of time to review the calculation.

A review of the MFRs Schedules E-5 indicates that there are no late payment fee revenues included in the test year revenues. (HE 86) Therefore, the impact of the approved late payment charge should be included as a pro forma increase in test year revenues. There would be no additional expenses as the salaries are already included in expenses, the payment will be on the next billing statement, and all billing expenses are already included in test year expenses. Therefore, the revenue impact of the approved charge times the 21,947 late payments experienced in the test year (HE 157, Staff Interrogatory No. 192) should be included in the revenue requirement and serve to reduce the revenues used to determine the service rates. If UIF's requested late payment charge is approved, it would result in $190,033 in late fee revenues.

ISSUE 74: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

POSITION: * Due to the deficiencies in UIF's initial filing that took approximately three months to cure, customers should receive a refund for the period of time when the MFRs were deficient. The interim rate refund should be calculated on a system by system standalone basis. If statewide uniform rates or banded rates are implemented, those systems receiving a rate decrease should receive a refund of the difference between prior authorized rates and interim rates.*

ARGUMENT:

This calculation should be a fallout. However, there were many deficiencies in UIF's initial filing that took until November 22, 2016 to cure, a period of approximately three months. Customers who received an interim rate increase prior to the curing of the MFRs on November 22, 2106, should receive a refund for the period of time when the MFRs were deficient as calculated by the Commission. The interim rate refund should be calculated according to Commission policy and rule on a system by system standalone basis. If statewide uniform rates or banded rates are implemented, those systems receiving a rate decrease should receive a refund of the difference between prior authorized rates and interim rates.

ISSUE 75: What is the appropriate amount by which rates should be reduced after the established effective date of the approved tariff to reflect the removal of the amortized rate case expense?

POSITION: * Rates should be reduced pursuant to Rule 25-30.4705, F.A.C.*

ARGUMENT: Rates should be reduced pursuant to Rule 25-30.4705, F.A.C.

ISSUE 76: What is the appropriate amount and mechanism by which rates should be reduced to reflect the removal of any unamortized rate case expense?

POSITION: * If consolidation not approved, the individual system rates should be reduced at the end of recovery period consistent with the Commission's practice. If consolidated rates are approved, the expense associated with the amortization of prior rate cases should be separated out for each system with surcharges and removed in accordance with the recovery period from those system's prior rate case and any test year expense for prior rate case expense should be removed.*

ARGUMENT:

A number of UIF systems currently have an unamortized balance of rate case expense previously approved by the Commission pursuant to Section 367.0816, F.S.[32] In general, the prior rate case expense is amortized over a four-year period and after the recovery period, rates are reduced by the amount of the rate case expense included in rates. *See* Section 367.081(8), F.S. If a rate case is filed before the expiration of the amortization period and this prior rate case expense is included as part of test year expenses, no further adjustments are necessary because the statute requires that rates be automatically reduced by the prior rate expense amount upon the end of the recovery period. If the Commission does not consolidate rates, then the prior unamortized rate case expense should treated in accordance with the Commission's usual practice.

However, if the Commission approves some form of consolidated rates in this case, the expense associated with the amortization of prior rate cases could be separated out for each of the systems with surcharges specific to each system. (TR 734) This would allow the separate surcharge on the bill to be terminated the month following the full four-year amortization of the prior rate case costs and would meet the requirements of Section 367.081(8), F.S. (TR 734) In addition, any prior rate case expense included in the test year expense for one of UIF's systems should be removed to avoid the potential of customers paying twice that expense. (TR 732) This methodology mimics the Commission's current treatment of prior unamortized rate case expense.

UIF Witness Swain contended that allowing the combining of prior rate case expense with current rate case expense is the most practical, least costly method to implement a consolidation of rates. (TR 1425) She argued that spreading the prior and current rate case expense is equivalent and, therefore, the customers would not overpay. Witness Swain also contended that this would spread costs evenly, and normalize rates over the years. She further contended that this would result in a single rate, rather than multiple, likely miniscule rate reductions. (TR 1425) However, her arguments fail to address the fairness of requiring some systems to pay for the prior rate case expense of other systems and the requirement to comply with the applicable statutory provisions.

As Witness Ramas testified if consolidated rates are approved in this case, following a method similar to that outlined in her testimony would prevent costs from prior rate cases being unfairly passed on to customers in other systems and it would comply with the statutory requirements. (TR 735)

In summary, if the Commission does not consolidate rates, the individual system rates should be reduced at the end of recovery period for any prior unamortized rate case expense included in the test year consistent with the Commission's usual practice. However, if the Commission approves

[32] Section 367.0816, F.S., under which all prior rate case expense balances were approved, was repealed in 2016 and replaced with Section 367.081(8), F.S. Changes in legislation are prospective in nature and not retroactive unless the Legislature requires retroactive applicability. Because the prior statute required all rate case expense to be automatically removed after four years, the rate case expense previously approved must be removed once the four year period expires.

some form of consolidated rates, the expense associated with the amortization of prior rate cases could be separated out for each of the systems with surcharges specific to each system and removed in accordance with the recovery period from those system's prior rate case, and any test year expense for prior rate case expense should be removed.

<u>ISSUE 78</u>: How should the Utilities treat its in-state FPSC-regulated accounting, filing, and reporting requirements?

POSITION: *UIF should continue to maintain an accounting system that records rate base items on a system basis. These records will be necessary for future retirements and adjustments such as used and useful. All direct revenue and expense items should be maintained on a system basis. Costs to be allocated must be maintained in a manner that will facilitate allocation when necessary. These requirements should be maintained for every purpose for accounting, filing, and reporting requirements.*

ARGUMENT:

This rate case includes issues addressing excessive inflow and infiltration, excessive unaccounted for water, and used and useful percentages. These are issues that are common to most water and wastewater rate cases and result in adjustments to plant, accumulated depreciation and expenses on a per system basis. Utility Witness Deason testified that UIF keeps records to show which counties each system is associated with and the information could be used to easily aggregate the systems. (TR 1111) UIF should continue to maintain an accounting system that records rate base items on a system basis. These records will be necessary for future retirements and adjustments such as used and useful. All direct revenue and expense items should also be maintained on a system basis. Costs to be allocated must be maintained in a manner that will facilitate allocation when necessary. These requirements should be maintained for every purpose for accounting, filing, and reporting requirements.

<u>Issue 79</u>: Did the Utility appropriately record the Commission Ordered Adjustments (COAs) to the books and records? If not, what action, if any, should be taken?

POSITION: *No. UIF has failed to appropriately and timely record COAs for many systems. This has been a continuing problem. UIF should be ordered to provide a copy of the general ledger with the date the entry was actually booked, the adjusting entry in Excel so it can be sorted and analyzed to verify it equals the order, plus schedules and workpapers that reconcile the Commission order to the specific numbers in the accounting journal entries.*

ARGUMENT:

Staff Witness Dobiac testified that UIF failed to make adjustments to its books as required by prior Commission orders. She testified that Cypress Lakes either did not record or recorded incorrectly the plant adjustments and did not make adjustments to record depreciation and amortization to reflect the current impact of those adjustments. (TR 934-935) She further testified that LUSI incorrectly recorded the ordered adjustments for plant, accumulated depreciation, CIAC, and accumulated amortization of CIAC in one account and only corrected that entry in the MFRs for this case. (TR 935 and 943) In addition, Witness Dobiac testified that the UIF systems for Marion, Orange, Pasco, Pinellas, and Seminole Counties did not book the COAs in a timely manner and that there were errors in the amounts booked. (TR 935-936 and 949)

While Witness Dobiac admitted that it is not uncommon to find utilities that fail to make the COAs within the 90-day deadline (TR 964), there is no basis for allowing UIF to continually ignore the Commission's orders. Despite Witness Dobiac's testimony that the audit was not affect by whether or not UIF made the COAs (TR 964), OPC Witness Ramas testified to the problems she found regarding negative plant balances and erroneous accumulated depreciation balances related to UIF's failure to appropriately make the Commission Ordered Adjustments. Ms. Ramas specifically testified that based on staff's audit, these issues for the Pasco and Seminole county systems were the result of accounting errors. (TR 802 and 813) Utility Witness Deason stated he agreed with the Witness Dobiac's testimony regarding the COAs.[33] (TR 1079-1081)

Many times, when the Commission adjusts rate base through a Commission Ordered Adjustment, the journal entry to book that entry may be lengthy and complicated. For instance, Table 1-1 in Audit Finding 1 includes 16 water accounts and 17 wastewater accounts. (HE 138 page 12 of 32) These adjustments are typically based on an average test year; yet the Utility's adjustments to its books must be made on a year-end basis, or in the case of accumulated depreciation or amortization, an amount must be updated to the current level for the adjusted plant. Witness Deason explained it is the responsibility of the staff in Northbrook, Illinois, to book the adjustments and that it is his responsibility to submit that adjustment to the Commission within 90 days, as required by the order. (TR 1110) Once the adjustment is filed with the Commission, Utility Witness Hoy testified he is not aware that the Commission would notify the Utility if the COAs were filed late. (TR 99-100) He also testified that, if there is no follow-up by staff, UIF assumes the submitted adjustments are accurate and accepted. Yet, despite this process, some of the COAs have not been made correctly. (TR 100)

This is not the first time where UIF has failed to timely make prior COAs. In this case, there are three instances where UIF failed to follow the Commission mandates: Docket No. 140060-WS regarding Sanlando, Docket No. 120209-WS regarding Utilities, Inc. of Florida, and Docket No. 040316-WS for all UIF systems.[34] A review of the Commission's audit reports in Docket Nos. 140060-WS and 120209-WS shows 14 pages of accounts with errors for Sanlando and differences in the CIAC and Accumulated Amortization accounts for the UIF systems. In Docket No. 040316-WS, UIF even entered into a stipulation regarding a number of accounting issues, one of which

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[33] Witness Deason testified that the amount of the Cypress Lakes adjustments excluded two accounts, but did not dispute the remainder of the audit finding.

[34] See Order No. PSC-14-0025-PAA-WS, in Docket No. 120209-WS, page 9; Order No. PSC-15-0233-PAA-WS, in Docket No. 140060-WS, page 57; and Order No. PSC-04-1275-AS-WS, in Docket No. 040316-WS, page 2.

addressed the timely adjustments to rate base to reflect Commission orders in Docket No. 040316-WS. This stipulation was initiated after a show cause order. Nevertheless, UIF continues failing to make the required COAs.

The Commission should require UIF to provide a copy of the adjusting entry consistent with the COA. However, in order to resolve some of the problems found in this case and to facilitate Staff review of the complex adjustments, when submitting COAs to the Commission within 90 days, UIF must also provide:

- an Excel version of the adjusting entry so it can be sorted and analyzed by Staff to verify it equals the order,
- the general ledger to show the date the entry was actually booked, and
- schedules and workpapers that reconcile the specific numbers in the Commission order to the specific numbers in the accounting journal entries

Issue 80: Did the Utility properly provide support to the auditors for pool vehicles and special equipment as well as the calculation for determining transportation expense per vehicle, and payroll schedules by employee to audit staff as in prior rate cases? If not, what action, if any, should be taken?

POSITION: *No. Rules 25-3025 and 25-30.450, F.A.C., require UIF to support any schedule submitted and the data organized to enable verification of the MFR expenses in an expedient manner. In this case, UIF did not meet its burden to support the expenses included in its filing. Therefore, the Utility's expenses for salary, benefits, and transportation expense should be reduced by 3% to serve as an incentive for the utility to provide appropriate documentation in the future.*

ARGUMENT:

Staff Witness Dobiac testified that in prior rate cases, UIF included in its MFRs adjustments for allocating plant vehicles, the associated accumulated depreciation, depreciation expense, and transportation costs from the UIF regional office to each Florida system as well as employees' salaries, benefits, and payroll taxes from the corporate and regional offices. (TR 938 and 940) However, in this case, the auditors could not determine these adjustments because the supporting documentation for the Utility's current filing for vehicle and transportation balances did not include the support for pool vehicles and special equipment, the calculation for determining transportation expense per vehicle. (TR 938) In addition, the Utility did not provide the payroll information necessary to allow the audit staff to verify the allocated salaries. (TR 940)

Utility Witness Deason disagreed with the characterization that the Utility failed provide sufficient information to support the transportation and salary expenses. (TR 1080-1082) He argued the information provided was sufficient for the Staff to calculate the associated accumulated depreciation and depreciation expense per vehicle. (TR 1080) He further listed the information provided regarding allocated salaries and benefits. (TR 1081) Rule 25-30.450, F.A.C., requires utilities to:

> support any schedule submitted, as well as any adjustments or allocations relied on by the utility. The work sheets, etc., supporting the schedules and data submitted must be organized in a systematic and rational manner so as to enable Commission personnel to verify the schedules in an expedient manner and minimum amount of time. The supporting work sheets, etc., shall list all reference sources necessary to enable Commission personnel to trace to original source of entry into the financial and accounting system and, in addition, verify amounts to the appropriate schedules.

In discovery, UIF provided copies of what it provided in response to the audit requests. (HE 160) However, none of this documentation appears to follow the rule requirement that the data be organized to enable verification of the MFR expenses in an expedient manner. Nor do the documents trace the financial records to the amounts provided in the MFRs. UIF is required to support its filing and failed to meet its burden to do so. This case involved a substantial filing and the burden should not be shifted to the Staff auditors (or to any intervenors) to ferret out the basis for the expenses included in the MFRs. Therefore, UIF's expense could be disallowed in its entirety as it has not been appropriately supported by the Utility. However, it is obvious that the Utility incurred expenses for salary, benefits, and transportation. Therefore, a more reasonable option is to penalize UIF 3% of the salary and benefits expense, as well as the transportation expense. This is only 2.66% of the requested revenue increase and should serve as an incentive for the Utility to comply in the future.

ISSUE 81: Should the Utility be required to notify, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

POSITION: *Yes, the Utility should be required to notify the Commission, in writing, that it has adjusted its books, and if the Utility fails to do so, the Commission should order UIF to show cause for its failure to comply with any COAs.*

ARGUMENT:

Yes, the Utility should be required to notify the Commission, in writing, that it has adjusted its books, and if the Utility fails to do so, the Commission should order UIF to show cause for its failure to comply with any COAs.

ISSUE 82: Should this docket be closed?

POSITION: *No, the docket should remain open to ensure that the Commission Ordered Adjustments are done appropriately. *

ARGUMENT:

No, the docket should remain open to ensure that the Commission Ordered Adjustments are done appropriately.

Dated this 20th day of June, 2017

Respectfully submitted,

J. R. Kelly
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CERTIFICATE OF SERVICE
Docket No. 160101-WS

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by electronic mail on this 20th day of June, 2017, to the following:

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DOCKET NO. 160101-WS
UTILITIES, INC. OF FLORIDA

BRIEF EXHIBITS
OPC RECOMMENDED ADJUSTMENT SCHEDULES

Issue 4 Florida ERCs		
System	ERCs	%
Cypress Lakes	2,498.5	3.89%
Eagle Ridge	2,536.6	3.95%
Labrador	1,565.8	2.44%
Lake Placid	269.8	0.42%
Longwood	1,704.5	2.66%
LUSI	15,152.5	23.61%
Mid-County	3,097.0	4.83%
Pennbrooke	2,765.0	4.31%
Sandalhaven	1,253.4	1.95%
Sanlando	21,323.6	33.22%
Tierra Verde	1,647.0	2.57%
Marion County	974.9	1.52%
Orange County	312.5	0.49%
Pasco County	4,128.9	6.43%
Pinellas County	430.9	0.67%
Seminole County	3,644.5	5.68%
ACME	878.5	1.37%
TOTAL	64,183.9	100.0%

Issue 5 Audit Adjustments: Rate Base Audit Finding #1 Cypress Lakes		
	Water	**Sewer**
Utility Plant in Service	(13,585)	197,346
Accumulated Depreciation	23,128	(355,243)
Contributions in Aid of Construction	(3,625)	--
Accumulated Amortization of CIAC	9,735	23,683

Audit Finding #2 Lake Utility Services, Inc.		
	Water	**Sewer**
Utility Plant in Service	24,235	2,579
Accumulated Depreciation	146,639	8,499
Contributions in Aid of Construction	(20,200)	32,579
Accumulated Amortization of CIAC	(108,597)	(8,642)

Audit Finding #3 UIF-Marion County		
	Water	**Sewer**
Utility Plant in Service	66,296	28,777
Accumulated Depreciation	93,584	(3,524)
Contributions in Aid of Construction	23,668	--
Accumulated Amortization of CIAC	(16,529)	(59)

Audit Finding #3 UIF- Orange County	
	Water
Utility Plant in Service	16,722
Accumulated Depreciation	681
Contributions in Aid of Construction	(28,844)
Accumulated Amortization of CIAC	26,264

Audit Finding #3 UIF- Pasco County		
	Water	**Sewer**
Utility Plant in Service	741,722	393,339
Accumulated Depreciation	(599,881)	(1,393,033)
Contributions in Aid of Construction	111,100	46,517
Accumulated Amortization of CIAC	39,924	19,216

Audit Finding #3 UIF- Pinellas County	
	Water
Utility Plant in Service	101,538
Accumulated Depreciation	(72,884)
Contributions in Aid of Construction	18,546
Accumulated Amortization of CIAC	(37,418)

Audit Finding #3 UIF- Seminole County		
	Water	**Sewer**
Utility Plant in Service	559,517	1,194,092
Accumulated Depreciation	(1,563,524)	(1,050,850)
Contributions in Aid of Construction	158,502	226,651
Accumulated Amortization of CIAC	(177,314)	21,410

Audit Finding #4 Pennbrooke	
	Sewer
Accumulated Amortization of CIAC	(239,460)

Audit Finding #9 Allocated Plant		
	Water	**Sewer**
Cypress Lakes	6,322	6,002
Eagle Ridge	--	(15,149)
Labrador	3,742	3,713
Lake Placid	967	980
Longwood	--	(12,551)
LUSI	65,941	20,392
Mid-County	--	63,653
Pennbrooke	7,002	5,834
Sandalhaven	--	(5,254)
Sanlando	128,910	103,695
Tierra Verde	--	(15,856)
UIF-Marion	10,897	1,851
UIF-Orange	5,448	--
UIF-Pasco	70,829	30,169
UIF-Pinellas	7,430	--
UIF-Seminole	71,818	35,724
TOTAL	379,306	223,203

Issue 7 Test Year Plant				
	Reclassify Engineering Fees	**Myrtle Hills**	**Fully Depreciated**	**Splitter Box**
Lake Placid - Water			(13,191)	
Lake Placid - Wastewater			(11,011)	
LUSI – Wastewater				(1,500)
Sanlando – Water		(658,854)		
Sandalhaven – Wastewater	3,821			
UIF-Marion – Water			(90,388)	
TOTAL	3,821	(658,854)	(114,590)	(1,500)

Issue 8 Pasco County – Summertree Retirement		
	Remove Utility Adjustments for Summertree Decommissioning	Recommended Summertree Decommissioning Adjustments
Utility Plant in Service	1,786,610	(715,518)
Accumulated Depreciation	(1,786,611)	275,034
Contributions in Aid of Construction	(156,827)	160,460
Accumulated Amortization of CIAC	156,827	(83,673)
Working Capital Allowance	(180,000)	8,008
Totals	(180,001)	(355,689)
Net Adjustment to UIF-Pasco Rate Base		(535,690)

Issue 9 Pro Forma Plant				
	UPIS		Acc. Depreciation	
	Water	Sewer	Water	Sewer
Eagle Ridge	--	(61,400)	--	(192,760)
Longwood	--	(196,265)	--	(100,629)
LUSI	376,755	(49,097)	142,815	(105,348)
Mid-County	--	(1,077,432)	--	(561,813)
Pennbrooke	(130,000)	--	(377,000)	--
Sandalhaven	--	(9,731)	--	(196,144)
Sanlando	(658,736)	(3,190,822)	8,875	(1,788,724)
Tierra Verde	--	9,343	--	27,595
UIF-Orange County	1,153,967	--	(1,156,909)	--
UIF-Pasco County	(375,000)	--	(1,107,525)	--
UIF-Pinellas County	550,000	--	(747,674)	--
UIF-Seminole County	5,515,813	193,329	(5,515,813)	(193,329)
GIS	(232,308)	(219,202)	12,694	13,785
TOTAL	6,200,491	(4,601,277)	(8,740,537)	(6,097,368)

Issue 9 Table 9-1 – Summary Table of All UIF's Pro Forma Projects Under Review						
Flynn's Exhibit Number	**UIF's Pro Forma Projects (PCF-1 to PCF-47)**	**Flynn's Direct Testimony 08-31-17**	**Flynn's Original Exhibits 08-31-17**	**Flynn's Refiled Exhibits 10-31-17**	**Woodcock's Testimony 03-06-17**	**Flynn's Rebuttal Testimony & Revised Exhibits 04-03-17**
PCF-1	Hydrotank Replacement	$30,000 TR 321	Yes (HE 37)	Yes	$25,732 (TR 625) Cost Less Than Requested	$26,000 (Amended PCF-1; HE 207)
PCF-2	Cypress Lakes Sediment Removal	$50,200 (TR 321)	Yes (HE 38)	Yes	$50,200 (TR 623-624) Adequate Cost Justification	$50,200 (HE 208) UIF Project Request Form
PCF-3	Eagle Ridge, WWTP EQ Tank and Headworks	$350,000 (TR 321)	Yes (HE 39)	Yes	$106,388 (TR 625) Cost Less Than Requested	$938,140 (Amended PCF-3; HE 209)
PCF-4	Labrador Sediment Removal	$61,137 (TR 322)	Yes (HE 40)	Yes	$61,137 (TR 623-624) Adequate Cost Justification	$61,137 (HE 210) UIF Project Request Form
PCF-5	LUSI, Sludge Dewatering Equipment	$245,000 (TR 322)	Yes (HE 41)	Yes	$240,000 (TR 625) Cost Less Than Requested	$249,000 (HE 248) (Amended PCF-5; HE 211) Kubota Invoice
PCF-5A	SolarOrganite Project (PCF-5A same as PCF-5 project, but includes Kubota Invoice)	N/A	N/A (HE 42) *Not moved*	N/A	N/A	$245,000 PCF-5A was *Not moved*
PCF-6	LUSI Oswalt Road WM Relocation	$50,000 (TR 322)	No (HE 43) *Not moved*	Yes	$181,400 (TR 623-624) Adequate Cost Justification	$181,000 (HE 248) Invoices
PCF-7	SCADA	$470,000 (TR 322)	Yes (HE 44)	Yes	$458,902 (TR 625) Cost Less Than Requested	$459,000 (HE 248) No Rebuttal Exhibit

Issue 9 Table 9-1 – Summary Table of All UIF's Pro Forma Projects Under Review						
Flynn's Exhibit Number	**UIF's Pro Forma Projects (PCF-1 to PCF-47)**	**Flynn's Direct Testimony 08-31-17**	**Flynn's Original Exhibits 08-31-17**	**Flynn's Refiled Exhibits 10-31-17**	**Woodcock's Testimony 03-06-17**	**Flynn's Rebuttal Testimony & Revised Exhibits 04-03-17**
PCF-8	LUSI TTHM & HAA5 Study	$79,250 (TR 322)	Yes (HE 45)	Yes	$79,250 (TR 623-624) Adequate Cost Justification	$79,000 (Amended PCF-8 is missing; HE 248) No Rebuttal Exhibit
PCF-9	LUSI, TTHM & HAA5 Study	$450,000 (TR 323)	No Exhibit Provided (HE 46) *Not moved*	None – Placeholder Exhibit "Held For Future Use"	$0 (TR 630) Without Any Cost Justification- Later Confirmed Reasonable (TR 676-677)	$330,832 (Amended PCF-9; HE 213) New in Rebuttal
PCF-10	LUSI, US 27 Utility Relocation	$1,869,000 (TR 323)	Yes $62,990 (HE 47)	Yes $62,990 (HE 47)	$1,806,000 (TR 623-624) Adequate Cost Justification	$62,990 (HE 214) Same as direct
PCF-10a	LUSI, US 27 Utility Relocation	N/A	Yes $2,700,000 (HE 48)	Yes $2,700,000 (HE 48)	See above	$2,700,000 (HE 215) Same as direct
PCF-11	Longwood, Church Ave. Relocation	$193,880 (TR 323)	Yes (HE 49)	Yes	$193,880 (TR 623-624) Adequate Cost Justification	$253,524 (Amended PCF-11; HE 216)
PCF-12	Longwood I&I Study	$50,000 (TR 323)	No Exhibit Provided (HE 50) *Not moved*	Yes	$50,000 (TR 623-624) Adequate Cost Justification	$26,325 (HE 217, p. 6 of 6) Invoice
PCF-13	Longwood, Groves I&I Remediation	$450,000 (TR 323)	No Exhibit Provided (HE 51) *Not moved*	None – Placeholder Exhibit "Held For Future Use"	$0 (TR 630) Without Any Cost Justification	$323,717 (Amended PCF-13; HE 218) New in Rebuttal

Issue 9
Table 9-1 – Summary Table of All UIF's Pro Forma Projects Under Review

Flynn's Exhibit Number	UIF's Pro Forma Projects (PCF-1 to PCF-47)	Flynn's Direct Testimony 08-31-17	Flynn's Original Exhibits 08-31-17	Flynn's Refiled Exhibits 10-31-17	Woodcock's Testimony 03-06-17	Flynn's Rebuttal Testimony & Revised Exhibits 04-03-17
PCF-14	Mid County, Electrical Improvements	$900,000 (TR 323-324)	Yes (HE 52)	Yes	$0 (TR 627-630) Lacking Adequate Cost Justification	$1,139,100 (Amended PCF-14; HE 219)
PCF-15	Mid County Field Office	$65,000 (TR 324)	Yes (HE 53)	Yes	$65,000 (TR 623-624) Adequate Cost Justification	$65,000 (HE 248) No Rebuttal Exhibit
PCF-16	Mid-County Flow Study (I&I)	$80,000 (TR 324)	Yes (HE 54)	Yes	$80,000 (TR 623-624) Adequate Cost Justification	$76,704 (HE 220) Actual Cost is Lower
PCF-17	Mid-County, Excess I&I Remediation	$600,000 TR 324	No Exhibit Provided (HE 55) *Not moved*	None – Placeholder Exhibit "Held For Future Use"	$0 (TR 630) Without Any Cost Justification	$147,577 (Amended PCF-17; HE 221) New in Rebuttal
PCF-18	Mid-County Methanol Pumps & Nutrient Analyzers	$102,000 (TR 324-325)	Yes (HE 56)	Yes	$92,576 (TR 625) Cost Less Than Requested	$102,000 (HE 248) No Rebuttal Exhibit
PCF-19	Mid-County, US Hwy 19 Relocation	$230,000 (TR 325)	Yes (HE 57)	Yes	$172,879 (TR 625) Cost Less Than Requested	$230,000 (Amended PCF-19; HE 222) Additional Information in Rebuttal
PCF-20 **	Pennbrooke, WTP Electrical Improvements	$270,000 (TR 325)	No Exhibit Provided (HE 58) *Not moved*	None – Placeholder Exhibit "Held For Future Use"	$0 (TR 627-630; 662; 667) Originally No Cost Justification; Now Lacking Adequate Cost Justification	$420,937 (Amended PCF-20; HE 223)** New in Rebuttal

Issue 9
Table 9-1 – Summary Table of All UIF's Pro Forma Projects Under Review

Flynn's Exhibit Number	UIF's Pro Forma Projects (PCF-1 to PCF-47)	Flynn's Direct Testimony 08-31-17	Flynn's Original Exhibits 08-31-17	Flynn's Refiled Exhibits 10-31-17	Woodcock's Testimony 03-06-17	Flynn's Rebuttal Testimony & Revised Exhibits 04-03-17
PCF-21	Sandalhaven – Placida Road utility Relocation	$250,000 (TR 325)	Yes (HE 59)	Yes	$217,034 (TR 625) Cost Less Than Requested	$217,034 (Amended PCF-21; HE 224) Additional Information in Rebuttal
PCF-22	Sanlando Autumn Wood Dr. WM Replacement	$98,970 (TR 325)	No Exhibit Provided (HE 60) *Not moved*	Yes	$98,970 (TR 623-624) Adequate Cost Justification	$98,970 (HE 225) Includes invoices
PCF-23	Sanlando, Lift Station RTU Installation	$353,200 (TR 326)	No Exhibit Provided (HE 61) *Not moved*	Yes	$353,200 (TR 623-624) Adequate Cost Justification	$591,200 (Amended PCF-23; HE 226) Additional Information in Rebuttal
PCF-24	Sandlando Markham Wood Utility Relocate	$65,900 (TR 326)	No Exhibit Provided (HE 62) *Not moved*	Yes	$65,900 (TR 623-624) Adequate Cost Justification	$65,900 (HE 248) No Rebuttal Exhibit
PCF-25	Sanlando, Myrtle Hills WM	$695,450 (TR 326)	No Exhibit Provided (HE 63) *Not moved*	None – Placeholder Exhibit "Held For Future Use"	$684,271 (TR 625) Cost Less Than Requested	$695,450 (HE 227) No Change
PCF-26	Sanlando I&I Study and Remediation	$1,726,384 (TR 326)	No Exhibit Provided (HE 64) *Not moved*	Yes	$1,573,884 (TR 623-624) Adequate Cost Justification	$1,726,384 (HE 228) Added $152,500 to project

Issue 9 Table 9-1 – Summary Table of All UIF's Pro Forma Projects Under Review						
Flynn's Exhibit Number	**UIF's Pro Forma Projects (PCF-1 to PCF-47)**	**Flynn's Direct Testimony 08-31-17**	**Flynn's Original Exhibits 08-31-17**	**Flynn's Refiled Exhibits 10-31-17**	**Woodcock's Testimony 03-06-17**	**Flynn's Rebuttal Testimony & Revised Exhibits 04-03-17**
PCF-27	Sanlando, Shadow Hills Diversion Project	$4,243,423 (TR 326-327)	No Exhibit Provided (HE 65) Not moved	Yes	$0 (TR 627-630) Lacking Adequate Cost Justification)	$7,781,739 (Amended PCF-27; HE 229) TR 1242) Scope change & new building
PCF-28	Sanlando – Wekiva Blower Project	$600,000 (TR 327)	No Exhibit Provided (HE 66) *Not moved*	None – Placeholder Exhibit "Held For Future Use"	$0 (TR 630) Without Any Cost Justification	*Dropped*
PCF-29	Sanlando Well 2A Lift Station Electrical Imp.	$343,437 (TR 327)	No Exhibit Provided (HE 67) *Not moved*	Yes	$343,437 (TR 623-624) Adequate Cost Justification	$344,000 (HE 248) No Rebuttal Exhibit
PCF-30	Sanlando, Wekiva WWTP Rehabilitation	$1,803,000 (TR 327)	Yes (HE 68)	Yes	$1,729,034 (TR 625) Cost Less Than Requested	$1,837,324 (Amended PCF-30; HE 230)
PCF-31	Tierra Verde 8th Ave. Gravity Main Replacement	$84,673 (TR 327-328)	Yes (HE 69)	Yes	$84,673 (TR 623-624) Adequate Cost Justification	$85,000 (HE 248) No Rebuttal Exhibit
PCF-32	UIF Orange Crescent Heights WM Replacement	$1,806,000 (TR 328)	Yes (HE 70)	Yes	$1,806,000 (TR 623-624) Adequate Cost Justification	$1,805,518 (HE 231) UIF Project Request Form
PCF-33 **	Orangewood, Buena Vista WM Replacement	$1,200,000 (TR 328)	No Exhibit Provided (HE 71) *Not moved*	None – Placeholder Exhibit "Held For Future Use"	$0 (TR 627-630; 662; 667) Originally No Cost Justification; Now Lacking Adequate Cost Justification	$2,174,118 (Amended PCF-33; HE 232)**

Issue 9 Table 9-1 – Summary Table of All UIF's Pro Forma Projects Under Review						
Flynn's Exhibit Number	**UIF's Pro Forma Projects (PCF-1 to PCF-47)**	**Flynn's Direct Testimony 08-31-17**	**Flynn's Original Exhibits 08-31-17**	**Flynn's Refiled Exhibits 10-31-17**	**Woodcock's Testimony 03-06-17**	**Flynn's Rebuttal Testimony & Revised Exhibits 04-03-17**
PCF-34 **	Summertree, Well Abandonment	$200,000 (TR 328)	No Exhibit Provided (HE 72) *Not moved*	None – Placeholder Exhibit "Held For Future Use"	$0 (TR 627-630; 662; 667) Originally No Cost Justification; Now Lacking Adequate Cost Justification	$176,826 (Amended PCF-34; HE 233)**
PCF-35	Lake Tarpon Water Main Replacement	$800,000 (TR 328-329)	Yes (HE 73)	Yes	$800,000 (TR 623-624) Adequate Cost Justification	$1,218,146 (Amended PCF-35; HE 234)
PCF-36	UIF – Electrical Improvements at Little Wekiva	$323,000 (TR 329)	Yes (HE 74)	Yes	$268,830 (TR 625) Cost Less Than Requested	$281,181 (Amended PCF-36; HE 235)
PCF-37	UIF – Engineering for Seminole & Orange County WM replacements	$57,000 (TR 329)	Yes (HE 75)	Yes	$0 (TR 625) Cost Less Than Requested (TR 627) Removed to avoid double counting	$57,050 (Amended PCF-37; HE 236)
PCF-38	UIF – Seminole Bear Lake WM Replacement	$1,485,270 (TR 329)	Yes $1,495,127 (HE 76)	Yes	$1,485,270 (TR 623-624) Adequate Cost Justification	$1,495,127 (HE 237) UIF Project Request Form
PCF-39	UIF – Seminole Crystal Lake WM Replacement	$1,585,933 (TR 329-230)	Yes (HE 77)	Yes	$1,585,933 (TR 623-624) Adequate Cost Justification	$1,585,933 (HE 238) UIF Project Request Form
PCF-40	UIF – Seminole Little Wekiva WM Replacement	$521,681 (TR 330)	Yes (HE 78)	Yes	$521,681 (TR 623-624) Adequate Cost Justification	$521,681 (HE 239) UIF Project Request Form

Issue 9 Table 9-1 – Summary Table of All UIF's Pro Forma Projects Under Review						
Flynn's Exhibit Number	**UIF's Pro Forma Projects (PCF-1 to PCF-47)**	**Flynn's Direct Testimony 08-31-17**	**Flynn's Original Exhibits 08-31-17**	**Flynn's Refiled Exhibits 10-31-17**	**Woodcock's Testimony 03-06-17**	**Flynn's Rebuttal Testimony & Revised Exhibits 04-03-17**
PCF-41	UIF – Seminole Weathersfield Northwest FM	$120,000 (TR 330)	Yes (HE 79)	Yes	$120,000 (TR 623-624) Adequate Cost Justification	$688,631 (Amended PCF-41; HE 240)
PCF-42	UIF – Seminole Oakland Shores WM Replacement	$1,571,701 (TR 330)	Yes (HE 80)	Yes	$1,571,701 (TR 623-624) Adequate Cost Justification	$1,571,701 (HE 241) UIF Project Request Form
PCF-43	UIF – Seminole Phillips WM Replacement	$1,188,247 (TR 330)	Yes (HE 81)	Yes	$1,188,247 (TR 623-624) Adequate Cost Justification	$1,188,247 (HE 242) UIF Project Request Form
PCF-44	UIF – Seminole Ravenna Park WM Replacement	$2,160,808 (TR 330)	Yes (HE 82)	Yes	$2,160,808 (TR 623-624) Adequate Cost Justification	$2,160,808 (HE 243) More Bid Information
PCF-45	UIF – Seminole Ravenna Park Crystal Lake Int	$646,000 (TR 331)	Yes (HE 83)	Yes	$646,000 (TR 623-624) Adequate Cost Justification	$647,000 (HE 248) No Rebuttal Exhibit
PCF-46	Truck Upgrade	$44,000 (TR 331)	Yes (HE 84)	Yes	$44,000 (TR 623-624) Adequate Cost Justification	$46,000 (HE 248) No Rebuttal Exhibit
PCF-47	GIS Mapping Service	$350,000 (TR 331)	Yes (HE 85)	Yes	$244,321 (TR 625) Cost Less Than Requested	$244,000 (HE 248) Invoices
	Estimated Totals	$30,835,444 (TR 632)	Missing 17 Exhibits	Missing 8 Exhibits	$21,256,538 (TR 632)	$36,850,000 (TR 1243)

** = Discovery response with updated project cost information provided on February 6, 2017 was inadvertently overlooked; witness Woodcock removed these projects from the "Without Any cost Justification" category through oral modification. (TR 586; 630) By default, these three projects now move to the "Lacking Adequate Cost Justification" category. (TR 662; 667) No change to witness Woodcock's recommendation that of the $30,835,444 in pro forma projects requested by UIF in its original direct filing, UIF provided enough documentation in its MFRs, direct testimony, exhibits, and responses to discovery to support allowing up to $21,256,538 in pro forma additions to rate base. (TR 632; 662)

Issue 9 Table 9-2 – Pro Forma Projects with sufficient cost justification where final requested amounts are largely uncontested						
Flynn's Exhibit Number	**Pro Forma Projects With Sufficient Cost Justification**	**Flynn's Direct Testimony 08-31-17**	**Flynn's Original Exhibits 08-31-17**	**Flynn's Refiled Exhibits 10-31-17**	**Woodcock's Testimony 03-06-17**	**Flynn's Rebuttal Testimony & Revised Exhibits 04-03-17**
PCF-1	Hydrotank Replacement	$30,000 (TR 321)	Yes (HE 37)	Yes	$25,732 (TR 625) Cost Less Than Requested	$26,000 (Amended PCF-1; HE 207)
PCF-2	Cypress Lakes Sediment Removal	$50,200 (TR 321)	Yes (HE 38)	Yes	$50,200 (TR 623-624) Adequate Cost Justification	$50,200 (HE 208) UIF Project Request Form
PCF-4	Labrador Sediment Removal	$61,137 (TR 322)	Yes (HE 40)	Yes	$61,137 (TR 623-624) Adequate Cost Justification	$61,137 (HE 210) UIF Project Request Form
PCF-5	LUSI, Sludge Dewatering Equipment	$245,000 (TR 322)	Yes (HE 41)	Yes	$240,000 (TR 625) Cost Less Than Requested	$249,000 (HE 248) (Amended PCF-5; HE 211) Kubota Invoice
PCF-5A	SolarOrganite Project (PCF-5A same as PCF-5 project, but includes Kubota Invoice)	N/A	N/A (HE 42) *Not moved*	N/A	N/A	$245,000 PCF-5A was *Not moved*
PCF-6	LUSI Oswalt Road WM Relocation	$50,000 (TR 322)	No (HE 43) *Not moved*	Yes	$181,400 (TR 623-624) Adequate Cost Justification	$181,000 (HE 248) Invoices
PCF-7	SCADA	$470,000 (TR 322)	Yes (HE 44)	Yes	$458,902 (TR 625) Cost Less Than Requested	$459,000 (HE 248) No Rebuttal Exhibit

Issue 9
Table 9-2 – Pro Forma Projects with sufficient cost justification where final requested amounts are largely uncontested

Flynn's Exhibit Number	Pro Forma Projects With Sufficient Cost Justification	Flynn's Direct Testimony 08-31-17	Flynn's Original Exhibits 08-31-17	Flynn's Refiled Exhibits 10-31-17	Woodcock's Testimony 03-06-17	Flynn's Rebuttal Testimony & Revised Exhibits 04-03-17
PCF-8	LUSI TTHM & HAA5 Study	$79,250 (TR 322)	Yes (HE 45)	Yes	$79,250 (TR 623-624) Adequate Cost Justification	$79,000 (Amended PCF-8 is missing; HE 248) No Rebuttal Exhibit
PCF-9	LUSI, TTHM & HAA5 Study	$450,000 (TR 323)	No Exhibit Provided (HE 46) *Not moved*	None – Placeholder Exhibit "Held For Future Use"	$0 (TR 630) Without Any Cost Justification (TR 676-677) *Later Confirmed Reasonable*	$330,832 (Amended PCF-9; HE 213) New in Rebuttal
PCF-12	Longwood I&I Study	$50,000 (TR 323)	No Exhibit Provided (HE 50) *Not moved*	Yes	$50,000 (TR 623-624) Adequate Cost Justification	$26,325 (HE 217, p. 6 of 6) Invoice
PCF-15	Mid-County Field Office	$65,000 (TR 324)	Yes (HE 53)	Yes	$65,000 (TR 623-624) Adequate Cost Justification	$65,000 (HE 248) No Rebuttal Exhibit
PCF-16	Mid-County Flow Study (I&I)	$80,000 (TR 324)	Yes (HE 54)	Yes	$80,000 (TR 623-624) Adequate Cost Justification	$76,704 (HE 220) Actual Cost is Lower
PCF-18	Mid-County Methanol Pumps & Nutrient Analyzers	$102,000 (TR 324-325)	Yes (HE 56)	Yes	$92,576 (TR 625) Cost Less Than Requested	$102,000 (HE 248) No Rebuttal Exhibit

Issue 9 Table 9-2 – Pro Forma Projects with sufficient cost justification where final requested amounts are largely uncontested						
Flynn's Exhibit Number	**Pro Forma Projects With Sufficient Cost Justification**	**Flynn's Direct Testimony 08-31-17**	**Flynn's Original Exhibits 08-31-17**	**Flynn's Refiled Exhibits 10-31-17**	**Woodcock's Testimony 03-06-17**	**Flynn's Rebuttal Testimony & Revised Exhibits 04-03-17**
PCF-21	Sandalhaven – Placida Road utility Relocation	$250,000 (TR 325)	Yes (HE 59)	Yes	$217,034 (TR 625) Cost Less Than Requested	$217,034 (Amended PCF-21; HE 224) Additional Information in Rebuttal
PCF-22	Sanlando Autumn Wood Dr. WM Replacement	$98,970 (TR 325)	No Exhibit Provided (HE 60) *Not moved*	Yes	$98,970 (TR 623-624) Adequate Cost Justification	$98,970 (HE 225) Includes invoices
PCF-24	Sandlando Markham Wood Utility Relocate	$65,900 (TR 326)	No Exhibit Provided (HE 62) *Not moved*	Yes	$65,900 (TR 623-624) Adequate Cost Justification	$65,900 (HE 248) No Rebuttal Exhibit
PCF-28	Sanlando – Wekiva Blower Project	$600,000 (TR 327)	No Exhibit Provided (HE 66) *Not moved*	None – Placeholder Exhibit "Held For Future Use"	*$0* (TR 630) Without Any Cost Justification	*Dropped*
PCF-29	Sanlando Well 2A Lift Station Electrical Imp.	$343,437 (TR 327)	No Exhibit Provided (HE 67) *Not moved*	Yes	$343,437 (TR 623-624) Adequate Cost Justification	$344,000 (HE 248) No Rebuttal Exhibit
PCF-31	Tierra Verde 8th Ave. Gravity Main Replacement	$84,673 (TR 327-328)	Yes (HE 69)	Yes	$84,673 (TR 623-624) Adequate Cost Justification	$85,000 (HE 248) No Rebuttal Exhibit
PCF-32	UIF Orange Crescent Heights WM Replacement	$1,806,000 (TR 328)	Yes (HE 70)	Yes	$1,806,000 (TR 623-624) Adequate Cost Justification	$1,805,518 (HE 231) UIF Project Request Form

Issue 9
Table 9-2 – Pro Forma Projects with sufficient cost justification where final requested amounts are largely uncontested

Flynn's Exhibit Number	Pro Forma Projects With Sufficient Cost Justification	Flynn's Direct Testimony 08-31-17	Flynn's Original Exhibits 08-31-17	Flynn's Refiled Exhibits 10-31-17	Woodcock's Testimony 03-06-17	Flynn's Rebuttal Testimony & Revised Exhibits 04-03-17
PCF-36	UIF – Electrical Improvements at Little Wekiva	$323,000 (TR 329)	Yes (HE 74)	Yes	$268,830 (TR 625) Cost Less Than Requested	$281,181 (Amended PCF-36; HE 235)
PCF-37	UIF – Engineering for Seminole & Orange County WM replacements	$57,000 (TR 329)	Yes (HE 75)	Yes	$0 (TR 625) Cost Less Than Requested (TR 627) Removed to avoid double counting	$57,050 (Amended PCF-37; HE 236)
PCF-38	UIF – Seminole Bear Lake WM Replacement	$1,485,270 (TR 329)	Yes $1,495,127 (HE 76)	Yes	$1,485,270 (TR 623-624) Adequate Cost Justification	$1,495,127 (HE 237) UIF Project Request Form
PCF-39	UIF – Seminole Crystal Lake WM Replacement	$1,585,933 (TR 329-230)	Yes (HE 77)	Yes	$1,585,933 (TR 623-624) Adequate Cost Justification	$1,585,933 (HE 238) UIF Project Request Form
PCF-40	UIF – Seminole Little Wekiva WM Replacement	$521,681 (TR 330)	Yes (HE 78)	Yes	$521,681 (TR 623-624) Adequate Cost Justification	$521,681 (HE 239) UIF Project Request Form
PCF-42	UIF – Seminole Oakland Shores WM Replacement	$1,571,701 (TR 330)	Yes (HE 80)	Yes	$1,571,701 (TR 623-624) Adequate Cost Justification	$1,571,701 (HE 241) UIF Project Request Form
PCF-43	UIF – Seminole Phillips WM Replacement	$1,188,247 (TR 330)	Yes (HE 81)	Yes	$1,188,247 (TR 623-624) Adequate Cost Justification	$1,188,247 (HE 242) UIF Project Request Form

Issue 9
Table 9-2 – Pro Forma Projects with sufficient cost justification where final requested amounts are largely uncontested

Flynn's Exhibit Number	Pro Forma Projects With Sufficient Cost Justification	Flynn's Direct Testimony 08-31-17	Flynn's Original Exhibits 08-31-17	Flynn's Refiled Exhibits 10-31-17	Woodcock's Testimony 03-06-17	Flynn's Rebuttal Testimony & Revised Exhibits 04-03-17
PCF-44	UIF – Seminole Ravenna Park WM Replacement	$2,160,808 (TR 330)	Yes (HE 82)	Yes	$2,160,808 (TR 623-624) Adequate Cost Justification	$2,160,808 (HE 243) More Bid Information
PCF-45	UIF – Seminole Ravenna Park Crystal Lake Int	$646,000 (TR 331)	Yes (HE 83)	Yes	$646,000 (TR 623-624) Adequate Cost Justification	$647,000 (HE 248) No Rebuttal Exhibit
PCF-46	Truck Upgrade	$44,000 (TR 331)	Yes (HE 84)	Yes	$44,000 (TR 623-624) Adequate Cost Justification	$46,000 (HE 248) No Rebuttal Exhibit
PCF-47	GIS Mapping Service	$350,000 (TR 331)	Yes (HE 85)	Yes	$244,321 (TR 625) Cost Less Than Requested	$244,000 (HE 248) Invoices
	Estimated Totals Not In Dispute	**$14,915,207 (calculated)**			**$13,717,002 (calculated)**	**$14,121,348 (calculated)**

** - See Table 1 above

Note: The difference between UIF Witness Flynn's direct and OPC Witness Woodcock's amount for uncontested projects is because Mr. Woodcock is recommending approval for project costs he reviewed for his March 6, 2017 testimony. Some of the amounts Witness Woodcock reviewed were lower than what UIF requested, so he recommended the lower amount. Witness Flynn's uncontested April 3, 2017 rebuttal amount is lower than Flynn's August 31, 2016 direct amount because the costs of some projects were actually lower than UIF initially requested.

For purposes of calculating the revenue requirement, OPC highlighted the amounts should be which should be placed into rate base.

Issue 9 Table 9-3 – Contested Pro Forma Projects (organized by Witness Woodcock's Four Categories for Cost Recovery (TR 618))						
Flynn's Exhibit Number	**Contested Pro Forma Projects**	**Flynn's Direct Testimony 08-31-17**	**Flynn's Original Exhibits 08-31-17**	**Flynn's Refiled Exhibits 10-31-17**	**Woodcock's Testimony 03-06-17**	**Flynn's Rebuttal Testimony & Revised Exhibits 04-03-17**
Category 1 – Pro Forma Projects initially with *Adequate Cost Justification* (TR 618)						
PCF-10	LUSI, US 27 Utility Relocation	$1,869,000 (TR 323)	Yes $62,990 (HE 47)	Yes $62,990 (HE 47)	$1,806,000 (TR 623-624) Adequate Cost Justification	$62,990 (HE 214) Same as direct
PCF-10a	LUSI, US 27 Utility Relocation	N/A	Yes $2,700,000 (HE 48)	Yes $2,700,000 (HE 48)	See above	$2,700,000 (HE 215) Same as direct
PCF-11	Longwood, Church Ave. Relocation	$193,880 (TR 323)	Yes (HE 49)	Yes	$193,880 (TR 623-624) Adequate Cost Justification	$253,524 (Amended PCF-11; HE 216)
PCF-23	Sanlando, Lift Station RTU Installation	$353,200 (TR 326)	No Exhibit Provided (HE 61) *Not moved*	Yes	$353,200 (TR 623-624) Adequate Cost Justification	$591,200 (Amended PCF-23; HE 226) Additional Information in Rebuttal
PCF-26	Sanlando I&I Study and Remediation	$1,726,384 (TR 326)	No Exhibit Provided (HE 64) *Not moved*	Yes	$1,573,884 (TR 623-624) Adequate Cost Justification	$1,726,384 (HE 228) Added $152,500 to project
PCF-35	Lake Tarpon Water Main Replacement	$800,000 (TR 328-329)	Yes (HE 73)	Yes	$800,000 (TR 623-624) Adequate Cost Justification	$1,218,146 (Amended PCF-35; HE 234)
PCF-41	UIF – Seminole Weathersfield Northwest FM	$120,000 (TR 330)	Yes (HE 79)	Yes	$120,000 (TR 623-624) Adequate Cost Justification	$688,631 (Amended PCF-41; HE 240)

Issue 9 Table 9-3 – Contested Pro Forma Projects (organized by Witness Woodcock's Four Categories for Cost Recovery (TR 618))						
Flynn's Exhibit Number	**Contested Pro Forma Projects**	**Flynn's Direct Testimony 08-31-17**	**Flynn's Original Exhibits 08-31-17**	**Flynn's Refiled Exhibits 10-31-17**	**Woodcock's Testimony 03-06-17**	**Flynn's Rebuttal Testimony & Revised Exhibits 04-03-17**
Category 2 – Pro Forma Projects with Cost Justification Supporting Less than Requested (*Cost Less Than Requested*) (TR 618)						
PCF-3	Eagle Ridge, WWTP EQ Tank and Headworks	$350,000 (TR 321)	Yes (HE 39)	Yes	$106,388 (TR 625) Cost Less Than Requested	$938,140 (Amended PCF-3; HE 209)
PCF-19	Mid-County, US Hwy 19 Relocation	$230,000 (TR 325)	Yes (HE 57)	Yes	$172,879 (TR 625) Cost Less Than Requested	$230,000 (Amended PCF-19; HE 222) Additional Information in Rebuttal
PCF-25	Sanlando, Myrtle Hills WM	$695,450 (TR 326)	No Exhibit Provided (HE 63) *Not moved*	None – Placeholder Exhibit "Held For Future Use"	$684,271 (TR 625) Cost Less Than Requested	$695,450 (HE 227) No Change
PCF-30	Sanlando, Wekiva WWTP Rehabilitation	$1,803,000 (TR 327)	Yes (HE 68)	Yes	$1,729,034 (TR 625) Cost Less Than Requested	$1,837,324 (Amended PCF-30; HE 230)
Category 3 – Pro forma projects *Lacking Adequate Cost Justification* (TR 618)						
PCF-14	Mid-County, Electrical Improvements	$900,000 (TR 323-324)	Yes (HE 52)	Yes	$0 (TR 627-630) Lacking Adequate Cost Justification	$1,139,100 (Amended PCF-14; HE 219)

Issue 9 Table 9-3 – Contested Pro Forma Projects (organized by Witness Woodcock's Four Categories for Cost Recovery (TR 618))						
Flynn's Exhibit Number	**Contested Pro Forma Projects**	**Flynn's Direct Testimony 08-31-17**	**Flynn's Original Exhibits 08-31-17**	**Flynn's Refiled Exhibits 10-31-17**	**Woodcock's Testimony 03-06-17**	**Flynn's Rebuttal Testimony & Revised Exhibits 04-03-17**
PCF-20 **	Pennbrooke, WTP Electrical Improvements	$270,000 (TR 325)	No Exhibit Provided (HE 58) *Not moved*	None – Placeholder Exhibit "Held For Future Use"	$0 (TR 627-630; 662; 667) Originally No Cost Justification; Now Lacking Adequate Cost Justification	$420,937 (Amended PCF-20; HE 223)** New in Rebuttal
PCF-27	Sanlando, Shadow Hills Diversion Project	$4,243,423 (TR 326-327)	No Exhibit Provided (HE 65) *Not moved*	Yes	$0 (TR 627-630) Lacking Adequate Cost Justification	$7,781,739 (Amended PCF-27; HE 229) TR 1242) Scope change & new building
PCF-33 **	Orangewood, Buena Vista WM Replacement	$1,200,000 (TR 328)	No Exhibit Provided (HE 71) *Not moved*	None – Placeholder Exhibit "Held For Future Use"	$0 (TR 627-630; 662; 667) Originally No Cost Justification; Now Lacking Adequate Cost Justification	$2,174,118 (Amended PCF-33; HE 232)**
PCF-34 **	Summertree, Well Abandonment	$200,000 (TR 328)	No Exhibit Provided (HE 72) *Not moved*	None – Placeholder Exhibit "Held For Future Use"	$0 (TR 627-630; 662; 667) Originally No Cost Justification; Now Lacking Adequate Cost Justification	$176,826 (Amended PCF-34; HE 233)**

Issue 9 Table 9-3 – Contested Pro Forma Projects (organized by Witness Woodcock's Four Categories for Cost Recovery (TR 618))						
Flynn's Exhibit Number	**Contested Pro Forma Projects**	**Flynn's Direct Testimony 08-31-17**	**Flynn's Original Exhibits 08-31-17**	**Flynn's Refiled Exhibits 10-31-17**	**Woodcock's Testimony 03-06-17**	**Flynn's Rebuttal Testimony & Revised Exhibits 04-03-17**
Category 4 – Pro forma projects *Without Any Cost Justification* (TR 618)						
PCF-13	Longwood, Groves I&I Remediation	$450,000 (TR 323)	No Exhibit Provided (HE 51) *Not moved*	None – Placeholder Exhibit "Held For Future Use"	$0 (TR 630) Without Any Cost Justification	$323,717 (Amended PCF-13; HE 218) New in Rebuttal
PCF-17	Mid-County, Excess I&I Remediation	$600,000 (TR 324)	No Exhibit Provided (HE 55) *Not moved*	None – Placeholder Exhibit "Held For Future Use"	$0 (TR 630) Without Any Cost Justification	$147,577 (Amended PCF-17; (HE 221) New in Rebuttal
	Estimated Totals In Dispute	**$16,004,337 (calculated)**	**Missing 9 Contested Exhibits**	**6 Held for Future Use Exhibits**	**$7,539,536 (calculated)**	**$23,105,803 (calculated)**

Note: The difference between Witness Flynn's direct amount ($16,004,337) and Witness Woodcock's amount ($7,539,536) is $8,464,801. The difference between Witness Flynn's direct amount ($16,004,337) and his rebuttal amount ($23,105,803) is $7,101,466 and due to substantial increases in project costs between the August 31, 2016 direct filing and the April 3, 2017 rebuttal filing. The delta between Witness Woodcock's amount ($7,539,536) and Witness Flynn's rebuttal amount ($23,105,803) is $15,566,267.

The $8.5 million difference between UIF's direct case and Witness Woodcock's recommended amount was due to his assertion that UIF failed to carry its burden to provide timely cost information before Witness Woodcock filed his March 6, 2018 testimony.

** OPC moved these pro forma projects from Category 4 to Category 3 as a result of the errata to Witness Woodcock's testimony.

Issue 18 Test Year Accumulated Depreciation				
	Reclassify Engineering Fees	**Myrtle Hills**	**Fully Depreciated**	**Splitter Box**
Lake Placid - Water	--	--	15,945	--
Lake Placid - Wastewater	--	--	14,012	--
LUSI – Wastewater	--	--	--	(2,709)
Sanlando – Water	--	7,661	--	--
Sandalhaven – Wastewater	(127)	--	--	--
UIF-Marion – Water	--	--	94,342	--
TOTAL	(127)	7,661	124,299	(2,709)

Issue 21 Working Capital Allowance				
	Unamortized Balance of Non-Recurring Expenses	**Audit Finding #6**	**Pro Forma Adjust**	**Remove Accrued Taxes**
Cypress Lakes - Water	--	--	(720)	--
Eagle Ridge - Wastewater	--	--	--	(82,809)
Labrador - Water	9,000	--	--	--
Lake Placid – Wastewater	4,369	--	--	--
LUSI - Water	--	--	(119,000)	--
Mid-County – Wastewater	32,206	--	--	--
Sandalhaven – Wastewater	--	--	--	(432,700)
Sanlando - Water	--	3,538	--	--
Sanlando – Wastewater	--	9,099	--	--
Marion County - Water	2,827	--	--	--
Pasco County - Water	--	--	(180,000)	--
Pinellas County - Water	--	--	(3,924)	--
TOTAL	48,402	12,637	(303,644)	($515,509)

Issue 22 Rate Base		
	Water	**Wastewater**
Cypress Lakes	295,408	2,106,246
Eagle Ridge	--	2,773,444
Labrador	700,502	1,077,399
Lake Placid	217,649	60,403
Longwood	--	2,355,663
LUSI	17,326,709	8,274,099
Mid-County	--	3,992,474
Pennbrooke	621,467	1,086,811
Sandalhaven	--	285,653
Sanlando	9,590,120	17,997,576
Tierra Verde	--	1,120,007
UIF-Marion County	826,886	137,424
UIF-Orange County	1,951,410	--
UIF-Pasco County	2,774,562	364,316
UIF-Pinellas County	1,506,316	--
UIF-Seminole County	12,361,775	2,056,416
TOTAL	48,172,804	43,687,931

Issues 23 and 24 Accumulated Deferred Income Taxes					
	Per Company	**Test Year Debit Balance**	**Remove Post-2000 Tap Fees**	**Bonus Depreciation**	**OPC Adj Balance**
Cypress Lakes	156,920	--	71,387	2,631	230,938
Eagle Ridge	455,255	--	19,873	9,529	484,657
Labrador	34,782	--	129	(142)	34,769
Lake Placid		(10,180)	25,269	--	15,089
Longwood	550,420	--	3,654	36,456	590,530
LUSI	2,509,667	--	2,284,356	496,654	5,290,677
Mid-County		(94,126)	149,122	50,189	105,185
Pennbrooke	293,244	--	8,802	(40)	302,006
Sandalhaven	183,944	--	0	38,618	222,562
Sanlando	1,974,553	--	120,178	720,046	2,814,777
Tierra Verde	124,333	--	40,430	7,712	172,475
UIF-MarionCounty	78,655	--	1,751	338	80,744
UIF-Orange County	50,460	--	868	326,091	377,419
UIF-Pasco County	527,274	--	11,518	(10,002)	528,790
UIF-Pinellas County	60,430	--	1,204	143,125	204,759
UIF-Seminole County	585,335	--	11,715	1,703,722	2,300,772
TOTAL	7,585,272	(104,306)	2,750,256	3,524,927	13,756,149

Issue 32 Test Year Revenues		
	Water	**Wastewater**
Cypress Lakes	358,029	660,639
Eagle Ridge	--	1,169,230
Labrador	305,242	639,372
Lake Placid	69,370	72,690
Longwood	--	808,813
LUSI	5,484,612	2,305,689
Mid-County	--	1,790,020
Pennbrooke	382,225	518,122
Sandalhaven	--	1,196,788
Sanlando	4,632,114	4,075,541
Tierra Verde	--	996,212
UIF-Marion County	208,417	48,279
UIF-Orange County	117,092	--
UIF-Pasco County	902,832	508,738
UIF-Pinellas County	158,115	--
UIF-Seminole County	1,031,571	840,136
TOTAL	13.649.619	15.630.269

Issue 33 NOI Audit Adjustments			
	Pennbrooke Water	**Pennbrooke Wastewater**	**Sanlando Wastewater**
Finding 6 Materials & Supplies	--	--	(10,399)
Finding 7 Taxes Other Than Income	(985)	(820)	--

Issue 34 Salaries and Wages Expense		
	Remove Unsupported Additional Employee	**WWTP – Reduction to Salaries and Wages**
LUSI - Water	(20,623)	--
LUSI - Wastewater	(6,377)	--
Mid-County – Wastewater	(27,000)	--
Sandalhaven – Wastewater	--	(47,495)
Sanlando – Water	(14,963)	--
Sanlando - Wastewater	(12,037)	--

Issue 35 Employee Pensions and Benefits Expense			
	WSC - Health	**Employee - Benefits**	**WWTP - Reduction**
Cypress Lakes - Water	(521)	--	--
Cypress Lakes – Wastewater	(495)	--	--
Eagle Ridge - Wastewater	(1,039)	--	--
Labrador - Water	(315)	--	--
Labrador – Wastewater	(313)	--	--
Lake Placid - Water	(57)	--	--
Lake Placid – Wastewater	(57)	--	--
Longwood – Wastewater	(696)	--	--
LUSI - Water	(4,768)	(6,187)	--
LUSI – Wastewater	(1,475)	(1,913)	--
Mid-County – Wastewater	(1,381)	(8,100)	--
Pennbrooke - Water	(610)	--	--
Pennbrooke – Wastewater	(508)	--	--
Sandalhaven – Wastewater	(502)		(13,782)
Sanlando - Water	(4,921)	(4,487)	--
Sanlando – Wastewater	(3,958)	(3,611)	--
Tierra Verde – Wastewater	(867)	--	--
UIF-Marion County - Water	(220)	--	--
UIF-Marion County – Wastewater	(31)	--	--
UIF-Orange County - Water	(126)	--	--
UIF-Pasco County - Water	(1,178)	--	--
UIF-Pasco County – Wastewater	(511)	--	--
UIF-Pinellas County - Water	(183)	--	--
UIF-Seminole County - Water	(1,087)	--	--
UIF-Seminole County – Wastewater	(591)	--	--
TOTAL	(26,410)	(24,298)	(13,782)

Issue 36 WSC Allocations			
	Recalculated Audit Work Papers	**Remove Leadership Training**	**Fixed Asset Clean-Up**
Cypress Lakes	(2,195)	(278)	(3,300)
Eagle Ridge	(3,415)	(282)	(3,291)
Labrador	(591)	(174)	(2,060)
Lake Placid	(250)	(30)	(358)
Longwood	(2,784)	(190)	(2,244)
LUSI	(16,449)	(1,687)	(20,436)
Mid-County	(12,416)	(345)	(4,391)
Pennbrooke	(2,844)	(308)	(3,693)
Sandalhaven	(816)	(140)	(1,589)
Sanlando	(32,402)	(2,374)	(29,017)
Tierra Verde	(15,885)	(183)	(2,741)
UIF-Marion County	8,983	(70)	(873)
UIF-Orange County	(434)	(35)	(436)
UIF-Pasco County	(4,845)	(454)	(5,639)
UIF-Pinellas County	(600)	(48)	(602)
UIF-Seminole County	(18,042)	(449)	(5,552)
TOTAL	(104,985)	(7,047)	(86,222)
			(198,254)

Issue 39 Sludge Removal Expense			
	LUSI	Mid-County	Sandalhaven
Remove 2016 Sludge Removal Expense Accrued in 2015	--	(3,600)	--
WWTP - Remove Sludge Removal Expense	--	--	(13,455)
Sludge Dewatering Equipment Cost Savings	(42,000)	--	--

Issue 40 Purchased Power Expense						
	Longwood	Lake Utility Services		Sandalhaven	Sanlando	
	Water	Water	Sewer	Sewer	Water	Sewer
Remove Pro Forma Purchased Power	(7,147)	(14,209)	(7,657)	--	(26,653)	(21,440)
Remove Guarantee Deposit	--	--	--	(3,637)	--	--
Reflect reductions from plant retirement	--	--	--	(5,111)	--	--
TOTAL	(7,147)	(14,209)	(7,657)	(8,748)	(26,653)	(21,440)

Issue 41 Chemical Expense			
	Eagle Ridge	Mid-County	Sandalhaven
	Sewer	Sewer	Sewer
Chemical Expense Adjustment	(7,266)	--	--
WWTP - Remove Chemical Expense	--	--	(3,145)
Cost Savings from Methanol Pump Post TY Project	--	(4,220)	--
TOTAL	(7,266)	(4,220)	(3,145)

Issue 42 Materials and Supplies Expense			
	Eagle Ridge	Mid-County	Sandalhaven
To reflect expense expected in future	(16,517)	--	--
To remove plant maintenance on retired WWTP plant	--	--	(6,074)
To remove the non-recurring expense to remove grit and sand from EQ tank	--	(32,404)	--
To reflect amortization of grit and sand removal over three years	--	10,801	--
			(44,194)

Issue 43 Contractual Services – Engineering Expense						
	Mid-County	Sandalhaven	Lake Placid		Sanlando	
	Wastewater	Wastewater	Water	Wastewater	Water	Wastewater
Remove Lake Placid permit renewal expenses	--	--	(1,920)	(1,934)	--	--
Reflect amortization of Lake Placid permit fee expenses	--	--	--	386	--	--
Remove Mid-County permit renewal expenses	(2,380)	--	--	--	--	--
Reflect amortization of Mid-County permit fee expenses	476	--	--	--	--	--
Remove Myrtle Lake engineering fee	--	--	--	--	(3,325)	(2,675)
Remove engineering for Sandalhaven capital projects	--	(3,321)	--	--	--	--
TOTAL	(1,904)	(3,321)	(1,920)	(1,548)	(3,325)	(2,675)

Issue 44 Contractual Services – Legal Expense				
	Labrador		Sanlando	
	Water	Wastewater	Water	Wastewater
Remove legal expenses from prior rate case	(505)	(501)	--	--
Remove legal expenses included in pro forma plant project	--	--	(2,047)	(1,638)

Issue 46 Contractual Services – Other Expense					
	Labrador		Mid-County	Sandalhaven	UIF-Marion
	Water	Wastewater	Wastewater	Wastewater	Water
To remove water system alternatives analysis costs from test year	(5,020)	(4,980)	--	--	--
Amortize water system alternative analysis costs over 5 years	2,000	--	--	--	--
To remove leak detection invoice	--	--	--	--	(3,534)
Amortize leak detection invoice	--	--	--	--	707
To remove non-recurring tree service expense	--	--	(5,875)	--	--
Amortize non-recurring tree service expense	--	--	1,175	--	--
Remove accrual for 2016 expense	--	--	--	(864)	--

Issue 48 Transportation Expense	
Cypress Lakes – Water	107
Cypress Lakes – Wastewater	101
Eagle Ridge – Wastewater	212
Labrador – Water	64
Labrador – Wastewater	64
Lake Placid – Water	12
Lake Placid – Wastewater	12
Longwood – Wastewater	142
LUSI – Water	986
LUSI – Wastewater	305
Mid-County – Wastewater	472
Pennbrooke – Water	125
Pennbrooke – Wastewater	104
Sandalhaven – Wastewater	103
Sanlando – Water	1,164
Sanlando – Wastewater	936
Tierra Verde - Wastewater	(5,723)

Issue 49 Unamortized Rate Case Expense				
	Remove Prior Amortization	**Remove Prior Case from Current Expense**	**To correct error**	**Adjustments to Current Expense**
Cypress Lakes - Water	(15,188)	(7,824)	--	(1,489)
Cypress Lakes – Wastewater	(14,419)	(7,442)	--	(1,416)
Eagle Ridge - Wastewater	(11,043)	--	--	(2,972)
Labrador - Water	(16,714)	(16,581)	--	(897)
Labrador – Wastewater	(10,843)	(10,757)	--	(890)
Lake Placid - Water	(2,586)	(2,606)	--	(166)
Lake Placid – Wastewater	(1,011)	(1,025)	--	(168)
Longwood – Wastewater	--	--	--	(1,842)
LUSI - Water	--	--	--	(13,940)
LUSI – Wastewater	--	--	--	(4,311)
Mid-County – Wastewater	--	--	--	(6,610)
Pennbrooke - Water	(6,812)	(5,676)	--	(1,749)
Pennbrooke – Wastewater	(1,702)	(1,418)	--	(1,458)
Sandalhaven – Wastewater	(37,384)	(39,479)	--	(1,445)
Sanlando - Water	(41,083)	(33,047)	--	(16,289)
Sanlando – Wastewater	(32,440)	(26,094)	--	(13,103)
Tierra Verde – Wastewater	--	--	--	(2,463)
UIF-Marion County - Water	--	(3,153)	(1,684)	(645)
UIF-Marion County – Wastewater	--	(439)	--	(90)
UIF-Orange County - Water	--	(1,784)	--	(365)
UIF-Pasco County - Water	--	(16,487)	--	(3,374)
UIF-Pasco County – Wastewater	--	(7,155)	--	(1,464)
UIF-Pinellas County - Water	--	(2,471)	--	(506)
UIF-Seminole County - Water	(106,640)	(15,580)	37,563	(3,188)
UIF-Seminole County – Wastewater		(8,472)	(37,563)	(1,734)
TOTAL	(297,865)	(207,490)	0	(82,574)

Issue 51 Miscellaneous Expense							
	Cypress Lakes	**Labrador**		**Lake Placid**	**Mid-County**	**Sandalhaven**	**Sanlando**
	Sewer	**Water**	**Sewer**	**Sewer**	**Sewer**	**Sewer**	**Water**
Reduction to Sediment Removal Project Amortization Expense (based on pro forma)	(80)	--	--	--	--	--	--
Remove DEP WWTP permit expense as non-recurring	--	--	--	--	(5,000)	--	--
Reflect 5 year amortization of permit renewal fee	--	--	--	--	1,000	--	--
Remove payment to FDEP for permit renewal as non-recurring	--	--	--	(1,000)	--	--	--
Reflect 10 year amortization of permit renewal fee	--	--	--	100	--	--	--
Remove invoices for services outside the test year.	(6,816)	(243)	--	--	--	(500)	--
Remove pre-payments for Office Garbage Removal	--	--	--	--	--	--	(1,119)
Remove Water System Alternative Costs as non-recurring	--	(5,020)	(4,980)	--	--	--	--
Reflect 5 year amortization of Water System Alternative Costs	--	2,000	--	--	--	--	--
Remove Landscaping Upgrade	--	--	--	--	--	--	(4,422)
Reflect 5 year amortization of landscaping upgrade	--	--	--	--	--	--	884
TOTAL	(6,896)	(3,263)	(4,980)	(900)	(4,000)	(500)	(4,657)
							(25,196)

Issue 54 Depreciation Expense						
	GIS	Fully Depreciated	Pro Forma	Non-Used & Useful	Audit	Summertree
Cypress Lakes - Water	(1,357)	--	(153)	--	--	--
Cypress Lakes – Wastewater	(1,291)	--	--	--	--	--
Eagle Ridge - Wastewater	(2,709)	--	(11,138)	--	--	---
Labrador - Water	(191)	--	--	--	--	--
Labrador – Wastewater	(190)	--	--	(41,998)	--	--
Lake Placid - Water	(151)	(525)	--	--	--	--
Lake Placid – Wastewater	(154)	(956)	--	(7,418)	--	--
Longwood – Wastewater	(1,817)	--	72,167	--	--	--
LUSI - Water	(12,583)	--	15,593	--	--	--
LUSI – Wastewater	(3,891)	--	(1,357)	(68,927)	--	--
Mid-County – Wastewater	(6,026)	--	(58,262)	(3,150)	--	--
Pennbrooke - Water	(3,596)	--	(16,250)	--	--	--
Pennbrooke – Wastewater	(1,713)	--	--	--	--	--
Sandalhaven – Wastewater	(1,318)	--	(316)	(157,363)	--	--
Sanlando - Water	(5,940)	--	(15,294)	--	--	--
Sanlando – Wastewater	(4,778)	--	(168,427)	--	--	--
Tierra Verde – Wastewater	(2,246)	--	869	--	--	--
UIF-Marion County - Water	(235)	(2,874)	--	--	--	--
UIF-Marion County – Wastewater	(33)	--	--	(12,279)	--	--
UIF-Orange County - Water	(133)	--	26,817	--	--	33,136
UIF-Pasco County - Water	(1,230)	--	(8,737)	--	(4,890)	--
UIF-Pasco County – Wastewater	(534)	--	--	--	--	--
UIF-Pinellas County - Water	(184)	--	(12,791)	--	--	--
UIF-Seminole County - Water	(1,162)	--	125,240	--	26,599	--
UIF-Seminole County – Wastewater	(632)	--	563	--	72,343	--
TOTAL	(54,094)	(4,355)	(51,476)	(291,135)	94,052	33,136

Issue 56 Pasco County – Summertree Retirement			
	Operation and Maintenance Expenses	Depreciation Expense	Taxes Other Than Income
Remove Company Adjustments for Summertree Retirements	(20,000)	55,110	--
Limited Proceeding Adjustments to Summertree	(48,609)	(21,974)	(9,933)
Summertree Retirement Amortization Expense	43,914	--	--
TOTAL	(24,695)	33,136	(9,933)
			(1,492)

Issue 58 Taxes Other Than Income Expense		
	Property Tax	**Payroll Tax**
Cypress Lakes - Water	217	--
Cypress Lakes – Wastewater	(2,409)	--
Eagle Ridge - Wastewater	(4,576)	--
Labrador - Water	46	--
Labrador – Wastewater	(14,631)	--
Longwood – Wastewater	(6,418)	--
LUSI - Water	9,575	(1,578)
LUSI – Wastewater	(2,539)	(488)
Mid-County – Wastewater	(25,704)	(2,066)
Pennbrooke - Water	(9,354)	--
Pennbrooke – Wastewater	(4,752)	--
Sandalhaven – Wastewater	(51,947)	(3,633)
Sanlando - Water	(11,384)	(1,145)
Sanlando – Wastewater	(78,090)	(921)
UIF-Pasco County - Water	(35,587)	--
UIF-Pinellas County - Water	(3,391)	--
TOTAL	(240,944)	(9,831)

Issue 32 Revenue Requirement		
	Water	**Wastewater**
Cypress Lakes	320,344	691,957
Eagle Ridge	--	1,116,593
Labrador	334,781	417,766
Lake Placid	84,212	66,182
Longwood	--	836,215
LUSI	5,410,062	2,492,405
Mid-County	--	1,853,711
Pennbrooke	435,540	427,464
Sandalhaven	--	651,038
Sanlando	4,280,072	5,397,444
Tierra Verde	--	1,085,663
UIF-Marion County	287,310	77,838
UIF-Orange County	356,928	--
UIF-Pasco County	1,068,911	492,620
UIF-Pinellas County	289,914	--
UIF-Seminole County	2,302,119	753,244
TOTAL	15,170,193	16,360,140

Issue 67 Late Payment Charge	
Cypress Lakes	2,051
Eagle Ridge	3,686
Labrador	2,404
Lake Placid	221
Longwood	8,539
LUSI	71,896
Mid-County	27
Pennbrooke	1,883
Sandalhaven	2,661
Sanlando	50,786
Tierra Verde	0
UIF-Marion County	3,041
UIF-Orange County	1,520
UIF-Pasco County	19,722
UIF-Pinellas County	2,095
UIF-Seminole County	19,501
	190,033

Issue 80 Reductions to Transportation and Salary Expense			
	Salary & Benefit Expense	**Transportation Expense**	**3% Penalty**
Cypress Lakes - Water	122,994	5,524	3,856
Cypress Lakes – Wastewater	116,766	5,244	3,660
Eagle Ridge - Wastewater	262,044	11,115	8,195
Labrador - Water	73,827	3,329	2,315
Labrador – Wastewater	73,239	3,303	2,296
Lake Placid - Water	12,003	580	377
Lake Placid – Wastewater	12,096	585	380
Longwood – Wastewater	186,949	7,551	5,835
LUSI - Water	1,016,737	50,270	32,010
LUSI – Wastewater	314,419	15,546	9,899
Mid-County – Wastewater	379,053	14,784	11,815
Pennbrooke - Water	139,598	6,535	4,384
Pennbrooke – Wastewater	116,316	5,446	3,653
Sandalhaven – Wastewater	179,372	5,365	5,542
Sanlando - Water	996,544	52,423	31,469
Sanlando – Wastewater	801,628	42,169	25,314
Tierra Verde – Wastewater	211,536	9,228	6,623
UIF-Marion County - Water	54,213	2419	1,699
UIF-Marion County – Wastewater	7,475	337	234
UIF-Orange County - Water	24,736	1,371	783
UIF-Pasco County - Water	268,325	12,586	8,427
UIF-Pasco County – Wastewater	116,437	5,461	3,657
UIF-Pinellas County - Water	40,323	1,890	1,266
UIF-Seminole County - Water	212,274	11,591	6,716
UIF-Seminole County – Wastewater	115,434	6,303	3,652
TOTAL	5,854,338	280,955	184,057