

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

FILED 5/24/2018
DOCUMENT NO. 03885-2018
FPSC - COMMISSION CLERK

In the Matter of:

DOCKET NO. 20170141-SU

APPLICATION FOR INCREASE IN
WASTEWATER RATES IN MONROE
COUNTY BY K W RESORT
UTILITIES CORP.

VOLUME 3
PAGES 317 through 518

PROCEEDINGS: HEARING
COMMISSIONERS
PARTICIPATING: COMMISSIONER DONALD J. POLMANN
COMMISSIONER GARY F. CLARK
COMMISSIONER ANDREW G. FAY
DATE: Wednesday, May 16, 2018
TIME: Commenced: 10:48 a.m.
Concluded: 1:15 p.m.
PLACE: Tortuga Ballroom
DoubleTree by Hilton Grand Resort
Key West
3990 S. Roosevelt Boulevard
Key West, Florida
REPORTED BY: ANDREA KOMARIDIS
Court Reporter
APPEARANCES: (As heretofore noted.)

PREMIER REPORTING
114 W. 5TH AVENUE
TALLAHASSEE, FLORIDA
(850) 894-0828

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X

WITNESSES

NAME:	PAGE NO.
FRANK SEIDMAN	
Prefiled direct testimony inserted	322
ANDREW WOODCOCK	
Examination by Mr. Sayler	326
Prefiled direct testimony inserted	330
Examination by Mr. Friedman	364
Further Examination by Mr. Sayler	382
TERRY DEASON	
Examination by Ms. Hall	386
Examination by Mr. Wright	388
Prefiled direct testimony inserted	390
Examination by Mr. Friedman	412
Examination by Mr. Sayler	438
Examination by Mr. Wright	441
KEVIN WILSON	
Examination by Mr. Wright	448
Prefiled direct testimony inserted	455
Examination by Mr. Smith	487
Examination by Ms. Mapp	508
Examination by Mr. Wright	511

1	EXHIBITS		
2	NUMBER:	ID	ADMITTED
3	27 - (as identified on the Comprehensive Exhibit List)		321
4			
5	28 - (as identified on the Comprehensive Exhibit List)		321
6	29 through 35 - (as identified on the Comprehensive Exhibit List)		385
7			
8	39 through 48 - (as identified on the Comprehensive Exhibit List)		516
9	51 - (as identified on the Comprehensive Exhibit List)		445
10			
11	128 - Errata Sheet, Kevin G. Wilson, Prefiled Testimony	453	516
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

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

2 (Transcript follows in sequence from
3 Volume 2.)

4 COMMISSIONER POLMANN: We've concluded our
5 break. We're back into the technical hearing.
6 We'll pick up where we left off yesterday.

7 I understand the parties have had discussion
8 about order of witnesses. On my list, I have
9 Witness Seidman, who was stipulated and excused; is
10 that --

11 MR. FRIEDMAN: Yes. We -- we just didn't move
12 his -- his prefiled testimony and exhibits --
13 amended exhibit into the record as though read.
14 And then we'll be -- and then we'll be
15 finished with our direct of him.

16 COMMISSIONER POLMANN: Ms. Mapp, are you with
17 us on that?

18 MS. MAPP: Yes.

19 COMMISSIONER POLMANN: Okay. So, for Seidman,
20 which exhibits do you have, Mr. Friedman? I just
21 want to get us all on the same page. I'm looking
22 at 27, 28 --

23 MR. FRIEDMAN: Yes, he had two exhibits. One
24 was his CV, and the second is his F Schedule. And
25 there was an amendment to his F schedule, which,

1 presumably, is included in what the staff has here.

2 MS. MAPP: It's recommend- -- on the
3 comprehensive exhibit list.

4 COMMISSIONER POLMANN: Okay. Those are in the
5 comprehensive exhibit list?

6 MS. MAPP: Yes, as No. 27 and 28.

7 COMMISSIONER POLMANN: Okay. And we're going
8 to move those into the record at this time.

9 MR. FRIEDMAN: Yes, his testimony -- his
10 testimony as though read and the exhibits as well.

11 COMMISSIONER POLMANN: Okay. As Mr. Friedman
12 has requested, we'll do that now.

13 (Whereupon, Exhibit Nos. 27 and 28 were
14 admitted into the record.)

15 (Prefiled direct testimony inserted into the
16 record as though read.)

17

18

19

20

21

22

23

24

25

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

2 A. My name is Frank Seidman. I am President of Management and Regulatory Consultants,
3 Inc., consultants in the utility regulatory field. My address is 36 Yacht Club Dr., North Palm
4 Beach, FL 33408.

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

6 A. I hold the degree of Bachelor of Science in Electrical Engineering from the University of
7 Miami. I have also completed several graduate level courses in economics at Florida State
8 University, including public utility economics. I have over 50 years' experience in utility
9 regulation, management and consulting. This experience includes nine years as a staff
10 member of the Florida Public Service Commission (FPSC), two years as a planning engineer
11 for a Florida telephone company, four years as Manager of Rates and Research for a water
12 and sewer holding company with operations in six states, and three years as Director of
13 Technical Affairs for a national association of industrial users of electricity. I have been
14 providing rate and regulatory consulting services in Florida for over 30 years. Specifically,
15 with regard to the water and wastewater industry, I have participated in the preparation and
16 presentation of numerous rate cases, most of which were considered by the Florida Public
17 Service Commission. I have also prepared cases before the Sarasota County Commission.
18 Many of the cases before the FPSC were made final through the Proposed Agency Action
19 procedures; others went to public hearing in which I presented direct and/or rebuttal
20 testimony. I have prepared or participated in the preparation of all phases of water and
21 wastewater financial, rate and engineering sections of the Minimum Filing Requirements
22 (MFRs), including used and useful. I have also participated in most of the water and
23 wastewater rulemaking procedures before the FPSC. I have also prepared several original
24 cost studies accepted by this Commission in setting rates.

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

1 **A.** Yes. I have prepared and presented expert testimony in the areas of regulatory accounting,
2 rate regulation and used and useful before several regulatory agencies. These include the
3 Florida Public Service Commission and Charlotte, Hillsborough, and Sarasota Counties.

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

5 A. I am presenting this testimony and appearing on behalf of K W Resort Utilities Corp.
6 (KWRU), the applicant for rate increase in the present docket.

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

8 A. The purpose of my direct testimony is to present information supporting the determination of
9 used and useful for the applicant's utility plant.

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

11 A. Yes, I am sponsoring two exhibits. Exhibit FS-1 contains a summary of my experience and
12 expertise in utility rates and regulation in Florida. And I am sponsoring the F schedules in
13 MFR Volume I – Financial, Rate and Engineering, commonly referred to as the used and
14 useful schedules as Exhibit FS-2.

15 **Q.** **What are your conclusions?**

16 A. The collection system is 100% used and useful. The wastewater treatment plant should be
17 considered 71.5% used and useful as previously determined by the Commission in Order
18 No.PSC-17-0091-FOF-SU, issued 3/13/2017. Support for these conclusions is found in the F
19 schedules that I have sponsored.

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

21 A. Yes, it does.

22

23

24

25

1 COMMISSIONER POLMANN: Anything else from
2 Witness Seidman?

3 MR. FRIEDMAN: Nothing else.

4 COMMISSIONER POLMANN: Thank you.

5 MR. FRIEDMAN: And that concludes our direct
6 case.

7 COMMISSIONER POLMANN: Very good. Thank you,
8 Mr. Friedman.

9 On the order of witnesses, from this point
10 forward, I understand parties have had discussion.
11 I'm going to read them as I understand them.
12 Office of Public Counsel Witness Woodcock will be
13 taken next. And then we'll go to County Witness
14 Mr. Deason, then County Witness Mr. Wilson, and
15 then County Witness Mr. Small, back to OPC Witness
16 Mr. Schultz. Does everybody have that?

17 MR. SAYLER: Yes, sir. And for Mr. Woodcock
18 and Mr. Schultz, they were going to do their
19 sum- -- do their direct at this time and --

20 COMMISSIONER POLMANN: Yeah, we're going to --
21 we're going to take only the direct.

22 MR. SAYLER: All right. Thank you, sir.

23 COMMISSIONER POLMANN: And then, on my list,
24 we'll finish with Staff Witness Glover.

25 MS. MAPP: Yes.

1 COMMISSIONER POLMANN: Although, we have a --
2 a time limit on Ms. Glover, yes?

3 MS. MAPP: Yes. We would ask that she be
4 taken prior to 5:00.

5 COMMISSIONER POLMANN: Okay. So, one, two,
6 three, four -- five for OPC and the County, with
7 the understanding that Witness Glover may need to
8 come out of order, if -- if we don't get there by
9 5:00.

10 MR. SAYLER: Yes, sir.

11 MR. WRIGHT: Yes, sir.

12 COMMISSIONER POLMANN: Okay. Very good.

13 MR. FRIEDMAN: Yes, sir. Certainly.

14 COMMISSIONER POLMANN: Thank you.

15 So, if there are no other matters to address
16 at this time, I believe we're prepared for Office
17 of Public Counsel to proceed with the direct.

18 MR. SAYLER: Yes, sir.

19 COMMISSIONER POLMANN: Are we good with that?
20 Yes?

21 MS. MAPP: Yes.

22 COMMISSIONER POLMANN: Okay. Mr. Sayler,
23 you're up.

24 MR. SAYLER: Can you hear me all right?

25 COMMISSIONER POLMANN: So far.

1 MR. SAYLER: All right.

2 EXAMINATION

3 BY MR. SAYLER:

4 Q Good morning, Mr. Woodcock. You were here
5 yesterday when all the witnesses were sworn; is that
6 correct?

7 A Correct.

8 Q And you were sworn with those witnesses?

9 A Yes.

10 Q All right.

11 COMMISSIONER POLMANN: Okay. Mr. Woodcock,
12 you need a microphone adjustment.

13 (Discussion off the record.)

14 BY MR. SAYLER:

15 Q Mr. Woodcock, would you please state your name
16 and business address for the record.

17 A Andrew Woodcock. Address is 201 East Pine
18 Street, Suite 1000, Orlando, Florida.

19 Q And by whom are you employed?

20 A Tetra Tech.

21 Q And you are presenting direct testimony --
22 prefiled direct testimony for the Office of Public
23 Counsel today; is that correct?

24 A That's correct.

25 Q And that was prefiled on March 14th, on behalf

1 of the citizens of the state of Florida?

2 A Yes.

3 Q All right. And in that testimony, I believe
4 that there was a change to one of your exhibits. ATW-2
5 was mislabeled. ATW-2 should have been labeled ATW-3;
6 is that correct?

7 A That is correct. ATW-3 was actually labeled
8 in the header as ATW-2, and that needs to be revised to
9 ATW-3.

10 Q And Office of Public Counsel submitted a
11 revision to that. And -- and it's noted in the
12 comprehensive exhibit list that ATW-3 was properly
13 revised -- the labeling for it.

14 COMMISSIONER POLMANN: That's in the
15 comprehensive list?

16 MR. SAYLER: Yes, sir. That's --

17 COMMISSIONER POLMANN: Thank you.

18 MR. SAYLER: All right.

19 BY MR. SAYLER:

20 Q Now, do you -- other than that, do you have
21 any other corrections to your testimony or exhibits?

22 A No.

23 Q All right. And let's see. And in this case,
24 you prepared Exhibits ATW-1 through 7; is that correct?

25 A That's correct.

1 MR. SAYLER: All right. Commissioners, that
2 is hearing Exhibits 29 through 35 on staff's
3 comprehensive exhibit list. And we will move those
4 in after your testimony.

5 And Mr. Chairman, with those corrections to
6 his ATW Exhibit 3, we would like to have his
7 testimony admitted into the record as though read.

8 COMMISSIONER POLMANN: We will move
9 Mr. Woodcock's testimony into the record as though
10 read, with the corrections. We good here, now?

11 MR. SAYLER: Sorry. Let me -- let me back up.

12 COMMISSIONER POLMANN: Go ahead and restate.

13 MR. SAYLER: Yeah. Sorry.

14 BY MR. SAYLER:

15 Q I -- Mr. Woodcock, if you -- Mr. Woodcock,
16 today, would -- so, you don't have any corrections or
17 changes to your testimony, correct?

18 A Not beyond the ATW-3.

19 Q All right. And if we were to ask you the same
20 questions again in your testimony today, your answers
21 would be the same, correct?

22 A Correct.

23 MR. SAYLER: All right. Now, I would like to
24 move his prefiled direct testimony into the record.

25 COMMISSIONER POLMANN: As though read.

1 MR. SAYLER: As though read.

2 COMMISSIONER POLMANN: We will move
3 Mr. Woodcock's direct prefiled testimony into the
4 record as though read, with the correction that you
5 noted.

6 MR. SAYLER: Yes, sir.

7 (Prefiled direct testimony inserted into the
8 record as though read.)

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 **DIRECT TESTIMONY AND EXHIBITS**

2 **OF**

3 **ANDREW T. WOODCOCK P.E., MBA**

4 On Behalf of the Office of Public Counsel

5 Before the

6 Florida Public Service Commission

7 Docket No. 20170141-SU

8

9 **I. INTRODUCTION / BACKGROUND / SUMMARY**

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

11 A. My name is Andrew T. Woodcock. My business address is 201 East Pine St., Suite
12 1000, Orlando, FL 32801.

13

14 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK**
15 **EXPERIENCE.**

16 A. I am a Professional Engineer (P.E.) licensed in the State of Florida, P.E. license No.
17 47118. I graduated from the University of Central Florida in 1988 with a B.S. degree
18 in Environmental Engineering, and in 1989 with an M.S. degree in Environmental
19 Engineering. In 2001, I graduated from Rollins College with an MBA degree. In
20 1990, I was hired at Dyer, Riddle, Mills and Precourt as an engineer. In May 1991, I
21 was hired at Hartman and Associates, Inc., which has since become Tetra Tech. My
22 experience has been in the planning and design of water and wastewater systems with
23 specific emphasis on utility valuation, capital planning, utility financing, utility
24 mergers and acquisitions, and cost of service rate studies. I have also served as utility

1 rate regulatory staff for St. Johns, Charlotte, and Collier Counties in engineering
2 matters. Exhibit ATW-1, Resume of Andrew T. Woodcock, provides additional
3 details of my work experience.

4
5 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN UTILITY RATE CASE**
6 **PROCEEDINGS?**

7 A. Yes. I have filed testimony in a number of proceedings before the Florida Public
8 Service Commission, on behalf of the Office of Public Counsel (OPC). In 2007, I
9 filed testimony in the Aqua Utilities Florida Rate Case (Docket No. 20060368-WS). I
10 also filed testimony regarding the Used and Useful Rule for Water Treatment
11 Systems (Docket No. 20070183-WS), the Aqua Utilities Florida Rate Case (Docket
12 No. 20080121-WS), the Water Management Services, Inc. rate case (Docket
13 20100104-WU), and the Utilities Inc. of Florida rate case (Docket 20160101-WS). I
14 have also filed testimony on behalf of OPC in two previous KW Resort Rate Cases
15 (Dockets No. 20070293-SU and 20150071-SU).

16
17 In addition, I have filed testimony before other agencies and in other jurisdictions. In
18 2002, I filed testimony on behalf of the St. Johns County Regulatory Authority at a
19 special hearing in an overearnings case against Intercoastal Utilities. I have also filed
20 testimony before the Kentucky Public Service Commission in 2007 on behalf of the
21 Henry County Water District No.2 (Case No. 2006-00191) regarding system
22 development charges. In 2012, I filed testimony on behalf of Charlotte County
23 regarding a rate increase in wastewater rates filed by Utilities, Inc. of Sandalhaven.

1 **Q. ON WHOSE BEHALF ARE YOU FILING TESTIMONY IN THIS**
2 **PROCEEDING?**

3 A. I am testifying on behalf of the Florida Office of Public Counsel (“OPC” or
4 “Citizens”).

5
6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

7 A. My testimony will cover certain the pro forma adjustments to rate base.

8
9 **Q. WHAT INFORMATION DID YOU REVIEW WHEN FORMING YOUR**
10 **OPINIONS AND RECOMMENDATIONS IN YOUR TESTIMONY?**

11 A. I reviewed the Company’s Minimum Filing Requirements (MFRs); the Direct
12 Testimony of KWRU Witnesses Christopher A. Johnson and Frank Seidman; the
13 Company’s filings in Docket No. 20170141-SU; and its responses to OPC discovery.
14 In addition, I reviewed the relevant Commission rules and statutes applicable to
15 KWRU’s request, and some Commission Orders. Finally, with Mr. Johnson, I
16 conducted a site visit of the KWRU wastewater treatment plant to inspect the plant in
17 service and the progress of some of the proposed pro forma projects and to obtain a
18 general understanding of the operation of the systems. Exhibit ATW-2 contains
19 discovery responses from KWRU which I reference in my testimony.

20
21 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS IN THIS CASE.**

22 A. In my professional opinion, I have found that the electrical, sludge, and chemical
23 costs are reasonable. I reviewed a number of the pro forma projects in the case and

1 have made a number of adjustments as detailed below. Further, I recommend that
 2 KWRU continue to implement asset management principles to their operations and
 3 planning activities in order to reduce cost and improve levels of service.

4

5 **Q. WHAT IS YOUR OPINION OF THE ADJUSTMENTS TO THE TEST YEAR**
 6 **FOR ELECTRICAL, SLUDGE, AND CHEMICAL COSTS?**

7 A. Recognizing that KWRU is experiencing growth in the service area and that the
 8 facilities have recently been expanded to accommodate this growth, I find these costs
 9 to be reasonable and reflective of future expected customer growth.

10

11 **Q. WILL YOU GENERALLY DESCRIBE WHICH PRO FORMA ADDITIONS**
 12 **TO RATE BASE YOU ARE ADDRESSING IN YOUR TESTIMONY?**

13 A. The table below summarizes the pro forma additions to rate base proposed by KWRU
 14 which I have reviewed and my recommended adjustments:

Project	CAJ Exhibit	KWRU Requested Amount	Recommended Amount
Chlorine Contact Chamber Replacement	CAJ-9 & 10	\$1,071,814	\$1,071,814
Sludge Drying Beds	None	\$15,450	\$15,450
WWTP Rehabilitation Project*	CAJ-3, 6-8	\$1,104,763.75	\$983,483
Lift Station L2A Replacement*	CAJ-11	\$146,393	\$123,620
WWTP Backup Generator	CAJ-12	\$321,005.85	\$214,145
Portable Generator Replacement	CAJ-14	\$83,470	\$0
* These projects should be reduced by 11.7% for failure to secure competitive bids			

1 **Q. WHAT DO YOU LOOK FOR WHEN YOU ARE REVIEWING A UTILITY'S**
2 **REQUEST FOR A PRO FORMA PLANT ADDITION?**

3 A. Relying on my background as a professional engineer, I look to see (1) whether the
4 requested pro forma project is necessary and prudent, and (2) whether the cost of the
5 addition to rate base is reasonable and prudent. In my opinion, KWRU has
6 demonstrated a need for the pro forma projects I reviewed; therefore, the remaining
7 question to resolve is whether the costs of the pro forma projects are reasonable and
8 prudent.

9

10 **Q. WHAT DOCUMENTATION IS NECESSARY TO SUPPORT WHETHER**
11 **THE COST OF ADDITIONS TO RATE BASE ARE PRUDENT?**

12 A. A rate base calculation relies upon plant-in-service amounts that are derived from the
13 actual booked costs of assets in the utility system and are supported by invoices from
14 contractors or equipment suppliers.

15

16 **Q. WHAT IS THE BEST DOCUMENTATION TO SUPPORT THAT THE COST**
17 **OF ADDITIONS TO RATE BASE ARE PRUDENT?**

18 A. Actual invoices that document the full scope of the projects and their final installed
19 costs represent the best documentation to support additions to rate base. That same
20 documentary standard would apply to plant additions completed during and after the
21 test year.

1 **Q. WOULD ANY OTHER TYPE OF INFORMATION BE SUFFICIENT?**

2 A. Yes, if it is a pro forma project a utility should provide the Commission competitive
3 bids along with a signed contract. Competitive bids from contractors or suppliers for a
4 well-defined project scope could be considered so long as the selected contractor also
5 has a signed contract or agreement with the utility to perform the work. Competitive
6 bidding, from three or more bidders, is an important aspect of obtaining the best cost
7 available in the marketplace and provides the utility with a range of costs for the
8 project. While it has been the Commission's practice to require at least three bids
9 prior to any approval for pro forma plant additions,¹ relying upon competitive bids
10 alone is not enough because project costs can increase or decrease once the
11 construction contract is executed.

12

13 **Q. IS IT PRUDENT TO RELY UPON A SOLE SOURCE PROPOSAL?**

14 A. No, it is not prudent in my opinion. Since there is no specific bid rule for water and
15 wastewater companies, the Commission should continue to require utilities to obtain
16 competitive bids for pro forma projects. The use of competitive bids provides evidence that
17 the utility obtained the lowest costs for its projects for the benefit of its customers, and three
18 competitive bids with a signed contract is preferable.

19

20 **Q. PLEASE EXPLAIN WHY A SIGNED CONTRACT IN ADDITION TO A**
21 **COMPETITIVE BID IS NECESSARY?**

¹ Order No. PSC-11-0010-SC-WU, issued January 3, 2011, in Docket No. 100104-WU, In re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

1 A. With the selected contractor bound by an agreement or contract to perform the work,
2 there is reasonable assurance that the project will go forward for the agreed upon cost.
3 However, the level of information in a competitive bid or executed contract is not as
4 reliable as actual booked costs.

5
6 **Q. PLEASE EXPLAIN WHY A COMPETITIVE BID ALONE IS NOT ENOUGH**
7 **TO JUSTIFY THE PRO FORMA PROJECT COSTS.**

8 A. Competitive bids do not take into account anything that may happen during the
9 construction of the project. For example, there may be an unforeseen site condition
10 that increases the overall project cost. In that case, relying upon bids for an
11 adjustment to rate base could understate the actual project cost. Conversely, the scope
12 of the project may be reduced after the bids are received, thereby reducing the actual
13 cost. If competitive bids alone are accepted as documentation for pro forma additions
14 to rate base, a subsequent true-up proceeding should be conducted to reconcile the
15 actual project costs to rate base. In addition, to provide some assurance that the
16 project will actually proceed beyond the bidding process, documentation should be
17 provided demonstrating the contractor is under contract and work on the project is
18 proceeding.

19 **Q. WHAT IS YOUR OPINION OF THE USE OF ESTIMATES PREPARED BY**
20 **ENGINEERS OR OTHERS AS SUPPORTING DOCUMENTATION FOR**
21 **PRO FORMA RATE BASE ADDITIONS?**

22 A. Cost estimates come in various levels of detail and accuracy, depending upon the
23 amount of engineering detail and the amount of analyses requested or conducted. One

1 of the primary purposes of an engineering cost estimate is to inform the utility of the
2 amount of funds necessary to complete the project. As a result, cost estimates are
3 conservative in nature. No engineer wants to provide a cost estimate to a utility that
4 underestimates the cost of a project, yet that sometimes happens. For example, in the
5 recent KW Resorts Utilities rate case in Docket No. 150071-SU, the initial
6 engineering estimate for the 350,000 gallon treatment tank was significantly less than
7 the competitive bids for the project. If properly performed, an engineering cost
8 estimate is routinely higher than the project cost as determined from competitive bids.
9 Therefore, I do not consider engineering estimates or other estimates as sufficient
10 supporting cost documentation for pro forma rate base additions for cost recovery.

11

12 **Q. WHY IS IT IMPORTANT, ESPECIALLY IN THE FLORIDA KEYS, TO**
13 **OBTAIN SEVERAL COMPETITIVE BIDS, INSTEAD OF A SINGLE SOLE**
14 **SOURCE BID?**

15 A. In order to protect the Company, and ultimately the customers, from possibly paying
16 too much for any construction projects, KWRU's construction projects should have
17 been competitively bid. Obtaining ideally three or more competitive bids is
18 especially important for construction projects in the Florida Keys for the following
19 reasons:

20 1. Construction in the Florida Keys can be expensive due to the limited size of
21 the region. There is a smaller than usual local market, especially for the
22 specialty construction work. As a result, contractors for larger projects may

1 have to come from the Florida mainland and could require a cost incentive
2 to do so.

3 2. There are limited resources in the region including housing for workers and
4 construction materials which creates an inflated local market for materials
5 or requiring that construction materials be imported at additional costs.

6 3. Access to the Florida Keys is limited to a single roadway connected to the
7 Florida mainland. This increases the logistical requirements (and thereby
8 costs) of transporting large and bulky construction equipment.

9

10 Since these limiting factors trend to drive up the overall costs, it would have been
11 prudent for KWRU to have actively sought several competitive bids for all of its
12 major pro forma projects, instead of sole source bidding for some projects.

13

14 **Q. WHAT TYPE OF COST ESTIMATE INFORMATION DID KWRU PROVIDE**
15 **IN SUPPORT OF ITS REQUESTED PRO FORMA PROJECTS?**

16 A. For two projects, the WWTP rehabilitation and the lift station L2A replacement,
17 KWRU provided agreements signed with contractors for work that was not
18 competitively bid. For the sludge drying beds, KWRU has provided invoices for the
19 work performed. For the remaining projects KWRU has obtained, or is obtaining,
20 competitive bids. For the WWTP backup generator, KWRU provided competitive
21 bids for equipment but only estimates for the installation and ancillary construction
22 work. For the chlorine contact chamber replacement project, KWRU provided
23 competitive bids and a signed agreement. For the portable generator, KWRU has

1 provided one bid and is awaiting additional bids. I will opine on the sufficiency of
2 documentation in more detail as I analyze each project.

3

4 **II. PRO FORMA PROJECTS WITH NO ADJUSTMENTS**

5 **Chlorine Contact Chamber Replacement**

6 **Q. WHAT DID YOU FIND WITH RESPECT TO THE REPLACEMENT OF THE**
7 **CHLORINE CONTACT CHAMBER?**

8 A. The total cost of the chlorine contact chamber is \$1,071,814 consisting of \$935,000 in
9 construction and \$107,489 in engineering and construction inspection services. I note
10 that the project was competitively bid and Wharton Smith was selected for the
11 project. I find these costs to be adequately supported for inclusion into rate base.

12

13 **Sludge Drying Beds**

14 **Q. WHAT DID YOU FIND REGARDING THE SLUDGE DRYING BEDS?**

15 A. I find that given the small size of the project that KWRU has provided sufficient
16 justification to support the \$15,450 in improvements.

17

18 **III. PRO FORMA PROJECTS WITH ADJUSTMENTS**

19 **WWTP Rehabilitation Project**

20 **Q. WHAT DID YOU FIND WITH RESPECT TO THE REHABILITATION OF**
21 **THE ORIGINAL TWO WASTEWATER PLANTS?**

22 A. KWRU did not seek competitive bids for the rehabilitation of the two package
23 WWTPs. Instead, KWRU entered into a contract with Evoqua Water Technologies

1 (Evoqua), without competitive bidding to rehabilitate the WWTPs for a price of
2 \$975,000. For the reasons I stated earlier, this action was imprudent.

3

4 Q. **WHAT WAS KWRU's EXPLANATION FOR ITS DECISION NOT TO**
5 **COMPETITIVELY BID THE REHABILITATION PROJECT?**

6 A. In Exhibit CAJ-8, Mr. Johnson provides a letter from a Mr. Edward Castle, a
7 professional engineer with Weiler Engineering Corporation. Mr. Castle's letter
8 provides a number of explanations that, in his opinion, justifies that "Evoqua should
9 be considered a sole source provider and the only viable option for the rehabilitation
10 of the two existing treatment units." None of Mr. Castle's explanations justify why
11 the Commission should allow KWRU to depart from the Commission's practice of
12 requiring a minimum of three competitive bids.² Mr. Castle's five explanations from
13 Exhibit CAJ-8, along with my critiques are as follows:

14 1. The treatment units rely on the steel members for structural support. Detailed
15 structural drawings are not available. Fabrication of substitute components could
16 result in inadequate structural strength and potential structural failure.

17
18 If detailed structural drawings are not available, then it is safe to assume they are also
19 not available to Evoqua giving Evoqua no particular advantage over another
20 contractor. With proper specifications and engineering design, there is no reason to
21 believe that rehabilitated components from any other contractor would result in less
22 than adequate structural strength.

² Order No. PSC-11-0010-SC-WU, issued January 3, 2011, in Docket No. 100104-WU, In re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

1 2. Evoqua provided the existing two treatment units designed specifically for the
2 Stock Island service area and the specific raw wastewater characteristics
3 associated with the system.

4
5 While the treatment units were constructed to meet the requirements and wastewater
6 characteristics of the service area, there is nothing particularly unique about either
7 treatment plant. Furthermore, the work comprising the project will not materially
8 change the treatment process of the WWTPs. The work involves rehabilitating or
9 replacing aging components which is something competent contractors like Evoqua;
10 ECO-2000, Inc.; Florida Environmental Construction, Inc. (FEC); or another
11 competent contractor could perform, if KWRU had competitively bid the project.

12
13 3. Each treatment unit was designed with specific hydraulic detention times, oxygen
14 transfer efficiencies, biological uptake rates and sludge settling characteristics
15 necessary to achieve AWT treatment. Any modifications to the flow characteristics
16 or oxygen transfer rates may negatively impact the systems' abilities to meet the
17 AWT treatment requirements.

18
19 Again, the scope of this project is to rehabilitate old and deteriorating components of
20 the WWTPs. There is nothing in this project that will change or alter the overall
21 advanced wastewater treatment (AWT) process. Based on my review of the proposal
22 from Evoqua, none of the work will result in modifications to the flow characteristics
23 or oxygen transfer rates of the facility. However, if there are such concerns, any
24 Professional Engineer with experience in wastewater design can make the appropriate
25 process design calculations and provide signed and sealed documents that certify to
26 the ability of the WWTPs to continue to meet AWT treatment standards after the
27 rehabilitation work.

28

1 4. Evoqua provided a process warranty, guaranteeing the ability of the systems to
2 meet AWT treatment standards. Modifications to the treatment systems by others
3 would void the process warranty.
4

5 Any warranty provided by Evoqua can also be provided by another package WWTP
6 provider in the event of a retrofit or rehabilitation. For example, Evoqua's own
7 website states that Evoqua offers retrofit and rehabilitation services regardless of the
8 manufacturer. Similarly FEC, also provides rehabilitation of wastewater treatment
9 plants around Florida. See Exhibit ATW-3, Evoqua Davco & FEC Websites.

10
11
12
13
14
15
16

5. The treatment units are unique mechanical systems comprised of numerous
interconnected components that must function as a whole. Detailed dimensional
drawings of the numerous individual components are not available. Fabrication of
substitutes would likely result in improper fit without detailed dimensional
drawings.

17
18
19
20
21
22

It is not unusual for older WWTP facilities to be missing detailed dimension drawings
and, while the treatment units have numerous interconnected components that must
function as a whole, we are not talking rocket science here. With proper field
investigation, specifications, and construction submittal review, an experienced
contractor can provide these services without compromising the structural integrity of
the WWTP.

23
24
25
26
27
28

In my opinion, there is nothing in KWRU's five explanations that would preclude any
other provider of WWTP rehabilitation services from providing this same service for
KWRU. There are numerous package WWTPs in Florida and sooner or later they all
require major rehabilitation of this type. In my own career, I have been involved in
the rehabilitation, retrofit and repurposing of steel package wastewater treatment

1 plants. None of the reasons provided by Mr. Castle in his letter are an impediment to
2 competitively bidding the projects. Moreover, none of the explanations in Mr.
3 Castle's letter justify departing from the Commission's requirement to obtain at least
4 three competitive bids for pro forma projects, especially one as large as this one.

5
6 **Q. SHOULD A WWTP REHABILITATION PROJECT LIKE KWRU'S HAVE**
7 **BEEN COMPETITIVELY BID?**

8 A. Yes. It is routine for WWTP rehabilitation projects to be competitively bid. In the
9 recent Utilities Inc. of Florida (UIF) rate case in Docket No 160101-WS, UIF
10 obtained competitive bids for its pro forma projects, including the rehabilitation of the
11 Wekiva WWTP.³ This project was for a WWTP that is somewhat larger than KWRU
12 and involved rehabilitating three package WWTPs to an extent much greater than
13 what we see for KWRU. The scope of the Wekiva project is very similar to KWRU's
14 rehabilitation project. It includes the replacement of corroded steel structural
15 elements, replacing old and corroded equipment, and cleaning and recoating the
16 treatment tanks. UIF received three competitive bids for its project from Evoqua,
17 FEC, and ECO-2000, Inc. A copy of the three bids that were provided by UIF in the
18 rate case are attached as Exhibit ATW-4, Three Bids for Wekiva WWTP Rehab
19 Project.⁴ The bids ranged from \$1.526 million to \$1.704 million representing a spread
20 from lowest to highest of 11.7%. Evoqua was the lowest bidder for the UIF project
21 and was awarded the contract. However, the fact that Evoqua was the lowest bidder

³ The Wekiva WWTP rehabilitation project was Exhibit PCF-30 to UIF Witness Flynn's direct testimony.

⁴ Excerpt of UIF's Exhibit PCF-30 containing the three Wekiva WWTP bids from Evoqua, FEC, & ECO-2000.

1 for UIF does not automatically mean it would have been the lowest bidder to
2 KWRU's project. Evoqua might very well be the lowest cost solution for KWRU;
3 however, without a competitive bid for comparison, the Commission cannot verify
4 that.

5
6 **Q. HAS KWRU STARTED THIS PRO FORMA PROJECT?**

7 A. No, it has not. Although KWRU has signed a contract with Evoqua, it is my
8 understanding through conversations with Mr. Johnson during my site visit that the
9 work will not commence until the chlorine contact chamber replacement project is
10 complete.

11

12 **Q. WHAT IS YOUR RECOMMENDATION FOR THE PRO FORMA ADJUSTMENT**
13 **FOR THE REHABILITATION OF THE TWO WWTPS?**

14 A. The timing of the planned start of the WWTP rehabilitation shortly after the
15 completion of the chlorine contact chamber replacement project provides for a
16 difficult situation. On the one hand, requiring KWRU to break its contract with
17 Evoqua and competitively bid the project could result in termination costs, a delay in
18 the completion of this rehabilitation project, and Evoqua may still end up being the
19 lowest bidder. In that event, the Commission would have to decide who must bear the
20 termination costs of canceling the initial Evoqua contract. On the other hand, the
21 Commission should not reward KWRU for its imprudent actions by failing to secure
22 at least three competitive bids for this large pro forma project, nor should the
23 Commission depart from its prudent practice of requiring at least three competitive
24 bids. I am of the opinion that there should be a reduction in rate base reflecting the

1 fact that KWRU prevented the customers from receiving the benefit of the cost
2 efficiencies inherent in a competitive bid process. I note that the recent example of
3 UIF's WWTP rehabilitation project that was bid resulted in a spread from low to high
4 of approximately 11.7% and that can be used as an indicator of the reduction of costs
5 that might have been realized with a competitive bid process. Therefore, I recommend
6 the Commission find that KWRU was imprudent in its failure to secure at least three
7 competitive bids, and reduce the estimated \$975,000 project cost by 11.7% or
8 \$114,075 for failing to comply with the Commission's practice. The other option
9 available to the Commission, if the utility has not started the project, is to require
10 KWRU terminate the Evoqua contract, undergo a competitive bid process, and hold
11 KWRU liable for any costs arising out of its own imprudent actions of signing a
12 contract without a competitive bid.

13
14 **Q. WERE THERE ANY OTHER ISSUES YOU IDENTIFIED WITH THE WWTP**
15 **REHABILITATION PROJECT?**

16 A. Yes, there is an issue related to the engineering fee associated with this project.

17
18 **Q. WHAT IS YOUR RECOMMENDATION FOR THE ENGINEERING FEES**
19 **ASSOCIATED WITH THE REHABILITATION OF THE WWTP?**

20 A. Mr. Johnson's testimony includes a total of \$129,763.75 as the costs for engineering
21 the WWTP rehabilitation, and he provides a number of documents from Weiler
22 Engineering in CAJ-7, including a number of invoices and an estimate for
23 construction services. These fees cover the Weiler engineering costs associated with

1 the rehabilitation project including oversight during construction. Overall, I do not
2 take issue with the general level of the costs; however, a number of the invoices
3 provided in the exhibit do not appear to be for the design or construction of the
4 WWTP rehabilitation. In Exhibit ATW-5, Adjustments to WWTP Rehabilitation
5 Project, I summarize this information. It is my opinion that, of the \$129,763.75
6 included in Mr. Johnson's testimony, \$122,557.50 is associated with the rehabilitation
7 of the WWTP and should be included in rate base. The remaining \$7,205.75 should
8 not be included.

9

10 **Q. WHAT IS YOUR FINAL RECOMMENDATION REGARDING THE WWTP**
11 **REHABILITATION PROJECT?**

12 A. The total amount of \$1,104,764 should be reduced by \$114,075 and \$7,205.75 for a
13 total of \$983,483.

14

15 **Lift Station L2A Replacement**

16 **Q. WHAT DID YOU FIND WITH RESPECT TO THE LIFT STATION L2A**
17 **REPLACEMENT PROJECT?**

18 A. KWRU has a signed contract to replace lift station L2A; however, the Company
19 provided no supporting bid information to demonstrate the estimated cost is
20 reasonable. The \$146,393 for this project consists of \$6,393 for a new control panel
21 and \$140,000 for the replacement of the lift station.

1 **Q. WHAT DOES KWRU CLAIM ABOUT LIFT STATION L2A AND WHAT**
2 **DID YOU FIND?**

3 A. Mr. Johnson states on page 6 of his testimony that lift station L2A was “structurally
4 damaged and was knocked” over during Hurricane Irma. In addition, Recital “B” of
5 the Lift Station Replacement Agreement (Exhibit CAJ-11) states “Hurricane Irma
6 damaged the lift station beyond repair and requires immediate replacement.” On
7 Thursday, February 8, 2018, I inspected both the KWRU WWTP site and this lift
8 station with Mr. Johnson. Contrary to his testimony and Recital “B”, I found the lift
9 station to be functioning. Mr. Johnson informed me that the lift station control panel
10 was knocked over during the hurricane; however, during my visit I observed that it
11 had been reinstalled. I could find no evidence of any overt structural damage beyond
12 the chronic, poor condition of the lift station wet well.

13
14 **Q. DOES THE LIFT STATION NEED TO BE REPLACED LIKE KWRU**
15 **CLAIMS?**

16 A. Mr. Johnson testified this lift station was on the capital improvement replacement
17 schedule and based on my inspection, I agree that this lift station requires
18 replacement. In reviewing the drawings for the replacement of the lift station and the
19 capital replacement schedule provided by KWRU during discovery, it appears that the
20 replacement has been anticipated for some time and its replacement is not due to
21 immediate damage from Hurricane Irma.

1 **Q. WHAT ARE YOUR CONCERNS WITH THE DOCUMENTATION KWRU**
2 **PROVIDED?**

3 A. Exhibit CAJ-11 provides a signed agreement with B&L Beneway Inc., dated October
4 23, 2017, for the replacement of the lift station with no supporting bid information.
5 The agreement signed shortly before KWRU filed its MFRs says “the most that
6 KWRU will be responsible for is \$140,000”, and the “Replacement Work shall be
7 complete by March 31, 2018.” However, KWRU is requesting \$146,393 for this
8 project.

9

10 In addition, Staff’s Request for Production of Documents No. 12(a) (Exhibit ATW-2,
11 Attachment 1) asked KWRU to provide all bids associated with the pro forma
12 projects not included with Mr. Johnson’s testimony. KWRU provided a bid from
13 Wharton Smith dated May 5, 2014 for the KWRU Forcemain Lift Station Repair,
14 which is a nearby lift station, yet nothing was provided for lift station L2A. KWRU
15 did not provide B&L Beneway’s bid for the 2014 Forcemain Lift Station Repair
16 project or for the current lift station L2A replacement project. Therefore, the
17 documentation provided does not support the reasonableness of the project costs.

18

19 OPC’s Interrogatory No. 90 (Exhibit ATW-2, Attachment 8) asked KWRU why it did
20 not use the bidding process for lift station L2A. KWRU’s response was that B&L
21 Beneway was substantially less expensive than the older Wharton Smith bid as a
22 result of B&L Beneway’s local labor force and lack of need for housing. KWRU also
23 stated they had requested bids from B&L Beneway and Wharton Smith, and claims

1 that Wharton Smith declined to submit a bid believing they could not be competitive
2 with B&L Beneway. This explanation is wholly inadequate to justify not obtaining
3 competitive bids from other contractors

4
5 It is unclear regarding the timing of when KWRU supposedly requested bids from
6 Wharton Smith and B&L Beneway for lift station L2A. I do know that Wharton
7 Smith is mobilized on the WWTP site for the chlorine contact chamber replacement,
8 has a local labor force to perform that project, and presumably they could provide a
9 bid competitive to B&L Beneway's. Since Wharton Smith is mobilized, they could
10 perform lift station L2A work as part of a change order to the chlorine contact
11 chamber replacement project for less than B&L Beneway. Thus, KWRU's
12 explanation does not sound plausible.

13

14 **Q. WHAT DID YOU FIND WITH RESPECT TO THE DIFFERENCE BETWEEN**
15 **THE \$140,000 IN THE B&L BENEWAY AGREEMENT AND THE \$146,393**
16 **THAT IS REQUESTED?**

17 A. Staff's Interrogatory No. 41 (Exhibit ATW-2, Attachment 4) requested KWRU
18 provide an explanation for the difference between what is requested in Schedule A-3
19 of the MFRs and the supporting Exhibits. For lift station L2A, KWRU responded the
20 contract with B&L Beneway requires KWRU to direct purchase the electrical panel
21 for installation at the lift station.

1 However, the agreement with B&L Beneway on page 7 of 7 of Exhibit CAJ-11
2 specifically states that the existing electrical control panel will be reinstalled as part
3 of the project. Furthermore, KWRU has provided no additional supporting
4 information to document the cost of a new control panel.

5
6 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE LIFT STATION**
7 **L2A REPLACEMENT?**

8 A. First, the \$6,393 for the new control panel is completely unsupported and does not
9 appear to be a part of the project as described in the agreement with B&L Beneway.
10 Therefore, I recommend this amount be excluded from rate base. Second, similar to
11 my recommendation for the WWTP rehabilitation project, I recommend the
12 Commission find that KWRU was imprudent in its failure to secure at least three
13 competitive bids and reduce the estimated project cost of \$140,000 (per the
14 agreement) by 11.7% or \$16,380 for failing to comply with the Commission's
15 practice of securing at least three competitive bids. Therefore, a total of \$22,773
16 (\$6,393 + \$16,380) should be removed from the estimated cost of this project. There
17 is also the option that, if the lift station work has not commenced prior to the hearing,
18 the Commission consider requiring KWRU to break its contract with B&L Beneway,
19 undergo a competitive bid process, and hold KWRU liable for any costs arising out of
20 its own imprudent actions of signing a contract without a competitive bid.

1 **WWTP Backup Generator**

2 **Q. WHAT DID YOU FIND WITH RESPECT TO THE WWTP BACKUP**
3 **GENERATOR?**

4 A. On page 7, Mr. Johnson addresses KWRU's request for the WWTP backup generator.
5 The total amount requested for the pro forma project is \$321,055.85, consisting of the
6 estimated costs of the generator (\$230,735.85), estimated costs for installation and
7 ancillary equipment (\$66,000), and estimated engineering cost (\$24,270). The
8 supporting documentation was provided in Mr. Johnson's testimony in Exhibits CAJ-
9 12 and CAJ-13. Exhibit CAJ-12 consists of a quotation from a generator
10 manufacturer totaling \$230,735.85. Exhibit CAJ-13 is the engineering estimate for
11 replacement of the generator totaling \$24,270. Mr. Johnson's testimony also includes
12 \$66,000 in unsupported costs for the installation of the generator and ancillary
13 equipment.

14
15 **Q. WHAT ARE YOUR CONCERNS WITH THE DOCUMENTATION KWRU**
16 **PROVIDED?**

17 A. In addition to Exhibits CAJ-12 and CAJ-13, KWRU provided responses to Staff's
18 discovery. In the response to Staff's Request for Production of Documents No. 12(b)
19 (Exhibit ATW-2, Attachment 2), KWRU provided an invoice for the purchase of a
20 generator in the amount of \$189,874.89. However, KWRU provided no
21 documentation for the approximately \$66,000 in costs for the generator installation
22 and ancillary equipment. According to KWRU's response to Staff's Request for
23 Production of Documents No. 14 (Exhibit ATW-2, Attachment 3), the estimate was

1 based on verbal discussions with Wharton Smith. Therefore, the \$66,000 is
2 unsubstantiated.

3

4 In my opinion, the \$189,874.89 for the purchase of the generator is adequately
5 supported and should be included in rate base; however, the \$66,000 is unsupported
6 and should be excluded.

7

8 **Q. WHAT IS YOUR OPINION OF THE ENGINEERING ESTIMATE FOR THE**
9 **REPLACEMENT OF THE GENERATOR IN EXHIBIT CAJ-13?**

10 A. I find the cost estimate of \$24,270 from Wieler Engineering, in Exhibit CAJ-13, to be
11 reasonable and it should be included in rate base.

12

13 **Q. WHAT IS YOUR RECOMMENDATION FOR THE WWTP BACK UP**
14 **GENERATOR?**

15 A. Of the total \$321,005.85 requested, I recommend \$214,144.89 (\$189,874.89 +
16 \$24,270) be included in rate base.

17

18 **Portable Generator**

19 **Q. WHAT DID YOU FIND WITH RESPECT TO THE PORTABLE TOW**
20 **BEHIND GENERATOR?**

21 A. On page 8 of his testimony, Mr. Johnson testifies that a replacement generator would
22 cost \$83,470. Exhibit CAJ-14 provides a quote for a portable generator for
23 \$77,089.00. This quote is then increased to account for sales tax and shipping for a

1 total of \$83,470. In its response to Staff's Interrogatory No. 42 (Exhibit ATW-2,
 2 Attachment 5), KRWU stated there are three bids for this project with a notation that
 3 the process was on-going:

Company	Amount
Pantropic	\$83,470.00 (new)
Global Power	\$70,262.50 (new)
Global Power	\$29,412.00 (used)

4
 5 KWRU did not provide the two Global Power bids in response to Staff's Request for
 6 Production of Documents No. 12(b) requesting updated bids and contract
 7 information.

8
 9 From my review, it appears that KWRU is weighing the options of purchasing a new
 10 generator at a cost of over \$70,000 or a used generator for approximately \$30,000.
 11 There are certain advantages to both options. A used generator would have a lower
 12 initial cost but that could be offset by a shorter service life and potentially higher
 13 operations and maintenance costs. A new generator would cost more but could also
 14 last longer and have lower O&M costs. Ultimately, KWRU should make a prudent
 15 decision that fits best with its operations to meet the needs of its customers at the
 16 lowest possible cost.

17
 18 In its response to Staff Interrogatory No. 42, KWRU stated that they expect the
 19 completion date for this project to be March 31, 2018. Given the difference in costs

1 between the new or used options, I recommend no amount be included in rate base
2 until KWRU has made the decision on whether to purchase a new or used generator
3 and demonstrates that its decision was prudent and the costs are reasonable.

4

5 **IV. OVERALL LEVEL OF MAINTENANCE AT THE KWRU FACILITIES**

6 **Q. WHAT CAN YOU SAY ABOUT THE OVERALL LEVEL OF**
7 **MAINTENANCE AT THE KWRU FACILITIES?**

8 A. As part of OPC's Request for Production No. 78 and OPC's Interrogatory No. 139
9 (Exhibit ATW-2, Attachment 7 and 9), I requested a description of and
10 documentation on KWRU's preventative maintenance plans and plans for repair,
11 refurbishments and replacement activities. My interest was driven by a few issues I
12 noticed with the KWRU WWTP.

13

14 My first issue relates to the vacuum tank replacement that occurred in the course of
15 the previous rate case. The vacuum tank, located at the WWTP site, receives the
16 wastewater flow from the vacuum collection system prior to being pumped to the
17 WWTP. A failure in the coatings of the vacuum tank led to extensive corrosion and,
18 as a result, the integrity of the tank and its ability to provide service was
19 compromised. KWRU was forced to immediately seek bids for the replacement of the
20 tank. This is an example of reactive replacement. The tank was at near failure before
21 the Utility sought options for replacement. When a utility is in reactive mode,
22 efficiency drops and costs increase.

1 The second issue I note is the frequency with which KWRU conducts major
2 rehabilitation on the WWTP tanks. It appears that the WWTP tanks are on a ten year
3 rehabilitation cycle which is on the short end of what is typically seen for steel tank
4 WWTPs. Given that the WWTP is located in a salt water environment that is
5 aggressive to steel structures this is expected. However, a planned program for the
6 systematic inspection of the tankage and interim maintenance activities would
7 lengthen the cycle time between major rehabilitation work and reduce expenditures
8 over time.

9

10 Based on what I have seen from the discovery and my visit to the plant site, it is my
11 opinion KWRU is attempting to provide for preventative maintenance in the short
12 term but has no comprehensive plan for tracking maintenance or planning for major
13 renewal and rehabilitation projects in the long term. KWRU should implement asset
14 management principles which is becoming the standard of practice for all wastewater
15 utilities to improve its operations, maintenance and capital improvement actions.

16

17 **Q. CAN YOU PROVIDE SOME SPECIFICS FOR YOUR OPINION?**

18 A. In response to OPC's Interrogatory No. 139, KWRU stated it has a Maintenance
19 Supervisor that reviews all operation and maintenance manuals for equipment and
20 keeps a log of all maintenance performed. Response to Interrogatory No. 139 also
21 stated that since the recent WWTP expansion an Excel spreadsheet was created to
22 track the maintenance of all components related to the plant. See Exhibit ATW-2,
23 Attachment 9.

1 In response to OPC's Request for Production No. 78, several versions of a
2 Maintenance Supervisor's list were provided that indicate KWRU is performing
3 regular maintenance and keeping track of the work that is performed; however, it
4 changes from month to month and is not a comprehensive operations and
5 maintenance plan. See Exhibit ATW-2, Attachment 7. Also included with KWRU's
6 response is a six-page table⁵ and this table is a good start on creating a maintenance
7 log but it does not include all of the major equipment at the WWTP. Moreover, since
8 there is no actual data on table, I assume it is not being used.

9

10 Based upon the documents provided and written responses to OPC's discovery, it
11 appears that KWRU is attempting to undertake preventative maintenance but has no
12 systematized program for tracking and planning the maintenance activities.

13

14 **Q. WHY IS SUCH A COMPREHENSIVE MAINTENANCE PROGRAM**
15 **IMPORTANT?**

16 A. Three main reasons. First, it provides a comprehensive centralized list of maintenance
17 activities to be performed which ensures that everything gets scheduled, completed
18 and tracked. Second, in the event of employee turnover, it provides a continuing
19 record of maintenance activities for new employees. Finally, logging the frequency of
20 repair and maintenance activities gives a utility an indication of when a piece of
21 equipment is likely to break, thus providing the utility time to plan for a replacement.

⁵ See bates pages "KWRU 017234-017239", Exhibit ATW-2, Attachment 7, page 77-82 of 106.

1 **Q. WHAT IS YOUR OPINION OF KWRU'S CAPITAL FACILITIES**
2 **PLANNING?**

3 A. I have seen nothing in my review that indicates KWRU is planning for future
4 rehabilitation of the major structures and equipment at the WWTP. The Capital
5 Replacement Schedule provided in response to OPC's Request for Production of
6 Documents No. 33 (Exhibit ATW-2, Attachment 6) does not go beyond the projects
7 that are included in this rate proceeding. In order to prudently manage its operations,
8 KWRU should be looking forward to the next components of the wastewater system
9 that will require expansion or replacement and proactively plan for the work required.

10

11 **Q. WHY IS PLANNING FOR FUTURE REPLACEMENT AND**
12 **REHABILITATION IMPORTANT FOR UTILITY SYSTEMS?**

13 A. As we see with the pro forma improvements in this case, particularly the WWTP
14 rehabilitation and the chlorine contact chamber replacement, these projects are
15 expensive. It is incumbent on KWRU to implement proper programmed maintenance
16 and planning to prolong the life of the existing structures and equipment. Failure to
17 do so results in sudden failure like we saw in with the vacuum tank in the last rate
18 case, or fast rehabilitation cycles like we are seeing with the WWTP rehabilitation.
19 All that adds up to additional (and sometimes unnecessary) costs being placed on the
20 backs of the customers.

21

22 **Q. WHAT IS THE STANDARD FOR ASSET MANAGEMENT IN THE**
23 **WASTEWATER INDUSTRY?**

1 A. There are numerous practice manuals and guides published by industry trade
2 organizations and associations. The United States Environmental Protection Agency
3 (EPA) has numerous asset management resources on their website including best
4 practices guides, workshops, and free publications that can be downloaded. For
5 example, the EPA provides that Asset Management Resources for Small Drinking
6 Water Systems are available at [https://www.epa.gov/dwcapacity/asset-management-
7 resources-small-drinking-water-systems-0](https://www.epa.gov/dwcapacity/asset-management-resources-small-drinking-water-systems-0). See Exhibit ATW-6, EPA's Asset
8 Management Resources for Small Drinking Water Systems. The asset management
9 principles contained in these free resources are also applicable to wastewater systems.

10

11 **Q. WON'T IMPLEMENTING THIS ASSET MANAGEMENT TECHNIQUES**
12 **REQUIRE ADDITIONAL LABOR AND COSTS TO IMPLEMENT?**

13 A. No, they will not. It is a misconception that implementing asset management always
14 requires expensive, sophisticated software, and additional specialized personnel. Core
15 asset management concepts can be implemented by experienced wastewater system
16 managers and operators. Granted there is a work effort to develop the asset
17 management plan and implementing the methodology; however, the savings in the
18 long term far outweigh these costs.

19

20 For example, in the recent Utilities Inc. of Florida rate case, Docket No. 20160101-
21 WS, UIF discussed its Operation's Management System and Asset Management
22 Strategy Overview. See Exhibit ATW-7, UIF's Operations Management System. In

1 this exhibit, UIF's parent, Corix, stated it experienced a year-over-year O&M savings
2 in the range of 5-10% as a result of effective asset management processes.⁶

3

4 **Q. WHAT IS YOUR RECOMMENDATION IN THIS REGARD FOR KWRU?**

5 A. It is in the customers' and the Utility's best interest that KWRU begin applying asset
6 management principles to their operations and planning activities. Proper
7 implementation should result in reduced cost and improve levels of service.

8

9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 A. Yes.

⁶ UIF Operations Management System, Exhibit PCF-50, pages 13-14 of 43, described the O&M savings Corix experienced at the University of Oklahoma.

1 BY MR. SAYLER:

2 Q And Mr. Woodcock, have you prepared a summary
3 of your testimony for the Commissioners?

4 A I have.

5 Q Are you prepared to give that?

6 A Yes, I am.

7 MR. SAYLER: Mr. Chair, with your indulgence,
8 he will summarize his testimony.

9 COMMISSIONER POLMANN: Please proceed.

10 THE WITNESS: Good morning. The scope of my
11 testimony today covers the review and
12 recommendations of the electrical, sludge, and
13 chemical costs of KW Utilities, several pro forma
14 projects submitted by KWRU, and the level of
15 asset-management principles that are used by KW.

16 For the electrical, sludge, and chemical
17 adjustments, I find that, given the fact that the
18 customer base is growing and is projected to
19 continue to grow, these costs are reasonable.

20 For the pro forma additions to rate base, I
21 make many recommendations to the costs to the
22 various projects submitted. Before discussing
23 these recommendations, I want to discuss the
24 information necessary to document additions to rate
25 base.

1 Actual invoices, documenting the full scope of
2 a project and its final installed cost, represent
3 the best source of information; however, lacking
4 that, competitive bids from contractors or
5 suppliers for well-defined project scope could be
6 considered as long as the selected contractor/
7 supplier has a signed contract or agreement with
8 the utility to perform work.

9 Sole-source proposals are not acceptable, as
10 it provides no evidence that a utility sought to
11 obtain the lowest cost for the project. This is
12 particularly important in the Florida Keys, where
13 there is a smaller-than-usual market, limited
14 resources, and limited access.

15 Even with using competitive bids and a signed
16 agreement as a source of documentation, there is
17 still the possibility that during constructions,
18 actual costs will vary, driving the total cost
19 either up or down; therefore, a subsequent true-up
20 proceeding is recommended to reconcile the actual
21 cost.

22 For the pro forma project submitted as part of
23 this case, I find that the documented cost of the
24 chlorine contact chamber and sludge drying beds are
25 reasonable.

1 For the wastewater treatment plant
2 rehabilitation, I find that KW was imprudent in not
3 competitively bidding the project. Despite the
4 reasons provided in the attachment to Mr. Johnson's
5 testimony from KW's engineer, the wastewater
6 treatment plant rehabilitation under consideration
7 is very commonly performed by a number of
8 contractors.

9 One has to look no further than a rate case
10 before the Commission last year where Utilities,
11 Inc., competitively bid a similar project. I
12 myself, in my career, have worked on several
13 wastewater treatment plant rehabilitation projects
14 that were competitively bid.

15 For this project, I recommend a reduction of
16 11.7 percent of the amount as an indicator of the
17 amount of savings that might have been realized
18 through a competitive bidding process.

19 For Lift Station L2A, I find that KW, again,
20 did not competitively bid the project in favor of a
21 sole-source proposal. I find that, contrary to
22 Mr. Johnson's testimony, the lift station was not
23 damaged beyond repair by Hurricane Irma and was
24 still functioning at the time of my inspection,
25 months later.

1 Like the wastewater treatment plant
2 rehabilitation project, I recommend a reduction of
3 11.7 percent of the price as well as further
4 reductions for unsupported costs.

5 For the wastewater treatment plant back-up
6 generator and the portable generator, I recommend
7 various reductions based on the lack of proper
8 supporting documentation.

9 For maintenance and capital planning, based on
10 my review of the wastewater treatment plant site
11 and the information received during discovery, I
12 find that KW has taken some steps towards creating
13 a comprehensive maintenance program, but has yet to
14 finalize or implement it.

15 Without such a plan, KW operates in a reactive
16 mode to repairing and replacing equipment, which
17 reduces efficiency and increases cost. I also find
18 that KWRU is not planning long term for capital
19 improvements and major equipment replacement beyond
20 the projects that are a subject to this rate case.

21 Implementing asset-management principles will
22 increase the life of the existing equipment and
23 reduce the frequency and, therefore, the cost of
24 replacement.

25 This concludes my direct testimony.

1 MR. SAYLER: Mr. Chairman, we would tender our
2 witness for cross.

3 COMMISSIONER POLMANN: Thank you, Mr. Sayler.
4 Mr. Friedman.

5 MR. FRIEDMAN: Thank you.

6 EXAMINATION

7 BY MR. FRIEDMAN:

8 Q Mr. Woodcock, good morning.

9 A Good morning.

10 Q Wouldn't you agree that there are some
11 instances where you do not -- where you did not get a
12 bid to do construction work?

13 A Yes, there would be.

14 Q Isn't it true that, on all of the pro forma
15 projects in this case, that there were signed contracts?

16 A Yes.

17 Q Have you ever solicited a -- in connection
18 with a project that you've done, have you ever solicited
19 a vendor to bid on a project and they've just refused to
20 do so?

21 A I'm having trouble answering it. Just let me
22 explain. Typically, when I've designed a project and it
23 goes out to bid, it goes out on DemandStar and various
24 agencies that spread construction projects out, that
25 contractors subscribe to.

1 And we received bids, you know, based on the
2 contractors that are actually interested in pursuing
3 that project; so, I have never explicitly asked a
4 contractor to submit a bid on a project and had them
5 decline.

6 Q Have you ever asked them to bid on -- other
7 than this process you were talking about, have you ever
8 asked them to bid on a -- a vendor to bid on a project,
9 other than going through that network you were
10 discussing?

11 A No.

12 Q Now, on Pages 8 and 9 of your testimony, the
13 bottom of Page 8, beginning of Page 9, you talk about
14 the reasons why it is important to -- to gain
15 competitive bids. Do you see that testimony?

16 A Yes.

17 Q Aren't those the same reasons that it's more
18 challenging to find bidders for projects in the Keys?

19 A Yes, it is.

20 Q The suggestion that you made to reduce the
21 plant rehab project and the lift station project by
22 11.7 percent was based upon your review of the bids in a
23 pro forma project in the UIF rate case, correct?

24 A That is correct.

25 Q Did you review any of the other -- how many

1 projects were there in that -- pro forma projects in
2 that rate case? Do you recall?

3 A No, I -- over 40, I believe.

4 Q Okay. And did you happen to review any of the
5 other 39 or so projects to see if the variance between
6 high and low bid was more or less than 11.7 percent?

7 A I did not.

8 Q The -- was it diamond star? What's it called?
9 DemandStar?

10 A Yes. Yes.

11 Q Is that a process that private utilities can
12 use as well?

13 A I honestly don't know. I -- I would assume
14 so. They're a business that you subscribe to.

15 Q But have you -- have you done that with any
16 private clients that you have versus your public
17 clients?

18 A I could not tell you one way or another.

19 Q You would agree, would you not, that just
20 because there were not three bid on these projects, that
21 the vendors that were selected would not have been the
22 lowest bidder?

23 A Without competitive bids, there's no way to
24 tell.

25 Q That's my point. You don't know whether they

1 might have been, correct?

2 A That's true. They might have been; they may
3 not have been.

4 Q You're suggesting that \$7,205.75 of a
5 wastewater treatment plant engineering fee be removed
6 from rate base; is that correct?

7 A Yes. I -- I'm not sure about that exact
8 amount, but -- yeah.

9 Q But you agree the amount was spent by the
10 utility.

11 A Yes, it was.

12 Q So, then, would you suggest that it be
13 reclassified into an engineering-expense category?

14 A It's not associated with -- I believe this is
15 for the wastewater treatment plant rehab project.

16 Q Right. Correct.

17 A It -- it should be reclassified somewhere else
18 other than that project. I couldn't tell you where.
19 I'm not too familiar with all the accounts.

20 Q Okay.

21 MR. SAYLER: Mr. Friedman, can you point to
22 his testimony where he talks about the \$7,000?

23 MR. HETRICK: Mr. -- Mr. Woodcock, could you
24 please speak up a little more into the microphone?

25 I appreciate it. Thank you.

1 THE WITNESS: I'm sorry. My hand is getting a
2 little tired. It's falling away.

3 MR. FRIEDMAN: It's on Page 17, Mr. Sayler.

4 COMMISSIONER POLMANN: Mr. Sayler, we're going
5 to try something else. Hold on a second.

6 (Discussion off the record.)

7 MR. FRIEDMAN: Mr. Sayler, it's the top of
8 Page 17.

9 MS. HALL: Line 12.

10 MR. FRIEDMAN: Yeah, that whole -- that whole
11 thing.

12 MR. SAYLER: Thank you.

13 MR. FRIEDMAN: Okay.

14 BY MR. FRIEDMAN:

15 Q On the asset-management program, you testified
16 about --

17 A Yes.

18 Q You stated that there are numerous practice
19 manuals and guides to assist in coming up with an asset-
20 management plan; is that correct?

21 A Correct.

22 Q Are these plans the same, notwithstanding the
23 size of the utility?

24 A The principles can apply to any size of
25 utility. There are guides that are tailored towards

1 smaller utilities, like KWRU. There are some guides
2 that are purely -- here are all the principles you need
3 to apply, regardless of -- of the size of your utility.

4 **Q So, there's some subjectivity in determining**
5 **how to implement those particular procedures?**

6 A Yes, every utility needs to find what works
7 best for them. You know, the -- the asset
8 principle man- -- or the asset-management principles are
9 what they are. And there are several guides out there
10 to assist utilities in how to implement them. You know,
11 ideally, it's up -- between utility management and the
12 staff as far as what works best for a particular
13 utility.

14 **Q Do you know how many PSC-regulated utilities**
15 **have implemented these type of asset-management plans?**

16 A Well, Utilities, Inc., has in the last rate
17 case. And since then, it was brought to my attention
18 that, back in the late nineties, Florida Water Services,
19 under John Cirillo -- he was one of the pioneers in
20 asset management when it kind of first came out in the
21 region of Central Florida.

22 **Q All right. And who told you that?**

23 A It was -- what's his name. The other
24 attorney -- is it -- Brian Armstrong, yes.

25 **Q And you believe everything Brian Armstrong**

1 **tells you?**

2 A No, he reminds -- I do not.

3 MR. WRIGHT: Object to form.

4 MR. SAYLER: Speculation.

5 (Laughter.)

6 THE WITNESS: Yeah. Early in my career, I did
7 a lot of work for Southern States Utilities and
8 Florida Water Services. I was very familiar with
9 the organization. And it slipped my mind during
10 the Utilities, Inc., rate case, when we were going
11 through that, but he was the one that jogged my
12 memory.

13 BY MR. FRIEDMAN:

14 Q **Thank you.**

15 **And you would not expect Key West Resort**
16 **Utilities to have as sophisticated a system as UIF,**
17 **would you?**

18 A Oh, absolutely not. In fact, I'm -- I'm a big
19 proponent of -- of helping utilities to find out what
20 works best for them. It doesn't have to be a big
21 software program. It could be a spreadsheet. It could
22 just be the principles and practices that you lay out
23 with your operators on a day-to-day basis.

24 Once again, it's the princ- -- implementing
25 the principles; not necessarily a large infrastructure.

1 Q Wouldn't you agree that performing preventive
2 maintenance in addition to normal operating and
3 maintenance of the utility requires sufficient number of
4 personnel?

5 A Yes. And normal maintenance and preventative
6 maintenance -- preventative maintenance should be normal
7 maintenance. So, I -- I would make that distinction
8 there in your definition, but yes, it does require
9 personnel to do it.

10 Q Okay. And if -- if you assume it took 14
11 employees to properly operate a utility and you lost two
12 of the op- -- two of the maintenance employees, wouldn't
13 you agree that the preventive maintenance would be
14 where -- that would suffer?

15 A It would suffer, but not to as great of an
16 extent as if the utility did not have preventative
17 maintenance. One of the important things about asset
18 management is that you're keeping really close tabs on
19 those parts of your system that are most likely to fail.
20 It makes a utility more robust. It allows for a better
21 transfer of information as there is utility turnover.

22 Q And -- but wouldn't you agree that, if you
23 have insufficient number of employees, that they've got
24 to operate it according to DEP requirements, correct?

25 A That is correct.

1 **Q That's got to be done. And -- and reactive**
2 **maintenance has got to be done; does it not?**

3 A Yes, but once again, with implementing asset
4 management, reactive maintenance is kept to a -- to a
5 minimum. So, it doesn't take up as much employee time.
6 That's one of the reasons why asset management is cost-
7 effective.

8 **Q But -- but you have to have sufficient**
9 **employees to be able to do that, correct?**

10 A Correct.

11 MR. FRIEDMAN: That's all I have. Thank you.

12 COMMISSIONER POLMANN: Thank you,

13 Mr. Friedman.

14 Monroe County.

15 MR. WRIGHT: For clarity of the record, we
16 have no questions for Mr. Woodcock. Thank you.

17 COMMISSIONER POLMANN: Thank you, Mr. Wright.

18 MS. CRAWFORD: No questions from staff.

19 COMMISSIONER POLMANN: Thank you,

20 Ms. Crawford.

21 Commissioners.

22 COMMISSIONER FAY: Can you hear me?

23 MR. SAYLER: Yes, sir.

24 COMMISSIONER FAY: Mr. Woodcock, can you turn
25 to Page 6 of your testimony.

1 THE WITNESS: I'm there.

2 COMMISSIONER FAY: That first paragraph where
3 your answer is there, starting on Line 8, it says,
4 "While it has been the Commission's practice to
5 require at least three bids prior to any approval
6 for pro forma plant additions" -- and continues on.

7 Can you explain to me -- I -- I'm -- I'm
8 having trouble understanding exactly where the
9 competitive bid process requirement comes into
10 play. So, is it something that you see as -- from
11 your expertise, as practice? Is it something
12 that's required procedurally by state procedures,
13 by Commission law or rule or --

14 THE WITNESS: It's a -- it's a pretty wide
15 question. So, let me -- let me give you some
16 angles there. You know, I've referenced a case
17 where the Commission, in the past, has required
18 that, to bolster my argument.

19 And I am not an accountant, but I certainly
20 believe it is prudent business practice to seek
21 competitive bids. You don't want to sole-source a
22 supplier, for the simple fact that you want to keep
23 them honest. A competitive landscape helps gets
24 that maximum efficiency there.

25 From an engineering standpoint, it's also very

1 prudent that you get bids in on engineering
2 projects, absolutely, wherever possible so that you
3 know that you're getting the -- the best cost for
4 your design for the client that you're designing
5 for.

6 COMMISSIONER FAY: So, part of the -- part of
7 your testimony, then, is that it's prudent to do
8 so, but there's nothing that points to specifically
9 requiring -- in other words, a failure to do so by
10 the utility is not a failure to do something
11 required by law or rule. It's -- it's a failure to
12 do what you believe is their prudent responsibility
13 to obtain someone to perform those duties.

14 THE WITNESS: Yes, but when you say the word
15 "prudent," then it does become a part of the
16 requirements because any investment in plant needs
17 to be shown to be reasonable and prudent. And that
18 is a -- that is a rule. That is a requirement
19 that's fixed. And I'm sorry. I can't quote the --
20 the specific --

21 COMMISSIONER FAY: No --

22 THE WITNESS: -- statute for that, but yes,
23 prudence is one of those things that we look at for
24 every single project that comes up for rate base.
25 And that is a requirement.

1 COMMISSIONER FAY: And you believe that that
2 can't be done without a competitive bid.

3 THE WITNESS: Correct, in this -- in these
4 cases, yes.

5 COMMISSIONER FAY: Okay. And do you know if
6 there are -- I know you were asked by Mr. Friedman
7 if there are entities that you've reached out to
8 that failed to submit a bid.

9 Is it -- I would presume that it's unlikely
10 that an entity, if asked and was not interested in
11 performing the work, would submit some sort of
12 documentation to state that -- that they would do
13 so; is that -- is that your opinion, based on that
14 testimony?

15 THE WITNESS: Yes, I mean, simply, there's
16 just a decline to bid the offer. There is
17 generally not any response back; they just don't
18 bid.

19 COMMISSIONER FAY: So, they -- it would -- it
20 would be unlikely they would have even that
21 documentation showing that other entities chose not
22 to bid.

23 THE WITNESS: Correct.

24 COMMISSIONER FAY: Okay. Thank you. That's
25 all I have.

1 COMMISSIONER POLMANN: Mr. Woodcock, to follow
2 on -- in what manner do you employ the term
3 "prudent"?

4 THE WITNESS: Well, the -- once again, you're
5 getting me on the specific wording of
6 requirements --

7 COMMISSIONER POLMANN: No, it just -- just for
8 you.

9 THE WITNESS: Oh, for me, prudent -- it has to
10 show that it has been -- that it was necessary. In
11 this case, since we're talking about projects, that
12 the technology of the project is -- is something
13 that's in keeping with what industry standard is,
14 that it's following general guidelines of the
15 industry, and that, you know, it has been executed
16 in such a way to, you know, maximize efficiency of
17 cost and resources.

18 COMMISSIONER POLMANN: Looking at Page 6 of
19 your direct testimony, there's a question on
20 Line 13, "Is it prudent to rely upon a sole-source
21 proposal," and your answer is, "No, it's not
22 prudent, in my opinion."

23 Are there any circumstances, in your
24 professional practice, where you have advised a
25 client that a sole source is appropriate?

1 THE WITNESS: The only instances where I have
2 recommended a sole source is where we are looking
3 at a specific technology that is proprietary, under
4 patent, or has a trademark. And as we're going
5 through making that recommendation, we actually
6 compare it to other technologies before making that
7 recommendation; knowing that, when we go to full
8 design, only one person is going to be able to
9 submit a proposal on it.

10 When we're in the preliminary phase, we'll
11 look at the different technologies, proprietary and
12 non-proprietary; look at the costs and the
13 advantages and disadvantages and work with our
14 client before making a selection on the sole-source
15 project.

16 COMMISSIONER POLMANN: Have you had occasion
17 to recommend to any clients a selection criteria
18 that involves best value versus lowest cost?

19 THE WITNESS: Oh, absolutely. Yes. Cost is
20 not the -- is not the only factor, especially when
21 you're looking at some of these proprietary
22 technologies because they're touting a higher
23 efficiency because of their technology or ease of
24 operation. You know, there's a -- there's a lot of
25 other factors that play into it besides cost.

1 COMMISSIONER POLMANN: Do you have experience
2 where best value would include parameters that are
3 not necessarily involving proprietary and -- and
4 would not be lowest cost, but might be the best
5 selection?

6 THE WITNESS: Oh, yes. Yes.

7 COMMISSIONER POLMANN: Okay. Do you have
8 experience where you would recommend proceeding on
9 a project where you received only a single bid?

10 THE WITNESS: The only instance that I can
11 think of in my career where we've received a single
12 bid, we rebid the project and -- I am kind of
13 working through my head here.

14 If there is a project that has -- that needs
15 immediate -- needs to be addressed immediately,
16 something that is -- that is critical, I believe
17 there's even provisions that my clients have in
18 cases of disaster or emergency where they don't
19 necessarily go through that bidding process.

20 That would be the -- the situation that I can
21 see in my head where you would want to maybe go
22 around the -- the bidding process.

23 COMMISSIONER POLMANN: You've just indicated
24 that there may be circumstances where you would go
25 around the bidding process. So, that suggests to

1 me that you would not bid; that would be an
2 expedited procurement. Is that --

3 THE WITNESS: Exactly, yes.

4 COMMISSIONER POLMANN: -- what you're
5 suggesting?

6 THE WITNESS: Yeah.

7 COMMISSIONER POLMANN: Okay. But in a normal
8 procurement process where you have a project and
9 you -- the engineer has developed a design and
10 plan, and so forth, and you go out to the market
11 and you advertise, such as DemandStar, and you only
12 the receive one response because of any number or
13 variety of reasons -- you've indicated, the case
14 where that occurred, you -- you rebid. I presume,
15 in that case, you've received multiple responses.

16 THE WITNESS: Yes. And the second time
17 around, we did receive multiple responses.

18 COMMISSIONER POLMANN: What happens if, in
19 that second time, you only have one bid and you
20 don't have that experience? Is that -- is that the
21 case?

22 THE WITNESS: Well, I will say this, that
23 there's got to be a good reason. And certainly --

24 COMMISSIONER POLMANN: So, you -- you, then,
25 as an engineer, advising your client, would make a

1 determination that there -- there's a good reason.

2 THE WITNESS: Right.

3 COMMISSIONER POLMANN: You would be in that
4 position where you would have to offer a
5 professional opinion; is that the --

6 THE WITNESS: Corr- --

7 COMMISSIONER POLMANN: -- case?

8 THE WITNESS: Correct, yes.

9 COMMISSIONER POLMANN: Okay. Thank you.

10 On the -- the issue of asset management, are
11 you familiar specifically with KWRU -- are you
12 familiar with the historical variations of asset-
13 management practices of the utility over the past
14 five years?

15 THE WITNESS: Not in a lot of detail. Through
16 discovery, I asked several questions and received
17 some information on KWRU's maintenance practices.
18 And as I say in my testimony, you know, they seem
19 to be more in a -- in a reactive mode. There is
20 some indication that they are starting to put
21 together a chart and a spreadsheet; something where
22 they can log things.

23 Most of what I saw, though, was kind of a day-
24 to-day-checklist-type thing that they would go
25 through once a week or once a month. So, that's,

1 you know, my current appraisal of -- of what I know
2 about their current asset-management policies.

3 COMMISSIONER POLMANN: You had indicated in
4 response to a question from Mr. -- Mr. Friedman
5 that there -- there could be different levels of
6 detail in a tracking system or software package,
7 depending on the circumstance and the size of the
8 utility and -- and so forth, as to how they manage
9 their maintenance program and so forth.

10 Is it your opinion, then, that the manner in
11 which this utility is keeping track of their
12 maintenance and asset management is deficient?

13 THE WITNESS: At this time, it does not meet
14 asset-management principles. There isn't a
15 preventative maintenance plan. There is no
16 tracking of where things break to try and find out
17 where the hot spots in the system are. There's no
18 plan for future capital replacements. These are
19 all very critical things that are a part of the
20 asset- management body of -- of knowledge.

21 COMMISSIONER POLMANN: Okay. Are you saying
22 that based on the discovery and information you
23 have in your opinion, as opposed to -- do you have
24 full and a -- and complete knowledge of everything?
25 Or I assume you're basing that on -- on what it is

1 A You mean DemandStar?

2 Q DemandStar, yes, sir.

3 A I would assume that it is, but I don't -- I
4 don't know for certain.

5 Q And is it specific to utilities or is it more
6 general than that?

7 A Oh, it's wide open to everything.

8 Q And in your -- to your knowledge, does this
9 company use a bid service like that?

10 A I have not seen anything that would indicate
11 that. Most of the solicitations for bid that I've seen
12 as part of this process has been, you know, basically a
13 letter requesting proposals.

14 Q Okay. So -- (examining document). You were
15 asked questions about employee staffing levels and
16 implementing a preventive maintenance plan. Do you
17 recall questions regarding that?

18 A Yes.

19 Q When an asset-management and preventive
20 maintenance program is properly implemented, what
21 results can utilities often find that relates to
22 staffing levels and O & M expenses?

23 A Well, you would expect that O & M expenses
24 would decrease because you're in more of a proactive
25 instead of a reactive mode. I would say that your label

1 requirements would -- I would expect they would
2 decrease, to some extent, but I cannot quantify.

3 But generally, asset management is about being
4 more efficient, and labor is an important part of that
5 efficiency.

6 Q Okay. And you were asked -- you were asked a
7 question by Commissioner Polmann related to sole-
8 sourcing for patented and proprietary technologies. Do
9 you recall that?

10 A Yes.

11 Q Is that for new projects or rehab projects,
12 generally?

13 A It would be for new projects. It's possible
14 it could be rehab. It could be taking some existing
15 tankage and putting in proprietary technology. So, I
16 guess both.

17 Q Okay. And in your review of wastewater
18 treatment plant rehab project -- in your opinion, is
19 that something that requires proprietary technology
20 or --

21 A As it relates to what I've seen in this case,
22 no.

23 MR. SAYLER: All right. Thank you. No
24 further redirect.

25 COMMISSIONER POLMANN: Thank you, Mr. Sayler.

1 MR. SAYLER: And Public Counsel would like to
2 move hearing Exhibits 29 through 35 into the
3 record, which were attached to Mr. Woodcock's
4 testimony; and that he be temporarily excused until
5 he comes back for surrebuttal.

6 COMMISSIONER POLMANN: Exhibits 29 through 35
7 are on the comprehensive list.

8 MS. MAPP: That is correct.

9 COMMISSIONER POLMANN: Okay. We will move
10 those into the record, as Mr. Sayler requested.

11 (Whereupon, Exhibit Nos. 29 through 35 were
12 admitted into the record.)

13 COMMISSIONER POLMANN: And remind me, there
14 were corrections to any of those?

15 MR. SAYLER: His Exhibit ATW-3 -- if you look
16 at exhibit -- Hearing Exhibit ATW-3, there's a
17 footnote that says, "Revised Exhibit ATW-3 was
18 filed with the Commission April 13th, 2018."

19 COMMISSIONER POLMANN: Okay. All right. That
20 was done previously.

21 MR. SAYLER: Yes, sir.

22 COMMISSIONER POLMANN: All right. And you are
23 temporarily excused.

24 THE WITNESS: Thank you.

25 COMMISSIONER POLMANN: We'll see you later

1 today.

2 MR. SAYLER: Hopefully.

3 COMMISSIONER POLMANN: Hopefully -- or not.

4 Don't leave town.

5 THE WITNESS: Understood.

6 COMMISSIONER POLMANN: Okay. We're looking at

7 11:30.

8 We're going to want to take a lunch break at
9 some point.

10 The next witness -- we'll move over to the
11 County. Can we take -- can we take five minutes
12 before Mr. Deason comes up?

13 MR. FRIEDMAN: Of course.

14 MS. HALL: Yes, sir.

15 MR. WRIGHT: Certainly.

16 COMMISSIONER POLMANN: Okay. Five minutes.

17 (Brief recess.)

18 COMMISSIONER POLMANN: All right. And we are
19 back on the record. And we are at Mr. Deason,
20 witness for the County.

21 Please proceed.

22 MS. HALL: Thank you, Mr. Chairman.

23 EXAMINATION

24 BY MS. HALL:

25 Q Mr. Deason, if you could, please state your

1 name and your business address for the record.

2 A My name is Terry Deason. My business address
3 is 300 South Bronough Street, Tallahassee, Florida.

4 Q Before you, do you have a copy of the
5 testimony that you prefiled in this case?

6 A Yes.

7 Q And did you cause -- did you prepare or cause
8 that prefiled testimony to be prepared?

9 A I did.

10 Q Are there a number of exhibits attached to
11 that prefiled testimony?

12 A There is one.

13 Q Can you identify the number of that exhibit
14 for the record, please.

15 A I assume it's part of the comprehensive
16 exhibit list. It's attached to my testimony as
17 Exhibit TD-1.

18 Q Is that also on the comprehensive exhibit
19 list, No. -- Exhibit 51?

20 A I assume so.

21 Q And did you prepare or cause that exhibit to
22 be prepared?

23 A I did, yes.

24 Q Do you have any changes or corrections to the
25 prefiled testimony including the exhibit that you mean

1 to offer at this time?

2 A No, I do not.

3 COMMISSIONER POLMANN: He's here.

4 MS. HALL: Okay.

5 BY MS. HALL:

6 Q So, if we were to ask you all of the same
7 questions that are listed in your prefiled testimony
8 today, would your answers still be the same?

9 A Yes.

10 MS. HALL: Mr. Chairman, Mr. Wright is here,
11 and I'm going to ask him to take my place.

12 COMMISSIONER POLMANN: Very good.

13 Mr. Wright.

14 MR. WRIGHT: Thank you -- thank you for your
15 indulgence, Mr. Chairman.

16 EXAMINATION

17 BY MR. WRIGHT:

18 Q Do you adopt your -- this testimony that is
19 your sworn testimony to the Florida Public Service
20 Commission in this proceeding?

21 A I do.

22 MR. WRIGHT: Thank you. With that,
23 Mr. Chairman -- Commissioner, I request that
24 Mr. Deason's testimony be entered into the record
25 as though read.

1 COMMISSIONER POLMANN: We will enter
2 Mr. Deason's direct filed testimony with his
3 Exhibit JTD-1 into the record as though read.

4 MR. WRIGHT: Commissioner, I -- I appreciate
5 that.

6 I think it may be more appropriate to --

7 COMMISSIONER POLMANN: I'm sorry.

8 MR. WRIGHT: -- mark his exhibit -- note that
9 his exhibit is marked for identification as
10 Exhibit 51, and move it in when his testimony is --

11 COMMISSIONER POLMANN: Thank you, sir. I
12 appreciate that correction.

13 MR. WRIGHT: Thank you.

14 COMMISSIONER POLMANN: That -- that exhibit is
15 part of the comprehensive exhibit list, and we'll
16 deal with that later.

17 MR. WRIGHT: Yes, sir.

18 (Prefiled direct testimony inserted into the
19 record as though read.)

20

21

22

23

24

25

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 20170141-SU,
KW RESORT UTILITIES CORPORATION RATE CASE
DIRECT TESTIMONY OF J. TERRY DEASON
March 14, 2018

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

2 A. My name is Terry Deason. My business address is 301 S. Bronough
3 Street, Suite 200, Tallahassee, FL 32301.

4
5 **Q. By whom are you employed and what position do you hold?**

6 A. I am a Special Consultant for the Radey Law Firm, specializing in the
7 fields of energy, telecommunications, water and wastewater, and public
8 utilities generally.

9
10 **Q. Please describe your educational background and professional**
11 **experience.**

12 A. I have over forty years of experience in the field of public utility regulation
13 spanning a wide range of responsibilities and roles. I served as a
14 consumer advocate in the Florida Office of Public Counsel ("OPC") on
15 two separate occasions, for a total of seven years. In that role, I testified
16 as an expert witness in numerous rate proceedings before the Florida
17 Public Service Commission ("Commission" or "PSC"). My tenure of

1 service at OPC was interrupted by six years as Chief Advisor to Florida
2 Public Service Commissioner Gerald L. Gunter. I left OPC as its Chief
3 Regulatory Analyst when I was first appointed to the Commission in
4 1991. I served as Commissioner on the Commission for sixteen years,
5 serving as its chairman on two separate occasions. Since retiring from
6 the Commission at the end of 2006, I have been providing consulting
7 services and expert testimony on behalf of various clients, including
8 public service commission advocacy staff and regulated utility
9 companies. I have also testified before various legislative committees
10 on regulatory policy matters. I hold a Bachelor of Science Degree in
11 Accounting, summa cum laude, and a Master of Accounting, both from
12 Florida State University.

13

14 **Q. For whom are you appearing as a witness?**

15 A. I am appearing as a witness for Monroe County.

16

17 **Q. What is the purpose of your testimony?**

18 A. The purpose of my testimony is to discuss Florida's regulatory policy of
19 establishing rates on appropriate test years and the need for the correct
20 matching of investment, expenses, and revenues in those test years. I
21 refer to this principle as the "matching principle." Recognizing that a
22 utility's revenues are simply its sales (e.g., kilowatt-hours of electricity, or
23 gallons of water or wastewater service provided to customers) times its

1 rates, it is clear that the “matching principle” requires that rates be
2 determined using the utility’s allowed revenues (referred to as its
3 “revenue requirements” in regulatory terminology) and its sales units
4 from the same time period in which the rates will be in effect.

5

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

7 A. Yes. I am sponsoring Exhibit JTD-1, which is my curriculum vita.

8

9 **Q. How is your testimony organized?**

10 A. My testimony is organized into three parts. First, I provide a brief
11 overview of the regulatory compact that provides the foundation for the
12 setting of rates for a regulated utility. Second, I discuss the need for and
13 use of test years when setting rates. Third, I discuss the need for
14 appropriate adjustments to comply with the matching principle.

15

16 **I. Regulatory Compact**

17 **Q. What is the regulatory compact?**

18 A. The regulatory compact is an implied contract that exists between a
19 regulated public utility, its regulators, and its customers. It lays the
20 foundation for regulation and balances the interests (and risks) of all
21 stakeholders. It has been employed to characterize the set of mutual
22 rights, obligations, and benefits that exist between the utility and its
23 customers. These rights, benefits, and obligations are supervised and

1 enforced by regulatory utility authorities such as the Florida PSC.

2

3 **Q. How does the regulatory compact balance the interests of the utility**
4 **and its customers?**

5 A. Under the regulatory compact, the interests of the utility and its
6 customers are balanced by the following considerations:

- 7 • A regulated utility has the obligation to provide reliable and cost-
8 effective service to its customers. To fulfill this obligation to serve,
9 the utility must deploy needed capital and obtain the labor,
10 materials, and supplies necessary to operate and maintain its
11 system to serve its customers. Inherent in this obligation is a
12 responsibility to manage costs and mitigate risks where
13 reasonably possible.
- 14 • Correspondingly, the utility is granted a monopoly in its service
15 area, and its rates are set by the utility commission (the PSC in
16 Florida) to recover all of the utility's reasonable and prudent
17 operating and maintenance costs and to provide fair
18 compensation for its capital investments.
- 19 • All utility investments are subject to a determination of prudence,
20 based on the reasonably anticipated costs, risks, and benefits of
21 said investment that are known or reasonably known at the time
22 that the investment is made. Concomitant with this principle is
23 that future changed circumstances that can be known and applied

1 only in hindsight are not a valid basis to reverse a previous
2 determination of prudence.

- 3 • All prudently incurred investments that are used and useful in
4 providing service are to be afforded rate recovery treatment, both
5 in the form of a reasonable return on the investment and a
6 reasonable return of the investment, generally over the useful life
7 of said investment. The return on investment refers to the
8 interest expense and the return on the equity investment made by
9 the utility's owners or shareholders. The return of investment
10 refers to the allowance for depreciation of the capital assets over
11 time, where such allowance is also built into the utility's rates. It is
12 useful to think of the depreciation allowance as the principal
13 component of a mortgage payment, and the interest expense and
14 return on equity as being comparable to the interest component of
15 a mortgage payment, made to fairly compensate the lender for
16 the use of its money.
- 17 • The reasonable rate of return is a necessary cost to provide
18 service and should be set at a level to adequately compensate
19 investors for the risk of their investment and to be fair to
20 customers on whose behalf the capital is deployed. Inherent in
21 this principle is the expectation that customer and investor
22 interests are balanced in a fair and symmetrical manner.
- 23 • While the reasonable return on investment is not guaranteed,

1 there is an expectation that rates will be set to afford a utility a
2 reasonable opportunity to actually earn its authorized rate of
3 return.

- 4 • The reasonable rate of return is set and monitored to fall within an
5 established band, so that the return is neither excessive nor
6 deficient.

7 These considerations are part of the regulatory compact that has been
8 the foundation of fair and effective utility regulation in this country for
9 decades.

10

11 **Q. What is the role of the PSC in setting the utility's rates under the**
12 **regulatory compact?**

13 A. From the utility's perspective, the PSC (in Florida or anywhere else) is
14 responsible to set rates that allow the utility to recover its reasonable
15 operating and maintenance costs and the opportunity to recover its
16 interest costs and earn a reasonable return on the owners' or
17 shareholders' investment in capital assets. From the customers'
18 perspective, the PSC is responsible to set rates based on the
19 reasonable and prudent costs of providing service. In Florida and
20 elsewhere, this standard is frequently articulated as requiring rates to be
21 fair, just, and reasonable.

22

23

1 effect. For water and wastewater utilities, the Commission has adopted
2 Rule 25-30.430(1), Florida Administrative Code ("F.A.C."), which
3 requires that:

4 (1) Prior to the filing of an application for a general rate
5 increase, a utility shall submit to the Commission a written
6 request for approval of a test year, supported by a statement
7 of reasons and justifications **showing that the requested**
8 **test year is representative of utility operations.** The
9 Commission Chairman will then approve or disapprove the
10 request within 30 days from the receipt of the request. In
11 disapproving the requested test year, the Chairman may
12 suggest another test year. Within 30 days of the Chairman's
13 approval or disapproval of a test year, upon request of any
14 interested person the full Commission may review the
15 Chairman's test year decision.

16 I added the emphasis in the cited provision to demonstrate the
17 Commission's recognition of the importance of having a test year that is
18 representative of the utility's operations during the time period in which
19 rates will be in effect,

20 Similarly, for electric utilities, the Commission has adopted Rule
21 25-6.140 (1)(a), in which a requesting utility must provide:

22 An explanation for requesting the particular test period. If
23 an historical test year is selected, there shall be an

1 explanation of why the historical period is more
2 representative of the company's operations than a
3 projected period. If a projected test year is selected, there
4 shall be an explanation of why the projected is more
5 representative than an historical period

6

7 **Q. Has the Commission defined the appropriate use of a test year for a**
8 **water and sewer utility company?**

9 A. Yes. In its Order No. 15725, addressing a petition for an increase in
10 water and sewer rates by Martin Downs Utilities, Inc., the Commission
11 stated:

12 The test year is an analytical device used in ratemaking
13 proceedings to compute current levels of investment and
14 income in order to determine the amount of revenue that
15 will be required to assure a company a fair return on its
16 investment. Test year data must be adjusted to properly
17 reflect conditions in the future period for which rates are
18 being fixed. Based upon historical data we anticipate
19 Martin Downs will continue to experience a rapid growth of
20 demand for its services. Therefore, we believe a projected
21 test year is appropriate in this case.

22

23

1 **Q. In your opinion, is this appropriate utility regulatory policy? Why**
2 **or why not?**

3 A. Yes, this is the essence of sound and appropriate regulatory
4 ratemaking policy, because it ensures that the rates charged by
5 the utility will produce the revenues needed to cover the utility's
6 costs of providing service and a reasonable return on and of its
7 investment. This is the essence of determining rates that are fair,
8 just, and reasonable. If rates were set using non-representative
9 cost, investment, or sales data, they would likely be unfair, unjust,
10 or unreasonable, or all of the above, to either the utility or its
11 customers.

12

13 **Q. Does the Commission have a preference for projected versus**
14 **historic test years?**

15 A. For electric utilities, the Commission has primarily relied on projected
16 test years, especially after the Florida Supreme Court addressed their
17 use back in 1983. Nevertheless, the Commission still relies on test
18 years, either historic or projected, that are most representative of future
19 utility operations and has placed the burden on requesting utilities to so
20 demonstrate.

21

22 **Q. What did the Florida Supreme Court say on the subject?**

23 A. In an appeal of a Commission order taken by the Southern Bell

1 Telephone and Telegraph Company in 1983, 443 So.2d 92, the Court
2 stated:

3 Nothing in the decisions of this Court or any legislative act
4 prohibits the use of a projected test year by the
5 Commission in setting a utility's rates. We agree with the
6 Commission that it may allow the use of a projected test
7 year as an accounting mechanism to minimize regulatory
8 lag. The projected test period established by the
9 Commission is a ratemaking tool which allows the
10 Commission to determine, as accurately as possible, rates
11 which would be just and reasonable to the customer and
12 properly compensatory to the utility.

13 Thus, the Court has recognized that the Commission may utilize
14 ratemaking tools that minimize regulatory lag and determine, as accurately
15 as possible, rates that are just and reasonable during the time period that
16 the rates will be in effect.

17

18 **Q. The Court mentioned regulatory lag. What is it?**

19 A. Regulatory lag is the difference in time between when rates should be
20 changed and when new rates can be implemented.

21

22

1 **Q. Does regulatory lag always mean that rates are lower than they**
2 **should be for longer than is necessary?**

3 A. No. Regulatory lag will exist either when rates are lower than they should
4 be, exposing the utility to not recovering its costs and earning an adequate
5 return, or when rates are higher than they should be, exposing customers
6 to paying rates that are higher than justified by the utility's costs. In other
7 words, regulatory lag cuts both ways. If rates are not based upon the
8 most appropriate test year information, the utility could quickly experience
9 either underearnings or overearnings soon after the new rates are
10 implemented. That is why it is important that rates be set as close as
11 possible to what a representative test year shows is the relationship
12 between investment, expenses, and revenues during the time that rates
13 will be in effect. This minimizes regulatory lag in both directions.

14

15 **Q. Has the Commission previously addressed the need to adjust the**
16 **test year to prevent possible overearnings?**

17 A. Yes. In a staff-assisted rate case for Burkim Enterprises, Inc., Docket No.
18 010396-WS, the Commission opted to use a projected test year, citing the
19 potential for overearnings if rates were set only on historical information.
20 In its Order No. PSC-01-2511-PAA-WS, the Commission stated:

21 For audit purposes, we selected a historical test year
22 ending May 31, 2001. Because the utility is growing at an
23 exceptionally high rate (29 connections per year), rates

1 based on historical data alone will be significantly different
2 than rates based on current or even future conditions, and
3 the potential for overearning exists if a projected test year is
4 not used. We find that a projected test year ending May 31,
5 2003 is appropriate in this case and will better match
6 increasing revenues with the high level of DEP required pro
7 forma additions that are being approved.

8

9 **Q. What is the test year proposed by KW Resort Utilities Corporation**
10 **(“KWRU”) in its request for increased rates in this case?**

11 A. The requested test year is the historic year ended June 30, 2017, with
12 significant adjustments for pro forma plant additions up to 24 months after
13 the end of the test year and increased pro forma expenses in the future.

14

15 **Q. Does Monroe County object to this test year?**

16 A. Monroe County does not object to the selected test year per se. Monroe
17 County does object to pro forma adjustments (or a lack of certain pro
18 forma adjustments) which results in a test year that is not representative of
19 future operations and that violates the matching principle by not properly
20 matching KWRU’s costs with its sales during the time periods in which the
21 utility’s rates will be in effect.

22

23

1 And in the world of utility ratemaking, if a utility or its public utility
2 regulatory authority did not properly match its revenues and sales with the
3 amount of anticipated investment and expenses, a distorted test year that
4 is not properly representative would be the result. If not corrected, this
5 would almost certainly result in rates that are not fair, just and reasonable.
6

7 **Q. Is the amount of investment, expenses, and revenues included in a**
8 **test year important to the matching principle?**

9 A. Yes. Utilities generally are capital intensive and have an obligation to
10 serve customers within their authorized territories. To meet this
11 obligation, utilities often have to make substantial investments that can
12 be driven by the need for modernization, the need to meet environmental
13 requirements, and the need to meet the demands of new customers
14 and/or increased demand from existing customers. In the situation
15 where additional investment is being made, or additional expenses are
16 being incurred, or both, to serve a growing customer base or growing
17 customer demands for service, or both, it is imperative that rates be set
18 taking into consideration the additional revenues that will be produced.
19 In the simplest terms, revenues are equal to units sold times rates; for
20 any given level of revenues authorized by the PSC, the lower the
21 amount of sales units used to calculate rates, the higher the utility's rates
22 will be. This was the conclusion reached by the Commission in the
23 Burkim case I earlier referenced.

1

2 **Q. Has the Commission previously applied and followed the matching**
3 **principle?**

4 A. Yes. In fact, in the 2016 rate case for KWRU, the Commission applied the
5 matching principle in setting KWRU's rates. In its Order No. PSC-17-
6 0091-FOF-SU, at page 12, the Commission stated the following:

7 We agree . . . that if rates are not based upon the most
8 appropriate test year information, a utility could quickly
9 experience either underearnings or overearnings soon after
10 the new rates are implemented. Although underearnings or
11 overearnings may occur after final rates are set, we find that
12 making consistent adjustments based on known and
13 measurable information, to the 2014 test year is the most
14 appropriate approach to determining just, fair, and
15 reasonable rates.

16 The Commission further explained its reliance on the matching
17 principle in making its decision in the 2016 KWRU rate case at page 66 of
18 the Order, stating:

19 The principle of matching costs and expenses with
20 sales is at the center of the argument for establishing correct
21 billing determinants. This Commission recognizes the need
22 to match identifiable customer growth and sales with known
23 and measurable growth in the utility's investment and

1 expenses. Considering the impacts that any growth or
2 decline in sales would have on revenues, we believe that the
3 matching principle is an important concept to observe in the
4 rate-making process.

5

6 **Q. Is it appropriate for the Commission to recognize the additional**
7 **revenues that will be produced by KW Resort's additional**
8 **investments?**

9 A. Yes. This will result in a better matching and would be consistent with
10 good ratemaking policy and previous decisions of the Commission and the
11 Florida Supreme Court.

12

13 **Q. How should this be accomplished?**

14 A. The amount of test year revenue should be increased to properly account
15 for the amount of revenue that will be generated at existing rates due to
16 increased customer usage. This will better indicate the amount of any
17 revenue deficiency that may exist at existing rates. Once the correct test
18 year revenue requirements are determined, the utility's new rates should
19 be set using the new, current-billing-period billing determinants to
20 generate the amount of revenues needed to afford a reasonable
21 opportunity for KW Resort to recover its reasonable and prudent operating
22 costs and to earn its authorized rate of return on its prudent investments.

23

1 **Q. Can this be accomplished without using a fully projected test year?**

2 A. Yes. The critical point is that the usage levels, and thus sales units, used
3 to set rates should match KW Resort's investments and expenses in the
4 period for which the rates will be in effect. This is the correct application of
5 the matching principle. In simple terms, this can appropriately be thought
6 of as applying "pro forma" adjustments to usage levels and sales units to
7 match the utility's "pro forma" adjustments to investments and expenses.

8

9 **Q. If there is credible evidence that the gallonage of wastewater treated**
10 **and billed by KWRU is likely to be greater during the time that rates**
11 **will be in effect, should the Commission take that evidence into**
12 **account when setting KWRU's rates in this case?**

13 A. Yes. This is particularly important in this instance because of the
14 extended period beyond the test year for which pro forma plant is being
15 sought for inclusion in rate base. It is this pro forma plant that is driving
16 KWRU's request for higher rates. If the amount of wastewater treated and
17 billed by KWRU is to be higher during this extended period, the rates
18 should be based on such greater usage. For example, if the Commission
19 will set new rates for KWRU to take effect on September 1, 2018, then it
20 would be most appropriate to use the usage for the twelve month period
21 that would begin on the same date. Otherwise, in my opinion, KWRU's
22 rates would likely not be fair, just, and reasonable.

23

1 **Q. Have you quantified these adjustments to account for increased**
2 **customer usage?**

3 A. No. The purpose of my testimony is to address the policy reasons for
4 making the needed adjustments. The quantifications are supported in the
5 testimony of Witness Jeffrey Small, on behalf of Monroe County.

6

7 **Q. Does the matching principle apply to other aspects of setting rates**
8 **with respect to the utility's investments?**

9 A. Yes. Where a utility is seeking rate increases based on investments that it
10 expects to incur outside the test year, it is also important to include any
11 Contributions in Aid of Construction that would be realized by the utility
12 during the period in which the new rates would be in effect.

13

14 **Q. Please state the main conclusions of your testimony.**

15 A. The Florida Public Service Commission has a longstanding regulatory
16 policy of establishing rates on appropriate test years, and this policy
17 recognizes the need to match the utility's investment, expenses, and
18 revenues in those test years in order to ensure that the rates approved by
19 the PSC recover the costs incurred during the period or periods in which
20 those rates will be in effect. I refer to this principle as the "matching
21 principle." Where a utility is experiencing significant growth in investment
22 and expenses to serve growth in customers' demands for service, as is
23 the case with KWRU in this proceeding, it is critical that this matching

1 principle be followed in order to ensure, to the maximum extent possible,
2 that the utility's rates are fair, just, and reasonable.

3 In conclusion, I strongly recommend that the Commission apply the
4 matching principle in this case to ensure that KW Resort's rates are fair,
5 just, and reasonable.

6

7 **Q. Does this conclude your testimony?**

8 A. Yes, it does.

9

1 BY MR. WRIGHT:

2 Q I will ask, Mr. Deason, you did also cause
3 to -- prepare and cause to be filed your curriculum
4 vitae, which is now marked as Exhibit 51 --

5 A Yes.

6 Q -- correct? Thank you.

7 And do you have any changes or corrections to
8 make to that testimony?

9 A No.

10 MR. WRIGHT: I would like to ask Mr. Deason to
11 please summarize his testimony to the Commission.

12 THE WITNESS: Very well.

13 Good morning, Commissioners. Thank you for
14 this opportunity.

15 In order to set rates which are fair, just,
16 and reasonable, Florida has a policy of using
17 appropriate test years. An appropriate test year
18 can either be historic or projected. Regardless of
19 whether the test year is the historic or projected,
20 it must be representative of the period in which
21 rates will be in effect. This would include all of
22 the variables in a test year, namely the level of
23 investment, expenses, and revenues.

24 These variables should be representative of
25 the period and be matched with each other. This

1 would be consistent with the matching principle
2 that I discuss in my prefiled testimony.

3 If any of these variables are not matched and
4 not representative of the period in which rates
5 will be in effect, serious distortions can result.
6 These distortions would likely result in rates that
7 are not fair, just, and reasonable.

8 The Commission recognizes and made appropriate
9 adjustments in KWRU's last rate case to adhere to
10 the matching principle. In today's case, Monroe
11 County is, again, providing testimony that KWRU
12 will be providing service to a growing customer
13 base that will yield revenues greater than what
14 KWRU's historic test year reflects.

15 If not corrected, this would violate the
16 matching principle and would likely result in rates
17 that are not fair, just, and reasonable. To
18 correct this mismatch, the amount of test year
19 revenue should be increased to properly account for
20 the amount of revenue that will be generated due to
21 increased customer usage.

22 This amount of revenue should be used to
23 determine any revenue requirements that may exist
24 in this case and used in the billing determinants,
25 which are used to establish rates. These rates

1 A To the best of my recollection --
2 recollection, two times.

3 **Q Okay. And one of those times would have been**
4 **representing Water Management Services?**

5 A That's correct -- well, I was a consultant --
6 the law firm at which I worked was actually retained to
7 do the legal work for a filing before the Public Service
8 Commission. And in conjunction with that, I offered
9 some consulting work with the attorneys and with the
10 ownership of Water Management Services.

11 **Q In other words, you were retained -- your firm**
12 **was retained and you gave advice to Water Management**
13 **Services in connection with that rate case?**

14 A Yes, that is correct.

15 **Q And don't you recall that that was a -- a rate**
16 **case that used the historic test year with some pro**
17 **forma adjustments?**

18 A Yes -- that's been some time ago, but to the
19 best of my recollection, that was the case.

20 **Q And isn't it true that you did not recommend**
21 **the utility file that rate application using your**
22 **matching theory?**

23 A First of all, I was not in the role of being a
24 witness in the case, nor did I prepare the MFRs or the
25 filing. That was done by Mr. Seidman, who is a witness

1 in this case.

2 But I did not recommend any type of an
3 adjustment, given the circumstances of that case that
4 the pro forma adjustments were primarily attributable to
5 changes in the water line that connected the island to
6 the mainland.

7 So, it wasn't really designed to serve new
8 customers. It was a requirement of the Florida
9 Department of Transportation to have that line
10 reconfigured and relocated. That was the primary
11 driving force of that case.

12 I believe there was also the need for a new
13 water-storage tank. The old tank was just inadequate
14 and was beyond its useful life.

15 **Q So, since there was no growth-related pro**
16 **forma projects, you didn't believe that it needed to**
17 **apply your matching theory?**

18 A No, I think the matching principle is still
19 the same. It's just that there was not the need for a
20 different adjustment to revenues beyond the test year,
21 given that the pro forma adjustments were not
22 attributable to growth and that there was not going to
23 be growth attributed to those adjustment that were in
24 the test year.

25 **Q Okay. So, if, in the instant case, these**

1 **project the pro forma projects were not growth-related,**
2 **why wouldn't that same theory apply?**

3 A Because there's testimony in this case that
4 there is going to be additional customers and additional
5 usage during the period of time that the rates are going
6 to be in effect. Given the -- the extended period of
7 time that these pro forma adjustments are being included
8 in rate base -- that's the matching principle that we're
9 going to apply here.

10 Q All right. And so, in -- in the Water
11 Management Services case, it was your belief that there
12 was going to be no growth at all?

13 A No, I don't recall whether it was going to be
14 any growth or not at all in that test case -- that test
15 year.

16 And let me reiterate, again, I was not the
17 witness in the case. I don't recall that issue ever
18 coming up. I don't recall Mr. Seidman ever raising that
19 issue. I don't know if that issue was ever even
20 considered. I don't believe it was issued -- an issue
21 in the audit of the case. It just really was not an
22 issue in that case.

23 Q And -- and you didn't raise it as an issue by
24 representing the utility? They paid you \$50,000 to give
25 them advice on that utility. And part of that advice

1 was not how to --

2 MR. WRIGHT: I object --

3 Q -- file the application.

4 MR. WRIGHT: I object. He is attempting to
5 insert a fact that is not in evidence in this case.

6 COMMISSIONER POLMANN: Sustained.

7 BY MR. FRIEDMAN:

8 Q How much -- how much rate-case expense did the
9 PSC award you in that Water Management Services case?

10 MR. WRIGHT: I object. Again, the Commission
11 did not award Mr. Deason any rate-case expense.

12 COMMISSIONER POLMANN: Mr. Friedman, I'm not
13 sure that's relevant. You want to --

14 MR. FRIEDMAN: Well, I'm just -- I'm just
15 trying to figure out -- he advised a water and
16 sewer utility client in filing the MFRs, and he
17 didn't use the matching theory. And he's asserting
18 matching theory in this case.

19 So, I'm trying to -- to impeach him by saying
20 he is being inconsistent; when he represents the
21 utility, he takes one position; when he represents
22 the County, takes another position. That's the
23 point of asking that question.

24 COMMISSIONER POLMANN: Well, you -- you just
25 indicated you're trying to impeach the witness.

1 You didn't identify that previous -- previously to
2 this. I'm -- I'm not sure that's appropriate.

3 Do you want to proceed with a different line
4 of questioning? I think you're going to continue
5 to get objections on this -- on this line.

6 MR. FRIEDMAN: Okay.

7 BY MR. FRIEDMAN:

8 **Q All right. You would agree, would you not,**
9 **that when you represented Water Management Services, you**
10 **did not recommend that they file that application using**
11 **your matching theory; is that correct?**

12 A No, I disagree entirely with that statement.

13 **Q All right. And so, you gave Mr. Brown advice**
14 **that he should file that case with the matching**
15 **principle to use projected new customers?**

16 A Like I said, that case was a long time ago. I
17 don't recall the specifics of the case. I don't recall
18 that there was any specific adjustment needed, but it
19 was my position, and I think it's true, that the amount
20 of revenues that were included in that case was
21 representative of the period of time that rates would be
22 in effect, so that there is a match. That is the whole
23 reason, Commissioners, for a test year is to make it
24 representative of the time period the rates were going
25 to be in effect.

1 As I recall, in the Water Management Services
2 case, that -- amount of revenues that were included in
3 that test year were going to be representative of the
4 period of time that rates were going in -- to be in
5 effect for that utility.

6 **Q And you believe, in that case, that they did**
7 **the same type of projections that you're recommending**
8 **they do here?**

9 A I'm not recommending any specific projections
10 in this case. My testimony is strictly on the policy
11 and that, if there is testimony in this case which
12 establishes as a -- as a fact that there is going to be
13 significant growth and additional revenues and that
14 growth and those revenues are going to be achieved
15 during the period of time that rates are being set in
16 this case, that those revenues should be accounted for.

17 **Q Even if the pro forma projects were unrelated**
18 **to growth.**

19 A Even if the pro forma projects are unrelated
20 to growth, that's correct.

21 **Q In preparing your opinions that you rendered,**
22 **did you personally undertake any review of prior**
23 **Commission orders using projected versus historic test**
24 **years?**

25 A Is your question in relation to this case or

1 the Water Management Services?

2 Q That -- on this case.

3 A Oh, yes.

4 Q This opinion -- did you undertake any review
5 to -- to -- of prior cases where this Commission has
6 used -- for water and sewer -- used historic versus
7 projected rate cases?

8 A Yes.

9 Q And how many of the rate cases, since you left
10 the Commission ten years ago, did you find that there --
11 that water and sewer companies had used projected test
12 year?

13 A Well, let me be clear. I did not do an
14 exhaustive search to try to identify each and every
15 case. The research that was done identified two cases.
16 Both of those are described in my prefiled testimony.
17 It stood for the proposition of the matching principle.
18 And that was sufficient for my needs to -- to quote
19 those cases as precedent for the matching principle.

20 Q Okay. And you stated research that was
21 done -- who did that research? You didn't do it,
22 yourself?

23 A I think that it was jointly done by myself and
24 Mr. Wright. It may have been someone in my -- our legal
25 office also do some research. I'm not really -- really

1 sure. Most times, when that comes up, I either direct
2 someone in my office to do the research, find the cases.
3 And then I research the cases by reading the -- the
4 cases, sometimes jogging my own memory if it was a case
5 in which I actually served. So, it's a joint project.

6 And in this case, I think Mr. Wright may -- we
7 may have worked together in identifying those cases.

8 **Q Okay. So, isn't it true that there are cases**
9 **other than the ones you identified here, which the**
10 **utilities used -- water and sewer utilities used a**
11 **projected test year?**

12 A A projected test year or --

13 **Q A projected test year.**

14 A Okay. There may very well be. I -- I cannot
15 identify any at this point, sitting here today.

16 **Q All right. Now, in setting a -- if you used a**
17 **projected test year -- you're not suggesting, in this**
18 **case, that the utility should have projected -- done a**
19 **projected test year, are you?**

20 A I'm not suggesting that. I'm just saying that
21 the test year should be representative of the period in
22 which the rates should be set.

23 **Q And in the projected test year, am I correct**
24 **that what you do is you estimate what expenses and**
25 **revenues will be at some point in the future?**

1 A Yes. You project all aspects of the utility's
2 operations, including -- investments, expenses, and
3 revenues would be part of those projections.

4 **Q All right. And how does that differ from what**
5 **you're saying we should do in this case where there's a**
6 **historic test year with pro formas?**

7 A It's just a variation of the same tool, that
8 tool being a test year. The test year can be historic
9 or it can be projected. It's just a different way to
10 have reached the same result, which is that it's to set
11 rates that are representative of the operations of the
12 utility during that time that the rates were being
13 collected --

14 **Q Okay. And --**

15 A -- so that the rates would be fair, just, and
16 reasonable.

17 **Q And in this case you're suggesting that that**
18 **be September of 2019; is that correct? A year from when**
19 **the rates go into effect.**

20 A Well, we don't know exactly when the rates are
21 going to go into effect, but we do anticipate that it's
22 going to be shortly after this hearing is concluded and
23 the rates can be implemented, with proper notice.

24 So, we're looking at the latter part of -- of
25 this year. And those rates would be -- continue to be

1 collected until there's another rate proceeding.

2 Q And so, to get there, how do you -- how do you
3 get those amounts that are going to exist in October
4 of -- or September of this year?

5 MR. WRIGHT: Object to form. It's ambiguous.
6 Amounts of what?

7 Q How do you -- how do you -- how do you get to
8 what your revenues are going to be in September? How do
9 you get to that number?

10 A It requires a review of the utility's
11 operations, its anticipated growth, and what those
12 growth patterns would be, and what anticipated usage
13 would be from that growth, and whether there's going to
14 be changes in -- in cons- -- use of existing customers
15 as well.

16 It's just an assessment based upon the best
17 information available as to what that usage and, hence,
18 what those revenues are going to be in that future
19 period.

20 Q Okay. So, you -- it's your understanding that
21 the standard is -- based upon best information available
22 is a standard we use for determining whether -- the
23 standard the Commission uses for determining whether we
24 include a pro forma increase to the customers?

25 A Yes, you always use the best information

1 available. And really, the standard is, do you not make
2 any adjustment at all and rely upon strictly historic
3 data, knowing that that data, that historic data is not
4 going to be accurate either.

5 So, it's just a question of what information
6 do you think is the most reliable in establishing rates.
7 And if the -- if the evidence in this case shows that
8 there's going to be a difference from the historic
9 revenues and the revenues that are expected to be
10 generated in the future, that should be accounted for in
11 the best way possible to ensure that there is matching.

12 **Q But the standard that you suggest be used is**
13 **basically you're projecting it, correct?**

14 A Well, I'm not sure it's exactly the same as a
15 projection as would be done, say, for example, an
16 electric utility rate case, but it would still encompass
17 most of the same efforts. You're looking at what your
18 customer base is going to be in the future. And you're
19 making estimates of what that consumption for that
20 customer base is going to be.

21 So, you are projecting into the future, that
22 is correct. And then -- and the essential test is are
23 those projections going to be more reliable than simply
24 relying on historic numbers, which you know are going to
25 change.

1 Q And so, I presume that -- that to apply your
2 matching theory in a historic test year, you would have
3 to also increase all of the expenses similarly?

4 A Yes, to the extent that there are known-and-
5 measurable changes in expenses, those should be included
6 in the -- in the test year as well. I've not done an
7 exhaustive review of that either.

8 I would assume that those expenses have been
9 reviewed by the utility and, to the extent they are
10 known and measurable -- I heard Witness Swain use that
11 same terminology in her testimony in identifying changes
12 that she has made to the test year to try to get the
13 test year as representative as possible.

14 Q Okay. Now -- now, we've got a little bit --
15 now, known-and-measurable -- a minute ago, you said you
16 project what the customers are going to be. And now,
17 it's known and measurable.

18 Which standard do you apply in determining
19 what the revenues will be at a particular point in the
20 future? Is it known and measurable or is it an
21 estimate?

22 A Well, it's estimates based upon what is
23 anticipated to be -- to be known and measurable. We --
24 we don't have a crystal ball. So, we don't know for
25 sure, but we have to make the best determinations that

1 we can to try to be representative of the time period
2 that rates will be in effect.

3 Q You point out, in applying the matching
4 principle, that the Commission had applied the matching
5 principle in the last KWRU rate case, correct?

6 A Yes, sir.

7 Q Isn't it true that the pro forma projects in
8 the last rate case were growth-related?

9 A I -- I don't recall.

10 Q Do you recall whether it was expanding the
11 wastewater treatment plant?

12 A My understanding, that was an issue, yes.

13 Q And isn't it also true that, in that case, the
14 hearing was over almost a year and a half after the end
15 of the test year?

16 A I do recall that the -- that there was an
17 extended period of time beyond the end of the test year,
18 before there were final rates implemented.

19 Q Did you hear Ms. Swain's testimony about the
20 prime rate going up, which affected the -- the interest
21 on the loan?

22 MR. SAYLER: Objection. She did not -- that's
23 in her rebuttal testimony.

24 MR. FRIEDMAN: I apologize.

25 MR. SAYLER: She did not testify --

1 MR. FRIEDMAN: Never mind. I apologize.

2 BY MR. FRIEDMAN:

3 Q If there were -- if there were known-and-
4 measurable changes in the interest rate on the loan,
5 would you -- wouldn't you agree that that would have to
6 be considered in applying your matching theory?

7 MR. SAYLER: Objection. Beyond the scope of
8 his direct testimony.

9 MR. FRIEDMAN: He's talking about -- he
10 gave -- he's giving testimony about how you match
11 expenses and revenues. And what I'm quizzing him
12 on --

13 MR. SAYLER: -- is known and measurable; not
14 matching.

15 COMMISSIONER POLMANN: Continue,
16 Mr. Friedman -- yeah.

17 THE WITNESS: Is the question pending?

18 COMMISSIONER POLMANN: Yeah.

19 THE WITNESS: Okay. Can you repeat the
20 question, please?

21 BY MR. FRIEDMAN:

22 Q I'll try. In applying your matching theory to
23 a historic test year with projections, would you not
24 agree that, if there is a known change in a revenue -- I
25 mean, in an expense category, like an interest rate on

1 **a note, that that would be something that would have to**
2 **be considered, under your theory?**

3 A I will give you a qualified yes to that. I
4 understand that that's the potential issue that was
5 raised in Ms. Swain's rebuttal testimony.

6 I've not reviewed all of the circumstances --
7 what the requirements are on that loan and what triggers
8 what. And that would actually have to be done on a
9 factual basis. I've not engaged in that review.

10 But as a policy matter, to better match the
11 cost that exists with the revenues that exist during the
12 time that rates are to be in effect, if that interest-
13 rate change is going to take place, then, yes, I would
14 think that that matching should take place.

15 **Q In connection with your preparation for your**
16 **testimony in this case, did you review any recent**
17 **Commission decisions that utilized historic test years**
18 **with pro forma adjustments?**

19 A I did not review any cases beyond those cases
20 that I already had identified. It's different, the
21 matching principle. I referenced those same cases in
22 this testimony like I did in the previous KWRU rate
23 case.

24 **Q So, you didn't review the recently-completed**
25 **UIF rate case?**

1 A I did not.

2 Q Your son -- your son testified in that case,
3 did he not?

4 A He did -- I try not to --

5 Q Didn't interest you enough -- didn't interest
6 you enough to want to look at it?

7 A I try not to mix work and family. It usually
8 works best that way.

9 (Laughter.)

10 Q So, you don't know, as we sit here, whether
11 this Commission applied that matching principle in that
12 case or not?

13 A I really could -- I truly do not know.

14 Q So, other than the last KW rate case, can you
15 point to any case where the Commission has accepted your
16 matching theory when it's -- when the case is based upon
17 a historic test year with pro forma adjustments?

18 A Well, I referenced two cases in my testimony.
19 Those cases were filed on a historic basis. And the
20 Commission chose -- as the best tool to utilize to
21 ensure that there's proper matching was to actually go
22 to a projected test year.

23 We're not proposing that in this case, but we
24 do -- those cases stand for the proposition that they --
25 whatever test year is used needs to be matched as

1 closely as possible with what is expected to exist
2 during the time period that rates will be in effect.

3 Q But those were -- those were cases, as you
4 stated, based upon projected test years, and this case
5 is not, right?

6 A No, as I recall, those cases were based upon
7 historic test years and the Commission actually chose to
8 change those test years to a projected basis; that that
9 was determined to be the best tool to utilize to ensure
10 that there was proper matching.

11 Q But -- but that's not what even the County is
12 suggesting that we do in this case, correct?

13 A That's correct.

14 Q On Page 14 of your testimony, starting on --
15 Page 14, starting on Line 14, you give a couple of
16 hypotheticals that can exist when -- if your matching
17 theory isn't followed, correct?

18 A Yes.

19 Q You're not saying that any of those apply in
20 this case, though, are you?

21 A No. These were just examples just to
22 illustrate the concept.

23 Q So, am I correct that your testimony espousing
24 the matching theory -- you're not applying that theory
25 specifically to the facts of this case, are you?

1 A My testimony is strictly policy testimony. I
2 have a basic understanding of the facts in this case,
3 but I'm not really a fact witness.

4 Q So, you're not giving any opinion as to
5 which -- whether the -- the -- a specific level of
6 revenue is going to be known and measurable or not?

7 A No, I'm not testifying to that amount.

8 Q Or any level of expenses are going to be
9 proved to be known and measurable?

10 A That's correct. I'm not testifying to any
11 such amount.

12 Q On Page 19 of your prefiled testimony, Line 9,
13 am I correct that you're stating that CIAC that Monroe
14 County witnesses may testify that they believe will be
15 collected by KWRU within the year following the
16 implementation of the rates should be imputed?

17 A Yes, if it's necessary to give a matching with
18 the investment that is projected during that period.

19 Q So, again, you're -- you're projecting what
20 that CIAC is going to be at some point in the future?

21 A Yes, you're using the best information you
22 have available to you to make an informed assessment of
23 what that is to be, which is certainly better
24 information than completely ignoring it.

25 Q Okay. So, your projecting is like imputing

1 **it, right?**

2 A Well --

3 **Q You're assuming it's going to be there?**

4 A You look and make an assessment as to what you
5 think that number is going to be, and then you would
6 make an adjustment -- you can call that an imputation,
7 if you will -- but it would be an adjustment to the
8 calculation of the revenue requirements in the instant
9 proceeding.

10 **Q Based upon the projected CIAC?**

11 A The anticipated CIAC, yes, sir.

12 **Q Are you aware as to whether there's any
13 statute that prohibits that imputation?**

14 A Yeah, I know that there are some limitations
15 on that statute, in the statute that provides some
16 limitations. I don't think it rises to the level of
17 preventing this Commission from using its extensive
18 discretion and -- and judgment in making decisions that
19 would best set rates for a -- a test year in a rate
20 proceeding.

21 **Q So, you're saying that the Commission can do
22 what they want to do, notwithstanding a statutory
23 prohibition?**

24 A No, Mr. Friedman. You're, once again, trying
25 to put words in my mouth. That is --

1 **Q That's what I do.**

2 A -- not what I'm saying at all. What I'm
3 saying is that the Commission has great discretion when
4 it comes to setting rates and using test years and
5 making appropriate adjustments.

6 To get the rates right is something that the
7 Commission can utilize, and that it's my
8 interpretation -- here, again, not an attorney, as you
9 well know -- that that statutory provision does not
10 prohibit the Commission from exercising that discretion
11 in setting rates on -- on -- to get rates matched with
12 what's anticipated within the time period rates will be
13 in effect.

14 **Q And do you know if that -- that theory that**
15 **you've just espoused has been accepted by the**
16 **Commission?**

17 A It's my understanding that the -- the
18 Commission -- I think the Commission may have addressed
19 that to some extent in the last KWRU case. I'm not
20 exactly sure. I don't recall with specificity.

21 **Q You are aware, are you not, of the rule in --**
22 **for the statute in the 366 dealing with other utility**
23 **companies that authorizes -- specifically authorizes the**
24 **Commission to provide for adjustment of rates based upon**
25 **revenues and costs during the period that the new rates**

1 are in effect? Are you familiar with that terminology?

2 A If you could refer me to what you're reading
3 from, I might, but no, I don't recall, based upon what
4 you just recited there.

5 Q This is in the Order PSC-05-0624-PAA-WS that
6 states, "Witness Deason further specified that the
7 aforementioned policy was reflected in statute," the
8 aforementioned policy being including adjustments
9 subsequent to the test year.

10 Section 366 -- this is your testimony,
11 "Section 366.076(2), Florida Statutes authorizes the
12 Commission to adopt rules that provide for adjustments
13 of rates based upon revenues and costs during the period
14 new rates are in effect and for incremental adjustments
15 in rates for subsequent periods."

16 Do you recall that statute?

17 A I -- what you're reading from, I do not
18 recall, but if you could show that to me, it may jog my
19 memory, but you just sitting there, reciting those
20 words -- I don't recall the basis for that and what the
21 case was and what the circumstances were.

22 Q And so, you're not familiar with that
23 terminology in the statute?

24 MR. WRIGHT: Commissioner, I'm going to object
25 to the extent he -- he doesn't want to show the

1 witness what he's talking about. If he wants to
2 show --

3 MR. FRIEDMAN: I'm asking him whether he
4 recalls what the statute that he cited, apparently,
5 in some testimony says. I'm --

6 MR. WRIGHT: 13 years ago. Show him the
7 order.

8 COMMISSIONER POLMANN: Understood, Mr. Wright.
9 Mr. Friedman, you asked the question.

10 MR. FRIEDMAN: Yeah.

11 COMMISSIONER POLMANN: He said he would need
12 to understand it in the context -- you've asked the
13 question again with additional citation.

14 MR. FRIEDMAN: Right.

15 COMMISSIONER POLMANN: He's answered that
16 question. And on the table right now is -- is the
17 request for the full document. If you're able to
18 provide that to the witness, we can proceed.

19 MR. FRIEDMAN: I'll -- I'll be glad to ask
20 him.

21 COMMISSIONER POLMANN: In which case, I think
22 Counsel for the County --

23 MR. FRIEDMAN: All right. Well, let me -- let
24 me go at it a different way, then, because I didn't
25 make copies.

1 COMMISSIONER POLMANN: I understand.

2 MR. FRIEDMAN: So, let -- let me go at it a
3 different way.

4 COMMISSIONER POLMANN: Thank you.

5 BY MR. FRIEDMAN:

6 Q Do you know whether there is a -- a statute in
7 Section 366 -- you know what Chapter 367 is.

8 A I do.

9 Q Do you know if there's a provision in
10 Chapter 367 that authorizes the Commission to make
11 adjustments of rates based upon revenues and costs
12 during the period the new rates are in effect and for
13 incremental adjustments in rates for subsequent periods?

14 A You said 367. I think earlier in your
15 question, you mentioned something about your 366.

16 Q That's what I'm asking, in 36- -- Chapter
17 367 -- do you know of any provision that authorizes the
18 Commission to provide for adjustments of rates based
19 upon revenues and costs during periods new rates are in
20 effect and for incremental adjustments in rate-
21 subsequent periods?

22 Do you know of any statute that authorized the
23 Commission to do that, in the water and wastewater
24 section?

25 A No, I can't recite to that language in a

1 statute. But what I can tell you is that, within the
2 statute, the Commission has great discretion when it
3 comes to setting rates and that, historically, the
4 Commission, in exercising that discretion, has utilized
5 test years as a tool to make sure that the rates that
6 are set are reflective of what is anticipated to be the
7 rates -- I'm sorry -- the cost including investments and
8 expenses and revenues during that time period, and that
9 the Commission has utilized tools such as historic test
10 years with adjustments and projected test years to
11 result in rates that are fair, just, and reasonable.

12 **Q And you -- you say that that's what the**
13 **Commission does, but yet, you didn't even look at the**
14 **UIF rate case, which was the last full rate case with**
15 **the historic -- with pro forma adjustments in it?**

16 **COMMISSIONER POLMANN: That was asked and**
17 **answered.**

18 **MR. FRIEDMAN: He just said that -- that the**
19 **Commission does something this way. And so, I'm**
20 **just asking him: Why didn't you look at the last**
21 **time the Commission --**

22 **COMMISSIONER POLMANN: That was not your**
23 **question. You've asked him about the UIF rate --**
24 **rate case several times.**

25 **MR. FRIEDMAN: I asked him about it, but this**

1 is a specific point, then. And since he's making a
2 reference to the fact that this -- he's telling you
3 this is the way the Commission does it.

4 COMMISSIONER POLMANN: And he said that
5 several times already.

6 MR. FRIEDMAN: And what I'm saying is, well,
7 if they did it that way, why didn't you look at the
8 last rate case to see if they did --

9 COMMISSIONER POLMANN: That was not the form
10 of your question, Mr. Friedman.

11 MR. FRIEDMAN: All right. I apologize.

12 BY MR. FRIEDMAN:

13 **Q All right. It is -- it's true, is it not,**
14 **that you have not reviewed recent Commission orders**
15 **where there have been historic test years with pro forma**
16 **adjustments, correct?**

17 A I've not looked at any --

18 COMMISSIONER POLMANN: Sir, that was a yes-or-
19 no question.

20 THE WITNESS: Yeah. No, I have not.

21 MR. FRIEDMAN: Okay. I have nothing further.

22 COMMISSIONER POLMANN: Thank you,
23 Mr. Friedman.

24 MR. SAYLER: Mr. Chairman, there --

25 Mr. Friedman elicited some responses from the

1 util- -- from Mr. Deason that were adverse to
2 OPC's position. So, I have very, very few
3 questions, but if you will permit me, I will ask
4 them and move on.

5 COMMISSIONER POLMANN: You may proceed,
6 Mr. Sayler.

7 MR. SAYLER: Yes, sir.

8 EXAMINATION

9 BY MR. SAYLER:

10 Q You were extensively cross-examined by
11 Mr. Friedman about known-and-measurable and how that
12 should be concluded or considered by the Commission. Do
13 you recall that?

14 A Yes.

15 Q All right. At what point in the rate-case
16 process should known-and-measurable be introduced? As
17 soon as possible?

18 COMMISSIONER POLMANN: Are you leading the
19 witness?

20 MR. SAYLER: I'm cross-examining him. I'm
21 allowed to lead him.

22 MR. FRIEDMAN: Oh, that's not -- that's not
23 cross-examination.

24 COMMISSIONER POLMANN: That -- that didn't
25 sound proper to me.

1 BY MR. SAYLER:

2 Q So, when, in a rate-case process, should
3 known-and-measurable information be introduced?

4 A Ideally at the time of the minimum -- the
5 minimum filing requirements are filed.

6 Q And what happens if the known-and-measurable
7 changes the MFRs or the overall revenue requirement?
8 What should the Commission do or what did you see the
9 Commission do in the past?

10 COMMISSIONER POLMANN: That's a complicated
11 question. I don't understand it.

12 BY MR. SAYLER:

13 Q Would you like me to rephrase?

14 A Please.

15 Q All right. If a known-and-measurable comes in
16 after the MFRs are filed and changes them substantially
17 and increases the total revenue requirement, what has
18 the Commission done in the past?

19 A Well, that's -- it's hard to make a blanket
20 statement as to what the Commission has always done in
21 the past. What I think the Commission has done and what
22 I would like to hope that the Commission has done is use
23 its considerable discretion, once again, to make
24 informed judgments as to what is the best resolution to
25 that; once again, to try to obtain the goal of setting

1 rates that are just, fair, and reasonable, which are
2 reflective of the operations during the time that those
3 rates would be in effect.

4 I'm not sure that there is one nice, little
5 neat answer to your question that says the Commission
6 always does this or does that, other than reviewing the
7 information and exercising its discretion.

8 **Q And if that one side alleges is -- a known-**
9 **and-measurable is disputed, what should the Commission**
10 **do?**

11 A My answer is the same: It should utilize its
12 discretion to make an informed judgment as to what is
13 going to be the best resolution to try to ensure that
14 the rates are going to be just, fair, and reasonable for
15 both the utility and the customers.

16 MR. SAYLER: All right. Thank you.

17 COMMISSIONER POLMANN: Thank you, Mr. Sayler.
18 Staff?

19 MS. CRAWFORD: Staff's questions have already
20 been answered. So, we have nothing further of this
21 witness.

22 COMMISSIONER POLMANN: Thank you.
23 Commissioners?

24 No questions from the Commissioners.

25 MR. WRIGHT: Commissioner Polmann, I do have

1 some redirect.

2 COMMISSIONER POLMANN: Please proceed.

3 MR. WRIGHT: Thank you.

4 FURTHER EXAMINATION

5 BY MR. WRIGHT:

6 Q Mr. Deason, as a predicate to your redirect, I
7 would just like to ask you to look briefly -- you don't
8 have to say anything at this time -- to take 10 or 15
9 seconds, if you would, please, look at Page 13 of your
10 testimony, Lines 9 through 13.

11 A (Examining document.) Yes.

12 MR. WRIGHT: Commissioner Polmann, Mr. -- and
13 Mr. Deason, Mr. Friedman had asked Mr. Deason a
14 number of questions about projections in various
15 forms. I have a couple of predicate questions and
16 then I'll move on to some more -- more specifics as
17 to this case.

18 BY MR. WRIGHT:

19 Q Okay. Mr. Deason, when did the test year in
20 this case -- the test year proposed by the company in
21 this case end?

22 A On June 30, 2017.

23 Q How far into the future is the company asking
24 for future costs to be rolled back into the test year
25 via its proposed pro forma adjustments?

1 A My understanding is up to 24 months.

2 Q **Thank you.**

3 **You've been present for this entire hearing;**
4 **have you not?**

5 A Yes.

6 Q **Did you hear testimony yesterday about a**
7 **future office building?**

8 A Yes.

9 Q **Do you understand whether the cost of that**
10 **building is known?**

11 A My understanding is there is some discrepancy
12 as to what that cost is going to be and it's not known
13 at this point, but it is -- Commission is going to have
14 to exercise its discretion based upon the best
15 information available as to -- make a judgment as to
16 what information to use and what cost factor to use, if
17 any, to put in rate base.

18 Q **And is the cost of that building, thus, a**
19 **projection in this case?**

20 A You know, it depends on your definition of
21 "projection." Yes, to some extent, it is a projection,
22 but you know, it is based -- my understanding is that
23 there's some information available that is being used by
24 the utility to justify that.

25 Whether that rises to the level of complete

1 justification to include in rate base is, again,
2 something that the Commission will have to exercise its
3 discretion in making that determination.

4 Q Mr. Friedman asked you -- asked you a
5 question, how do you get to the number for revenues.

6 My question for you is: Who will determine
7 the allowable revenues in this case?

8 A Ultimately, the Commission will make that
9 determination.

10 Q And correspondingly, who will determine the
11 billing determinants or the sales units to be used in
12 setting rating rates in this case?

13 A Again, the Commission.

14 Q In terms of the -- applying the matching
15 principle, does it specifically matter whether future
16 costs are growth-related?

17 A No, it's not essential. It is growth-related
18 that rises it -- raises the issue to a much-greater
19 level to look at the revenues, but that, in and of
20 itself, does not mean -- I mean, there can be pro forma
21 adjustments that are not growth-related, and there still
22 could be growth that needs to be taken into account in
23 setting a just, fair, and reasonable rate.

24 For example, there could already be enough
25 capacity available within a system to provide service to

1 new customers. And that capacity maybe already is in
2 rate base or maybe part of it's in rate base and parts
3 of it used-and-useful adjustments.

4 But if it's anticipated that growth is going
5 to materialize and there's not a pro forma adjustment,
6 per se, that growth -- then, those revenues still should
7 be included to get a proper matching.

8 **Q When you said growth and revenues in that**
9 **context, what did you mean?**

10 A That there's going to be additional customers
11 that's -- there's going to be additional usage and
12 additional revenues that's going to take place
13 immediately following the test year.

14 MR. WRIGHT: Thank you.

15 That's all the redirect I have for Mr. Deason,
16 Commissioner Polmann.

17 COMMISSIONER POLMANN: Thank you, Mr. Wright.

18 MR. WRIGHT: I would move Exhibit 51 into the
19 record.

20 COMMISSIONER POLMANN: Exhibit 51 is in the
21 comprehensive list.

22 MS. MAPP: Yes.

23 COMMISSIONER POLMANN: And without comment,
24 we'll move it -- Mr. Deason's exhibit
25 represented as No. 51, into the record at this

1 time.

2 MR. WRIGHT: Thank you very much.

3 (Whereupon, Exhibit No. 51 was admitted into
4 the record.)

5 MR. WRIGHT: May Mr. Deason be excused?

6 COMMISSIONER POLMANN: We do not have him on
7 the list for any further -- so, your witness is
8 excused.

9 Thank you, Mr. Deason.

10 THE WITNESS: Thank you.

11 MR. WRIGHT: Thank you.

12 And Commissioner Polmann, I -- I apologize for
13 the request that I must now make to you, but I was
14 misinformed as to the length of cross that was
15 expected for Mr. Deason. Mr. Wilson, who will be
16 our next witness, has a medical appointment in Key
17 Largo this afternoon that requires him to leave
18 here by 1:45.

19 Unfortunately, if -- I think, if we take a
20 lunch break, he would not be able to make that.
21 So, I would ask that we be allowed to put
22 Mr. Wilson up now, conduct his cross, and get him
23 on the road to his medical appointment.

24 COMMISSIONER POLMANN: I was going to
25 suggest or ask how much time we needed for

1 Mr. Wilson, if we proceed and, hopefully, be done
2 by 1:00 with Mr. Wilson. Is that a reasonable
3 projection?

4 MR. WRIGHT: I think you had better ask my
5 colleague, Mr. Smith, but from everything I -- I
6 know, that is a reasonable expectation.

7 COMMISSIONER POLMANN: I'm not going to ask
8 Mr. Smith. We're going to proceed with Mr. Wilson,
9 Mr. Wright, as far as your --

10 MR. WRIGHT: Thank you. Thank you.

11 COMMISSIONER POLMANN: Is that -- is that your
12 witness or --

13 MR. WRIGHT: That's -- that is my witness and
14 that is my request that I --

15 COMMISSIONER POLMANN: I was just looking at
16 this all --

17 MR. WRIGHT: Greatly appreciate --

18 COMMISSIONER POLMANN: Yes, sir.

19 MR. WRIGHT: -- your indulgence.

20 COMMISSIONER POLMANN: Why don't you --

21 MR. WRIGHT: Monroe County calls Kevin J.
22 Wilson, P.E., to the stand.

23 COMMISSIONER POLMANN: Anybody who wants a
24 break, you can leave the room at your own peril.

25 MR. WRIGHT: Commissioner Polmann, I --

1 COMMISSIONER POLMANN: Okay. Unless it's
2 important, keep going.

3 MR. WRIGHT: It is procedurally important,
4 sir --

5 COMMISSIONER POLMANN: Yes.

6 MR. WRIGHT: I previously gave to the staff
7 copies of an errata sheet --

8 COMMISSIONER POLMANN: Yes.

9 MR. WRIGHT: -- to Mr. Wilson's testimony and
10 also copies of his revised exhibits. The revised
11 exhibits were previously distributed to -- to all
12 parties by electronic mail. And I have complete
13 copies, including a large copy of the one that is,
14 otherwise, illegible.

15 COMMISSIONER POLMANN: Okay. So, we're --

16 MR. WRIGHT: And staff and I went over --
17 discussion with staff yesterday -- those now.

18 COMMISSIONER POLMANN: We're distributing --

19 MR. WRIGHT: I --

20 COMMISSIONER POLMANN: -- errata sheets and
21 the revised exhibits. Thank you.

22 MR. WRIGHT: Thank you, Commissioner, and
23 thank you, staff.

24 COMMISSIONER POLMANN: If you're ready, please
25 proceed.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

EXAMINATION

BY MR. WRIGHT:

Q Are you ready, Mr. Wilson?

A I am.

Q Good afternoon, and thank you for being here.

Are you the same Kevin G. Wilson who prepared and caused to be filed in this test- -- in this proceeding direct testimony consisting of 31 pages?

A I am.

Q Thank you.

Procedural point, you previously took the oath to tell the truth; did you not?

A I did.

Q Thank you.

Do you have changes or corrections to your testimony?

A A number of them.

MR. WRIGHT: Thank you.

Commissioner Polmann.

COMMISSIONER POLMANN: Yes.

MR. WRIGHT: Some discovery that -- that came in necessitated some numeric changes to Mr. Wilson's testimony. Those are reflected in the revised exhibits. They are also reflected his -- in his errata sheet.

1 If you wish, or if the parties wish,
2 Mr. Wilson can go through all of the errata, line
3 by line, page by page; otherwise, if we can accept
4 the errata sheet, we can dispense with that
5 endeavor.

6 COMMISSIONER POLMANN: Does the errata sheet
7 identify all of the changes, and are those changes
8 reflected in the additional pages that were just
9 provided to us? Or are these separate?

10 MR. WRIGHT: The errata sheet, itself,
11 reflects all of the changes to the testimony,
12 itself. The numeric changes are also reflected in
13 his revised exhibits, but those are -- are covered
14 separately in those revised exhibits.

15 So, if right now -- we're on his testimony.
16 If we can accept -- if every -- all the parties can
17 accept the errata sheet, then, I don't have to ask
18 him to go through page by page --

19 COMMISSIONER POLMANN: Yes.

20 MR. WRIGHT: -- line by line to identify the
21 changes. Then, I can ask him the next two
22 questions and move it into the record.

23 COMMISSIONER POLMANN: Any changes with the
24 errata sheet?

25 MR. SMITH: There's only one issue is that it

1 adds a line to Stock Island Marina Village, adding
2 another meter. And if the -- the resolution is --
3 what I would have done with rebuttal would be ask a
4 question of Mr. Johnson regarding Stock Island
5 Marina Village regarding meters that are on-site.

6 So, it's -- it's a material change that can be
7 resolved by simply asking a couple of questions on
8 top of the prefiled rebuttal testimony of Chris
9 Johnson.

10 Beyond that, I have no issue with the errata
11 sheet being entered.

12 COMMISSIONER POLMANN: Okay. Staff --

13 MR. WRIGHT: Can I -- may -- may I just ask?

14 COMMISSIONER POLMANN: Yes.

15 MR. WRIGHT: Where -- where -- where in the
16 errata are -- is the -- is the additional meter to
17 which you're referring?

18 MR. SMITH: So, originally, you just had one
19 meter, which was the 7001 Shrimp Road.

20 COMMISSIONER POLMANN: On what line --

21 MR. SMITH: And --

22 (Simultaneous speakers.)

23 MR. WRIGHT: Can you tell me the page and line
24 number on the errata sheet?

25 MR. SMITH: So, it's actually revised

1 Exhibit 10.

2 MR. WRIGHT: It's in the exhibit.

3 MR. SMITH: Yeah, the revised --

4 COMMISSIONER POLMANN: We're looking at the
5 errata sheet --

6 MR. WRIGHT: We're just on the testimony.

7 MR. SMITH: I apologize.

8 Just -- the revised Exhibit 10 that he's
9 adding as part of the errata.

10 MR. WRIGHT: And -- and with that
11 understanding, I don't have any objection to his
12 asking Mr. Johnson a couple of additional questions
13 about the additional meter.

14 MR. SMITH: Yeah.

15 COMMISSIONER POLMANN: That's fine.

16 MR. WRIGHT: And we're -- but we're still on
17 the testimony.

18 COMMISSIONER POLMANN: Yes. Okay.

19 Office of Public Counsel is --

20 MR. WRIGHT: They've waived.

21 COMMISSIONER POLMANN: They -- they're not at
22 the table. We're going to proceed.

23 BY MR. WRIGHT:

24 Q Okay. Mr. Wilson.

25 A Yes, sir.

1 Q With the changes and corrections set forth in
2 the errata sheet that has, now, been distributed, do you
3 have any further changes or corrections to your
4 testimony?

5 A No, sir.

6 Q And do you adopt this -- do you adopt this as
7 your sworn testimony to the Florida Public Service
8 Commission in this proceeding?

9 A I do.

10 MR. WRIGHT: Thank you.

11 Commissioner Polmann, I request that
12 Mr. Wilson's testimony, with the errata sheet,
13 be -- with the errata, as noted, be entered into
14 the record as though read.

15 MS. HELTON: Mr. Chairman, if we could just
16 mark the errata sheet so that we all -- the record
17 would be clear. I think that would be
18 Exhibit No. 128.

19 COMMISSIONER POLMANN: We have Exhibit 128,
20 that -- we'll number the errata sheet for Witness
21 Kevin G. Wilson, P.E., which is a table. It
22 provides page, line number, identifies the original
23 document and the revision. So, the short title is
24 "Errata Sheet, Kevin G. Wilson, Prefiled
25 Testimony."

1 MR. WRIGHT: Thank you, Commissioner. And
2 thank -- thank you, staff, for cleaning that up.

3 COMMISSIONER POLMANN: Okay.

4 (Whereupon, Exhibit No. 128 was marked for
5 identification.)

6 BY MR. WRIGHT:

7 **Q And Mr. Wilson, did you also prepare and cause**
8 **to be filed in this case ten exhibits numbered on your**
9 **testimony as KGW-1 through KGW-10?**

10 A Yes, I did.

11 **Q And is it correct that you do have some**
12 **changes, corrections to KGW-9 and KGW-10?**

13 A I do.

14 MR. WRIGHT: Okay. Commissioner, I'll note,
15 at the time being, those have been distributed to
16 all parties, I think everybody in this room has,
17 now, also received hard copies of those. And I
18 would note that they have been marked for
19 identification as 39 through 48 on the
20 comprehensive exhibit list.

21 I may have done this already, but I want to
22 make sure I do this right. I request that
23 Mr. Wilson's prefiled testimony with the errata be
24 entered into the record as though read.

25 COMMISSIONER POLMANN: At this time, we --

1 we'll enter into the record prefiled direct
2 testimony of Kevin G. Wilson, P.E., as though read.

3 MR. WRIGHT: Thank you, sir.

4 COMMISSIONER POLMANN: With the errata sheet.

5 MR. WRIGHT: Thank you, sir.

6 (Prefiled direct testimony and errata sheet
7 inserted into the record as though read.)

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

ERRATA SHEET

WITNESS: Kevin G. Wilson, P.E.

The following table contains the corrected errata in his prefilled testimony.

Page	Line	Original	Revision
8	19	three	two
8 - 9	21 - 1	and the Gerald Adams School on North Stock Island	Delete this portion of the sentence
9	4	10.55 Million	9.26 Million
9	7	10.55 Million	9.26 Million
9	8	6 percent	4.1 percent
24	2	three	two
24	5	LLC), the	LLC), and the
24	6-7	, and an expansion of the Gerald Adams School	Delete this portion of the sentence
24	7	three	two
24	8	12	0.8
24	9	5.08 Million	3.83 Million
25	4	ERCs, upon	ERCs, an increase of 0.78 ERC from the current 6.5 ERCs, upon
25	5-9	Finally, I have confirmed from the Monroe County School Board's Executive Director for Operations & Planning, Pat Lafere, that the Gerald Adams School expansion will be complete by December 2018. Accordingly, I have used only 6 months of the School's additional usage in my Exhibit KGW-9.	Delete both sentences in their entirety.
25	15	three	two
26	8	4.45 Million	4.53 Million
26	12	February	March
26	13	usage was	usage for the Oceanside Investors hotel was
26	14	February	March
26	14	4,026,500 gallons	4,581,778 gallons
26	15	6,039,750 gallons	6,109,037 gallons
26	16	2.54 Million	2.61 Million
26	18	1.91 Million	1.92 Million
27	1	1,770,696 gallons	2,005,751 gallons
27	1	February	March
27	2	2,656,044 gallons	2,674,335 gallons
27	3	1.91 Million	1.92 Million
27	6	0.37 Million	0.24 Million
31	7	10.55 Million	9.26 Million

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20170141-SU,

KW RESORT UTILITIES CORPORATION RATE CASE

DIRECT TESTIMONY OF KEVIN G. WILSON, P.E.

March 14, 2018

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

2 A. My name is Kevin G. Wilson, and my business address is 1100 Simonton St.,
3 Key West, FL 33040. I am employed by Monroe County as Assistant County
4 Administrator in charge of Public Works and Engineering. I also serve as the
5 County Engineer.

6

7 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?**

8 A. I am testifying on behalf of the Board of County Commissioners of Monroe
9 County, Florida. To the best of my knowledge, Monroe County is the largest
10 customer of K W Resort Utilities Corp. ("KWRU"), the utility seeking rate
11 increases in this proceeding.

12

13 **Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.**

14 A. I have a Bachelor's Degree in Engineering from Carnegie Mellon University. A
15 copy of my resume' is provided as Exhibit KGW-1 to my testimony.

1 I have worked for Monroe County since July 2006. I was promoted into my
2 current position of Assistant County Administrator in charge of Public Works and
3 Engineering in 2015. In my current position, I am responsible for oversight of the
4 following areas: Wastewater, specifically including oversight of design,
5 construction, and funding of the centralized wastewater system in the Florida
6 Keys that is owned by Monroe County and operated by the Florida Keys
7 Aqueduct Authority; Project Management; Engineering, including construction
8 and maintenance of Roads and Bridges; Solid Waste Programs; Solid Waste
9 Operations; and Fleet Management. I have responsibility for overall
10 management of all capital construction for the County, which includes buildings,
11 sewers, roads and bridges. I oversee a staff of approximately 155 people and
12 supervise annual budgets in the amount of approximately \$40 million in
13 operation expenses and \$90 million in capital expenditures. I am also the senior
14 engineering manager for the County (the County Engineer). Prior to my current
15 position, from October 2011 until April 2015, I was a Division Director for
16 Monroe County in charge of Public Works and Engineering. My responsibilities
17 and duties were essentially the same then as in my current position. Prior to
18 October 2011, I was the Director of Project Management and Engineering. My
19 responsibilities and duties in that capacity included oversight of all County road
20 and building construction.

1 From 2003 to 2005, I was a contract employee with the Federal Government
2 working with the U.S. Army. I am also a retired Lieutenant Colonel with the
3 Army Reserve.

4 Prior to that, from approximately 1994 to 2003 I worked with two companies
5 based in Austria. In that capacity, I developed and executed engineering
6 projects, including nuclear engineering and other power generation and
7 environmental cleanup projects, in the Middle East, Western Europe, Eastern
8 Europe and the former Soviet bloc countries, including Russia.

9 Prior to that, I worked with a company in Korea, and prior to that time, I
10 worked with Procter & Gamble for approximately 17 years.

11

12 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE FLORIDA PUBLIC**
13 **SERVICE COMMISSION (“COMMISSION” OR “PSC”)?**

14 A. Yes. I testified on behalf of the Board of County Commissioners of Monroe
15 County in KWRU’s last rate case, Florida Public Service Commission Docket No.
16 150071-SU.

17

18 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN ANY ECONOMIC,**
19 **ENVIRONMENTAL, LAND USE, OR SIMILAR REGULATORY OR PERMITTING**
20 **PROCEEDINGS RELATING TO WATER SERVICE, WASTEWATER OR SEWAGE**
21 **TREATMENT SERVICE, OR THE PROVISION OF REUSE WATER SERVICE?**

1 A. Yes. I have previously testified in four (4) cases regarding wastewater service in
 2 Monroe County, including depositions, administrative hearings, and circuit court
 3 trials. A list of these cases is attached as Exhibit KGW-2.

4

5 **Q. DO YOU HOLD ANY PROFESSIONAL CERTIFICATIONS?**

6 A. I am a Registered Professional Engineer, licensed to practice in Florida and Ohio.

7

8 **Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?**

9 A. Yes, I am sponsoring the following exhibits:

KGW-1	Resumé of Kevin G. Wilson, P.E.
KGW-2	List of prior testimonies
KGW-3	Aerial Photo of Stock Island
KGW-4	South Stock Island 2010 Census Information
KGW-5	2010-2014 American Community Survey, 5 Year Estimates
KGW-6	2000 Monroe County Sanitary Master Wastewater Plan – “Hot Spot” Excerpt, Exh. 6-1
KGW-7	Monroe County Code, Section 20-102
KGW-8	Excerpt from KWRU Stock Island WWTP, Public Utility Appraisal Report, Effective Date: December 31, 2014, Report Date January 2015
KGW-9	Projected Future 2018-2019 Sewer Demands (KWRU)
KGW-10	Actual Usage Data for Stock Island Marina Village and Oceanside Properties, 2016-2018

10

1 **Q. PLEASE SUMMARIZE YOUR DUTIES AND RESPONSIBILITIES IN YOUR CURRENT**
2 **POSITION AS THEY RELATE TO WASTEWATER SERVICE ON STOCK ISLAND.**
3 **PLEASE INCLUDE A SUMMARY OF ANY PRIOR EXPERIENCE THAT ALSO**
4 **INVOLVED DUTIES AND RESPONSIBILITY WITH RESPECT TO WASTEWATER**
5 **SERVICE ON STOCK ISLAND.**

6 A. I have worked for Monroe County since July 2006. With regard to
7 wastewater service on Stock Island, in my current position, I am responsible for
8 oversight of wastewater collection and treatment, specifically including oversight
9 of design, construction, and funding of the centralized wastewater systems in
10 the Florida Keys that are owned by Monroe County and operated by the Florida
11 Keys Aqueduct Authority. My duties and responsibilities as Monroe County's
12 Assistant County Administrator necessarily include being familiar with the history
13 of the County's contractual relationship with K W Resort Utilities Corp. ("KWRU")
14 dating back to 2001, when the County entered into a certain "Utility Agreement"
15 with KWRU, pursuant to which the County is KWRU's customer for wastewater
16 treatment service for County facilities on Stock Island. In particular, I am also
17 familiar with the certain "Capacity Reservation and Infrastructure Contract"
18 dated July 31, 2002, between the County and KWRU. In that Agreement, the
19 County agreed to pay KWRU up to \$4.6 million in order to enable KWRU to
20 construct the wastewater collection system on South Stock Island, in return for
21 which the County received 1,500 Equivalent Dwelling Units ("EDUs," also

1 referred to as Equivalent Residential Connections or “ERCs”) of reserved
2 capacity on KWRU’s system. I am also familiar with subsequent agreements
3 between the County and KWRU. In addition, I am familiar with the County’s
4 payment of KWRU’s rates as a customer for wastewater treatment services and
5 reuse water service on North and South Stock Island. In addition, my duties
6 necessarily include being familiar with economic and population growth, potable
7 water and wastewater treatment requirements for existing and new residential
8 and commercial establishments, and related matters throughout the County,
9 including on North and South Stock Island.

10
11 **PURPOSE AND SUMMARY OF TESTIMONY**

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

13 A. My testimony covers three areas. First, my testimony provides factual
14 information regarding the numbers of existing residential, commercial, and
15 industrial water users on Stock Island that are required to connect to KWRU’s
16 system as soon as possible by statutes and regulations, and also regarding the
17 projected numbers of new customers that are likely to connect to KWRU’s
18 system within the first twelve months following the effective date of any new
19 rates that the Commission may approve for KWRU in this proceeding. Based on
20 projections of new customers, based on firm information regarding such new
21 customers, including actual usage data for certain major developments, and

1 using standard usage amounts for residential and general service customers, I
2 provide information regarding the number of additional gallons of wastewater
3 treatment service that KWRU can reasonably be projected to provide to the
4 customers who connect to its system over this time period. For clarity, the time
5 period to which I refer is the twelve months from July 1, 2018 through June 30,
6 2019; this time period is conservatively assumed to be representative of the first
7 twelve months that any new rates for KWRU would be in effect. I say
8 "conservative" because it appears that any new rates will not be effective before
9 August 2018, such that there would likely be additional growth in sales and
10 revenues, beyond what my projections here show, in the first year in which the
11 new rates will be in effect.

12 Second, my testimony explains the requirements for all existing and new
13 water users on Stock Island to connect to the wastewater treatment system of
14 KWRU as soon as practicable. These requirements are mandated by Florida
15 Statutes and also by regulations of Monroe County and the Florida Department
16 of Environmental Protection ("FDEP").

17 Third, my testimony describes the history of the contractual relationships
18 between KWRU and Monroe County, and explains the payment of contributions
19 in aid of construction, sometimes also called capacity reservation fees, to KWRU.
20
21

1 **Q. PLEASE SUMMARIZE THE MAIN CONCLUSIONS OF YOUR TESTIMONY.**

2 A. The main purpose of my testimony is to provide reliable information regarding
3 the amount of wastewater treatment service that KWRU will experience when
4 new rates are in effect, including numbers of additional customers beyond those
5 used by KWRU in its proposed test year ending June 30, 2017. This information
6 is important to enable the Commission to set rates that will match the additional
7 investment and operating costs outside the 2016-2017 test year that KWRU has
8 requested be included in its revenue requirements.

9 Based on my knowledge of the applicable statutory and regulatory
10 requirements, my knowledge of the numbers of existing residential units and
11 general service establishments (commercial units), and also on my knowledge of
12 the expected new residential and general service establishments that have been
13 permitted for occupancy and that I expect to be permitted for occupancy
14 between now (March 2018) and the July 2018-June 2019 period that I analyzed
15 as explained above, KWRU has connected 62 existing residential units and is
16 projected to connect an additional four (4) residential units to its system as a
17 whole. KWRU will also add two new general service establishments (with a total
18 of three meters) to its system by July 2018, the County's Bernstein Park and the
19 new Florida Keys SPCA (Animal Shelter) facility. Additionally, three other general
20 service establishments, the Oceanside Investors property and the Stock Island
21 Marina Village on South Stock Island, and the Gerald Adams School on North

1 Stock Island, will have significant additional flows in the July 2018-June 2019
2 period, over and above what they experienced in KWRU's test year. Adding all of
3 these projected wastewater treatment demands or requirements, I estimate
4 that KWRU will treat, and charge for, approximately 10.55 Million additional
5 gallons of wastewater treatment service in the twelve months from July 1, 2018
6 through June 30, 2019, which is approximately the first year after the new rates
7 approved in this proceeding, if any, would be in effect. This 10.55 Million gallons
8 per year represents an increase of approximately 6 percent over KWRU's test
9 year gallons for Residential and General Service wastewater treatment.

10
11 **STOCK ISLAND AND KWRU'S SYSTEM**

12 **Q. PLEASE DESCRIBE STOCK ISLAND, ITS POPULATION AND DEMOGRAPHIC**
13 **CHARACTERISTICS, ITS STATE OF DEVELOPMENT, DEVELOPMENT PROSPECTS,**
14 **AND OTHER CHARACTERISTICS THAT ARE PERTINENT TO THE DEMAND FOR**
15 **WASTEWATER TREATMENT SERVICE ON STOCK ISLAND.**

16 **A.** Stock Island is an island immediately east or northeast of Key West as one heads
17 toward mainland Florida. Please see Exhibit KGW-3 to my testimony, which is an
18 aerial photograph of Stock Island.

19 U.S. 1 divides Stock Island into what are commonly referred to as "North
20 Stock Island" and "South Stock Island." North Stock Island is part of the City of
21 Key West, and is generally characterized by upscale development, including a

1 golf course at the Key West Golf Club, and institutional facilities. The
2 institutional facilities include Florida Keys Community College, the Lower Keys
3 Medical Center, the Tennessee Williams Theatre, the Monroe County Sheriff's
4 office, jail and Juvenile Detention Center, and others.

5 South Stock Island, on the other hand, is part of unincorporated Monroe
6 County. South Stock Island is also a "census-designated place" ("CDP") for which
7 the U.S. Census Bureau collects and reports demographic data. The population
8 of the Stock Island CDP was 3,807 in the 2010 U.S. Census, with 1,658 housing
9 units at that time.

10 In comparison to North Stock Island, residences on South Stock Island have
11 until recently generally been small single family homes, mobile homes,
12 manufactured housing, apartments, condominiums, and marinas. Each boat slip
13 at most or all of the marinas is required to have sewerage service. The
14 commercial or general service facilities on South Stock Island include fishing and
15 other maritime businesses, general commercial and light industrial
16 establishments, including KWRU's wastewater treatment plant, boat repair and
17 other maritime industrial facilities, and similar businesses. Although it may not
18 be clear from the aerial photo in Exhibit KGW-3, many of the single family
19 residences on South Stock Island are very small, which is indicative of the
20 generally lower-income status of most of the population on South Stock Island.

1 Exhibit KGW-4 to my testimony is information from the 2010 U.S. Census
2 data. The column marked "SSI & Key Haven" shows population information for
3 the entire census tract 9718, which includes both South Stock Island and Key
4 Haven. Key Haven is an upscale community north of South Stock Island (across
5 U.S. 1) and slightly to the east. The four columns on the right show the
6 breakdown between South Stock Island and Key Haven. The chart shows that
7 South Stock Island has a much higher occupancy rate and a much higher
8 percentage of renters than the rest of the Lower Keys. (The Lower Keys are
9 those islands from Key West to Big Pine Key, inclusive; the Keys northeast from
10 Big Pine are referred to as the Middle Keys.)

11 Attached as Exhibit KGW-5 to my testimony is information about the Stock
12 Island CDP from the 2010-2014 American Community Survey, 5 Year Estimates.
13 The median household income on South Stock Island is \$41,799 and the median
14 housing value is \$236,700. On South Stock Island, 17.2% of the population lives
15 below the poverty level, compared to 12.6% in the City of Key West and 13.9% in
16 Monroe County as a whole. By way of contrast, the median household income in
17 the City of Key West is \$54,306, and the median housing value is \$430,900 (82%
18 higher than the Stock Island CDP).

19
20
21

1 **Q. PLEASE DESCRIBE THE IMPACTS OF HURRICANE IRMA ON STOCK ISLAND.**

2 A. Stock Island received little damage from the storm beyond increased vegetative
3 debris. County facilities were up and running soon after the storm. The
4 corrections facilities on North Stock Island were evacuated during the storm as a
5 precaution when it appeared the landfall was heading for Key West. The water
6 supply system damages were primarily in the areas north/east of Stock Island
7 due largely to tree roots or home damage resulting in uncontrolled fresh water
8 loss from the system. Sewer systems in the hardest hit areas including the
9 wastewater treatment plant at the point of landfall suffered minimal damage
10 and continued to operate. There was minimal damage to the infrastructure on
11 Stock Island with the exception of power interruptions which were restored very
12 quickly.

13

14 **Q. PLEASE DESCRIBE MONROE COUNTY'S FACILITIES ON STOCK ISLAND AND THEIR**
15 **USAGE OF WASTEWATER TREATMENT SERVICE AND REUSE WATER PROVIDED**
16 **BY KWRU.**

17 A. To the best of my knowledge, Monroe County is KWRU's largest customer by
18 volume of wastewater treatment service purchased and by revenues. Major
19 County facilities served by KWRU include the Monroe County Sheriff's Office;
20 Monroe County Detention Center (commonly known as the Monroe County Jail)
21 and Juvenile Detention Center; Bayshore Manor (a County-owned and operated

1 Assisted Living Facility); the Stock Island fire station, and the Society for the
2 Prevention of Cruelty to Animals (SPCA) animal shelter. The Monroe County
3 School District also operates the Gerald Adams Elementary School on North
4 Stock Island.

5 In addition to wastewater service, Monroe County also purchases substantial
6 amounts of reuse water from KWRU, primarily for use at the Monroe County Jail
7 and Juvenile Detention Center.

8

9 **Q. PLEASE DESCRIBE THE NATURE OF THE COUNTY'S CONTRACTUAL**
10 **RELATIONSHIPS WITH KWRU.**

11 A. Beginning in 2001, with the 2001 Utility Agreement, the County entered into a
12 series of contracts with KWRU to pay for design and construction of KWRU's
13 wastewater system on South Stock Island. KWRU is and at all times relevant has
14 been the only wastewater utility serving South Stock Island. The County's
15 objective in entering into these agreements was to expedite connection of
16 properties to the central wastewater system, in order to comply with Chapter
17 99-395, Laws of Florida. Section 6 of that law required all sewage treatment
18 and disposal facilities and all onsite sewage treatment and disposal systems
19 (defined to include cesspits and septic tanks) in Monroe County to cease
20 discharge and comply with applicable FDEP or Florida Department of Health
21 ("FDOH") treatment requirements by **June 30, 2010**. Ch. 99-395 was

1 subsequently codified in Section 403.086 of the Florida Statutes. As of 2010,
2 that statute, as amended since 1999, required – and *requires* – all wastewater
3 collection, treatment and disposal facilities in any portion of the County
4 designated as a “hot spot” in the County’s Sanitary Master Wastewater Plan
5 dated June 2000 to be completed by **December 31, 2015**. A copy of Exhibit 6-1
6 from the Sanitary Master Wastewater Plan showing Stock Island to be
7 designated as a “hot spot” is attached to this testimony as Exhibit KGW-6. Thus,
8 the County’s objective in entering into the series of contracts with KWRU was to
9 facilitate the completion of the wastewater system and connection of
10 properties within the KWRU’s boundaries to its system.

11 In 2002, the County entered into a Capacity Reservation and Infrastructure
12 Contract with KWRU, dated July 31, 2002 (the “2002 CRI Contract”). In this
13 agreement, the County agreed to pay up to \$4.6 million to KWRU in monthly
14 installments. In return, the County received 1,500 Equivalent Dwelling Units of
15 capacity. The agreement also provided that KWRU would collect capacity
16 reservation fees from the customers who were signing up, at \$2,700 per
17 capacity reservation fee (“CRF,” also commonly referred to as Service
18 Availability Charges and Plant Capacity Charges), and would turn the CRFs over
19 to the County to repay the funds.

20 However, the 2002 CRI Contract also provides that KWRU agreed to convert
21 its system to AWT standards by January 1, 2007 if requested, and if it did so, the

1 cost of conversion would be paid by allowing KWRU to keep \$600 out of each
2 CRF that it collected. On December 18, 2002, the County passed a resolution
3 officially requesting the utility to convert to AWT. On June 21, 2006, the Board
4 of County Commissioners approved the payment of \$707,000 to KWRU as a
5 lump sum payment, in lieu of requiring KWRU to take \$600 out of each CRF as it
6 was collected. The \$707,000 was the remainder of the \$900,000 (\$600 per each
7 of the 1,500 EDUs) which had, at the time not been collected from the
8 customers by the utility.

9 In addition to the above, on January 15, 2003, the County entered into an
10 agreement whereby it paid KWRU a further \$134,822 as additional financial
11 support for construction of the South Stock Island sewer system.

12 Also, in April 2013, KWRU filed a Complaint before the Public Service
13 Commission (Docket No. 130086-SU), in which KWRU requested a declaratory
14 statement regarding whether KWRU was entitled to collect capacity reservation
15 fees from the County for 220.27 ERCs in excess capacity used by the County, as
16 provided in the 2001 agreement, and whether KWRU was entitled to collect
17 construction costs (that had been disallowed by the County's Clerk). I was
18 actively involved in the case. In December 2013, the parties agreed to settle the
19 case. The County paid \$500,000 to KWRU to settle claims filed by KWRU in
20 Public Service Commission Docket No. 130086-SU. In the settlement, the

1 parties agreed that the payment included payment for 220.27 additional
2 Equivalent Residential Connections.

3 Including all of the above, our records show that the County has paid a total
4 of \$6.3 million to KWRU in capacity reservation fees and construction costs.

5

6 **Q. PLEASE SUMMARIZE YOUR KNOWLEDGE OF KWRU'S SYSTEM ON STOCK**
7 **ISLAND.**

8 A. I'm most familiar with the vacuum collection system commissioned in 2002 by
9 the County but have some general knowledge about the layout and components
10 of KWRU's entire system. The KWRU system now includes total treatment
11 capacity of 849,000 gallons per day (0.849 MGD), located on Front Street on
12 South Stock Island, collection systems on both North and South Stock Island, and
13 a water reuse supply system from the wastewater treatment plant to reuse
14 water customers. The collection system on South Stock Island utilizes gravity,
15 vacuum, and force mains. The gravity collection system on South Stock Island is
16 comprised partially of the neighborhood known as Lincoln Gardens plus several
17 other streets on the northwest side of South Stock Island. The vacuum system
18 serves most of the northeast and southeast portions of South Stock
19 Island. Several properties on South Stock Island are served by force mains
20 including properties known as Boyd's Campground, Roy's Trailer Park, Sloan's
21 Landing, and several other properties. A force main system delivers wastewater

1 from North Stock Island to the treatment plant. The water reuse system
2 provides treated reclaimed water to several users on North Stock Island,
3 including the Monroe County Jail and the golf course.

4

5 **Q. HOW MANY EXISTING RESIDENTIAL UNITS ARE THERE ON STOCK ISLAND? TO**
6 **THE EXTENT POSSIBLE, PLEASE IDENTIFY THE DIFFERENT TYPES OF RESIDENTIAL**
7 **UNITS ON STOCK ISLAND.**

8

A. All of the KWRU customers receive their water from Florida Keys Aqueduct
9 Authority (FKAA). FKAA reports 1,857 total accounts on Stock Island as of
10 9/12/2016. Of these, 1,656 are residential accounts (1,923 units) and 201 are
11 non-residential, which includes commercial and marinas. Monroe County
12 Property Appraiser records show that of the 1,923 residential units, 811 are
13 single family residences, 344 are marinas (including boat slips), 347 are mobile
14 homes, and the remainder (421) are condominiums and multi-family housing.

15

16 **Q. HOW MANY OF THESE EXISTING RESIDENTIAL UNITS ARE CURRENTLY**
17 **ACTUALLY CONNECTED TO KWRU'S SYSTEM?**

18

A. Based on information provided in KWRU's 2016 Annual Report to the Florida
19 Public Service Commission, KWRU had 1,694 residential customers and 171
20 commercial customers as of December 31, 2016. Therefore, I conclude that

1 there were approximately 1,694 residential units receiving wastewater
2 treatment service from KWRU as of that date.

3 For perspective, in 2014, KWRU submitted information in a permit challenge
4 case filed in the Division of Administrative Hearings, stating that it had 1,416
5 residential customers and 216 commercial customers. Therefore, clearly
6 residential customer accounts have grown since December 31, 2014.

7

8 **Q. HOW MANY EXISTING COMMERCIAL ESTABLISHMENTS ARE THERE ON STOCK**
9 **ISLAND?**

10 A. Florida Keys Aqueduct Authority (FKAA) supplies water to all residential and non-
11 residential consumers on Stock Island. FKAA reports 1,857 total accounts on
12 Stock Island as of September 12, 2016. Of these, 201 are non-residential, which
13 includes commercial and marinas.

14

15 **Q. HOW MANY OF THESE EXISTING COMMERCIAL UNITS ARE ACTUALLY**
16 **CONNECTED TO KWRU'S SYSTEM?**

17 A. Based on information provided in KWRU's 2015 Annual Report to the Florida
18 Public Service Commission, KWRU had 177 general service customers as of
19 December 31, 2015. Therefore, I conclude that there were approximately 177
20 commercial establishments receiving wastewater treatment service from KWRU
21 as of that date.

1 **Q. IS IT CORRECT THAT THERE ARE APPROXIMATELY 80 EDUs (ON 18 PARCELS)**
2 **WITHIN KWRU'S VACUUM COLLECTION SERVICE AREA THAT ARE NOT**
3 **ACTUALLY CONNECTED TO KWRU'S SYSTEM?**

4 **A. Yes.**

5

6 **Q. AND IS IT ALSO CORRECT THAT THESE RESIDENTIAL UNITS HAVE BEEN**
7 **REQUIRED TO BE CONNECTED TO KWRU'S SYSTEM SINCE DECEMBER 31, 2015?**
8 **IF SO, HOW MUCH ADDITIONAL WASTEWATER SERVICE CAN THESE**
9 **RESIDENTIAL UNITS BE EXPECTED TO REQUIRE FROM KWRU?**

10 **A. Yes, this is correct. Using the Utility's standard value of 250 gallons per day per**
11 **ERC, this would translate to approximately 7.3 million gallons per year; using the**
12 **alternate value of 167 GPD per ERC would translate to approximately 4.9 million**
13 **gallons per year.**

14

15 **Q. DO YOU HAVE AN OPINION AS TO WHEN IT IS REASONABLY LIKELY THAT THESE**
16 **CUSTOMERS WILL ACTUALLY BE CONNECTED TO AND RECEIVING SERVICE**
17 **FROM KWRU'S WASTEWATER SYSTEM?**

18 **A. Yes. Considering that this is a mandate pursuant to State statutes, my opinion is**
19 **that these customers will be connected as soon as is reasonably practical. These**
20 **customers require additional collection infrastructure. I expect that the utility**
21 **will construct this additional infrastructure in the next six to nine months.**

1 Virtually all (more than 95 percent) of them should be receiving service by the
2 end of June2018.

3
4 **Q. PLEASE DESCRIBE AND EXPLAIN ANY LEGAL OR REGULATORY REQUIREMENTS**
5 **FOR EXISTING RESIDENTIAL, COMMERCIAL, AND INDUSTRIAL WATER USERS**
6 **THAT ARE NOT PRESENTLY CONNECTED TO KWRU'S SYSTEM TO BE**
7 **CONNECTED. PLEASE BE AS SPECIFIC AS POSSIBLE.**

8 A. For purposes of this discussion, it is important to understand that Stock Island is
9 in the Florida Keys, which is an "Area of Critical State Concern" designated by the
10 Florida Legislature. It is also important to recognize that the requirements to
11 connect to KWRU's system apply not only to new residential customers and
12 businesses, but also to existing customers and businesses. Section
13 403.086(10)(b), Florida Statutes, which Monroe County is responsible for
14 implementing, requires that the County, as well as all municipalities and special
15 sewage districts in Monroe County "shall complete the wastewater collection,
16 treatment, and disposal facilities within its jurisdiction designated as hot spots in
17 the Monroe County Sanitary Master Wastewater Plan, dated June 2000," and
18 that the "required facilities and connections, and any additional facilities or
19 other adjustments required by rules adopted by the Administration Commission
20 under s. 380.0552, must be completed by December 31, 2015."

1 In the referenced Monroe County Sanitary Master Wastewater Plan, the
2 “Unsewered K.W. Resort Utility Resort Area” is the highest ranked “hot spot” in
3 the Lower Keys area and the number-3-ranked hot spot for the entire Florida
4 Keys. Exhibit KGW-6 to my testimony is a copy of EXHIBIT 6-1 to that Plan, which
5 is a listing of the hot spots in the Lower Florida Keys, with rankings by order of
6 significance. Stock Island is the most critical area in the Lower Keys.

7

8 **Q. WHEN ARE THOSE UNITS THAT ARE NOT PRESENTLY CONNECTED TO KWRU**
9 **REQUIRED TO BE CONNECTED FOR WASTEWATER TREATMENT SERVICE?**

10 A. The applicable statutes and regulations require that ALL existing residential and
11 general service establishments had to be connected to KWRU’s system as of
12 December 31, 2015, i.e., now more than two years ago. This means that all of
13 the residences and commercial establishments on Stock Island that are not
14 presently connected to KWRU’s system must connect as soon as capacity exists
15 to serve them, subject to KWRU completing each physical connection. In
16 practical terms, I believe that all such facilities are required by County ordinance
17 to be connected to KWRU’s system within 30 days following completion of
18 KWRU’s new treatment plant, if they are provided with a connection point.
19 Monroe County will take all reasonable and practicable steps to ensure
20 compliance with the statutes and its Sanitary Master Wastewater Plan.

21

1 **Q. ARE THERE SIMILAR REQUIREMENTS THAT APPLY TO NEW AND EXPANDED**
2 **RESIDENCES AND COMMERCIAL ESTABLISHMENTS IN KWRU’S SERVICE AREA?**

3 A. Yes. Section 403.086(10)(c), Florida Statutes, requires that “After December 31,
4 2015, all new or expanded domestic wastewater discharges must comply with
5 the treatment and disposal requirements” of the statute. In practical terms, this
6 means that all new residences and commercial establishments on Stock Island
7 must be connected to KWRU’s system in order to obtain a certificate of
8 occupancy.

9
10 **Q. DOES MONROE COUNTY HAVE ANY PROGRAMS TO ASSIST EXISTING WATER**
11 **USERS ON STOCK ISLAND IN GETTING CONNECTED TO KWRU’S SYSTEM? IF SO,**
12 **PLEASE DESCRIBE THE COUNTY’S PROGRAMS AND EFFORTS IN THIS REGARD.**

13 A. Yes. The County “purchased” capacity for 1,500 EDUs via the Capacity
14 Reservation and Infrastructure Contract dated July 31, 2002, between KWRU and
15 the County (the “CRI Contract”). In the CRI Contract, the County agreed to pay
16 KWRU up to \$4.6 million to fund a collection system to provide service to a wide
17 area of South Stock Island. Construction of that collection system left some
18 customers without a connection point. Additionally, in a separate agreement
19 with KWRU, the County agreed to pay KWRU approximately \$900,000 to fund
20 conversion of its treatment plant to AWT.

21

1 ADDITIONAL WASTEWATER TREATMENT REQUIREMENTS

2 Q. PLEASE TELL THE PUBLIC SERVICE COMMISSION AS MUCH AS YOU CAN
3 CONCERNING ANY INCREMENTAL WASTEWATER TREATMENT SERVICE
4 REQUIREMENTS THAT KWRU WILL BE CALLED UPON TO SERVE DURING THE
5 PERIOD JULY 1, 2018 – JUNE 30, 2019, THAT ARE OVER AND ABOVE THE
6 AMOUNTS SERVED IN KWRU’S PROPOSED JULY 1, 2016 – JUNE 30, 2017 TEST
7 YEAR. PLEASE BE AS SPECIFIC AS POSSIBLE.

8 A. Based on information available to me, including: (1) my review of records for
9 building permits and development on North Stock Island, through the City of Key
10 West, and South Stock Island, through the County; (2) my review of actual usage
11 data for the Stock Island Marina Village and the Oceanside Investors property;
12 and (3) my personal knowledge of construction and development in the Stock
13 Island area, I believe that the following customers and developments are either
14 taking greater amounts of wastewater treatment service from KWRU than they
15 did in KWRU’s test year, or have connected to the KWRU system since June 30,
16 2017, or are likely to begin taking wastewater treatment service from KWRU in
17 the near future. When I refer to the “near future,” I am referring to customers
18 that will be requiring wastewater treatment service from KWRU during the first
19 year that any new PSC-approved rates would be in effect. Again, I am using the
20 period July 1, 2018 through June 30, 2019 for this time period, although it will
21 likely begin in August or September 2018.

1 **North Stock Island**

2 Please refer to my Exhibit KGW-9. On North Stock Island, there are three
3 additional developments or projects that will be on line and receiving
4 wastewater treatment service during the period July 2018-June 2019. These
5 projects include Sunset Marina (aka Stock Island Apartments, LLC), the new
6 facility of the Florida Keys SPCA (new Animal Shelter facility), and an expansion
7 of the Gerald Adams School. These three projects or developments reflect 62
8 additional residential ERCs and approximately 12 additional general service ERCs
9 and will require approximately 5.08 Million Gallons of additional wastewater
10 treatment service in the July 2018-June 2019 period when new rates will be in
11 effect.

12 My statements regarding additional gallons of treatment service are based
13 on the following. First, with respect to Sunset Marina, I have personally
14 observed that the construction of Sunset Marina is well along, and I have
15 confirmed with Patrick Wright, the City of Key West's Planning Director, that the
16 Sunset Marina project will be fully on line by June 2018. For reference, Sunset
17 Marina originally received approval from the City of Key West to add 60 units; it
18 now comprises 62 units. According to an appraisal report dated January 2015
19 commissioned by KWRU, the Sunset Marina project was projected to add
20 approximately 15,000 gallons per day, or approximately 5.65 Million gallons per
21 year to the loads served by KWRU. (A copy of the relevant page from the

1 appraisal report is filed with my testimony as Exhibit KGW-8.) My estimate is
2 based on 167 gallons per day for the 62 units.

3 The Florida Keys SPCA facility will come on line in late March or early April
4 2018; KWRU has collected CIAC from the FKSPCA for 7.28 ERCs, upon which my
5 estimate for that new facility is based. Finally, I have confirmed from the
6 Monroe County School Board's Executive Director for Operations & Planning, Pat
7 Lefere, that the Gerald Adams School expansion will be complete by December
8 2018. Accordingly, I have used only 6 months of the School's additional usage in
9 my Exhibit KGW-9.

10 As compared to my testimony from the 2016 KWRU rate case, I have now
11 assumed that the then-anticipated Florida Keys Community College new dorm
12 will not be completed until 2020, and that the Easter Seals/Mosquito Control
13 property for which an additional 104 affordable housing units are planned will
14 not have any flows during the July 2018-June 2019 period. In short, my analysis
15 for North Stock Island is limited solely to the increased flows from the three
16 facilities or projects described above.

17 **South Stock Island**

18 As mentioned above, South Stock Island is part of unincorporated Monroe
19 County. Therefore, all requests for building permits and development approvals
20 go through the Monroe County Building Department and the Monroe County
21 Planning Department. I have reviewed the records provided to me by the

1 Planning and Building Departments, and based on that review, I offer the
2 following information.

3 Again, please refer to my Exhibit KGW-9. There are currently two large
4 developments, the Oceanside Investors property and the Stock Island Marina
5 Village, both of which are already operating, that will have significantly greater
6 wastewater treatment requirements when the new rates are in effect than their
7 usage levels in KWRU's test year. The total additional wastewater treatment
8 requirements for these projects are 4.45 Million Gallons per Year for the July
9 2018-June 2019 period. This value is based on actual usage data for these two
10 developments that is presented in my Exhibit KGW-10. That Exhibit shows actual
11 usage for KWRU's test year as compared to actual usage for the period July 2017
12 through February 2018, which is the most recent month for which data is
13 available. The test year usage was 3,501,283 gallons, but the total wastewater
14 treatment usage from July 2017-February 2018 was 4,026,500 gallons, which
15 translates to 6,039,750 gallons on an annual basis. The difference is
16 approximately 2.54 Million gallons, as shown in my Exhibit KGW-9.

17 The second large development on South Stock Island is the Stock Island
18 Marina Village, for which my Exhibit KGW-9 shows an additional 1.91 Million
19 gallons of wastewater treatment for the July 2018-June 2019 period as
20 compared to KWRU's test year. Again, my Exhibit KGW-10 shows the actual
21 water usage for KWRU's test year of 750,366 gallons, versus an actual total of

1 1,770,696 gallons from July 2017 through February 2018. This actual total
2 equates to 2,656,044 gallons on an annual basis, which in turn yields the
3 additional 1.91 Million gallons for Stock Island Marina Village shown on my
4 Exhibit KGW-9.

5 The other incremental increases shown on Exhibit KGW-9 are Bernstein Park
6 at 0.66 Million additional gallons, and four new residential units at 0.37 Million
7 gallons for the July 2018-June 2019 period. The Bernstein Park value is based on
8 information from other County personnel that the Park will be on line by June
9 2018, and the additional residential usage value is an assumption that four (4)
10 out of twenty (20) existing "active" permits will come on line in the period. For
11 these residential units, I assumed the value of 167 gallons per day per ERC, which
12 is the value consistently used by the County as opposed to larger values, such as
13 200 gallons per day or 250 gallons per day, used in other contexts. A copy of the
14 Monroe County Code section 20-102 is attached to this testimony as Exhibit
15 KGW-7.

16 As compared to my 2016 testimony, I now project that the Bernstein Trust
17 property will not have any wastewater treatment requirements before July 2019,
18 and also that other residential service has come on line during 2017, and for
19 which I have attributed no additional wastewater treatment requirements for
20 the analysis shown in Exhibit KGW-9. Finally, there are at least 40 acres of

1 vacant or underdeveloped property. However, I have not included these in the
2 calculation. Accordingly, I believe that my estimates are conservative.

3

4 **Q. PLEASE PROVIDE ANY INFORMATION AVAILABLE TO YOU REGARDING**
5 **EXISTING COMMERCIAL AND INDUSTRIAL CUSTOMERS THAT ARE REQUIRED**
6 **TO CONNECT TO KWRU'S SYSTEM, INCLUDING ANY INFORMATION YOU HAVE**
7 **REGARDING THE TIMING OF THOSE CONNECTIONS.**

8 A. Existing commercial and industrial service customers, who are designated
9 “General Service” customers under KWRU’s tariffs, are subject to the same
10 statutory and regulatory mandate as residential customers; that is, they were
11 also required to be connected to KWRU’s system by the end of 2015. Those that
12 have not yet connected are subject to being required to connect limited only by
13 the utility’s ability to complete the physical connections.

14

15 **Q. PLEASE TELL THE PUBLIC SERVICE COMMISSION AS MUCH AS YOU CAN**
16 **CONCERNING ANY OTHER POTENTIAL NEW COMMERCIAL OR INDUSTRIAL**
17 **ESTABLISHMENTS THAT HAVE CONNECTED TO KWRU'S SYSTEM AFTER JUNE**
18 **30, 2017, OR THAT ARE LIKELY TO CONNECT TO KWRU'S SYSTEM BEFORE JUNE**
19 **30, 2019. PLEASE BE AS SPECIFIC AS POSSIBLE.**

20 A. In the last months, the City of Key West’s new transportation maintenance
21 facility opened on North Stock Island. I assume it is connected to KWRU. The

1 only other new commercial facilities of which I am aware are those referenced
2 above. These include, on North Stock Island, the school expansion, the addition
3 of a new Animal Control facility, and expansion of Sunset Marina. On South
4 Stock Island, there are the hotel, commercial space, and restaurant components
5 of the Longstock, Oceanside Marina, and the Bernstein Trust developments, and
6 the County's Bernstein Park. There have also been other recent real estate
7 transactions on the waterfront on the east side of south Stock Island including
8 properties which may be developed further including the properties formerly
9 known as Gulf Seafood and Water's Edge that have recently been
10 purchased by entities known as Wreckers Cay Apartments at Stock Island, LLC
11 and Lejeune Airport Park Suites, Inc., respectively.

12
13 **Q. WHAT IS THE GENERAL OUTLOOK FOR ECONOMIC GROWTH AND ADDITIONAL**
14 **DEVELOPMENT ON STOCK ISLAND, AND WHAT, IF ANYTHING, DOES THIS IMPLY**
15 **FOR GROWTH IN THE AMOUNT OF WASTEWATER TREATMENT SERVICE THAT**
16 **KWRU CAN REASONABLY BE EXPECTED TO PROVIDE?**

17 A. This is difficult to predict but the recent trend has been for additional
18 development of high-end transient or condominium development. As noted
19 above there have been some recent large real estate transfers, the intent of
20 which is not yet apparent.

21

1 Q. ARE YOU AWARE OF ANY SIGNIFICANT EVENTS OR EXPECTED EVENTS, E.G.,
2 BUSINESS CLOSINGS OR DEMOLITIONS OF SIGNIFICANT NUMBERS OF
3 RESIDENTIAL UNITS, THAT WOULD BE EXPECTED TO REDUCE THE DEMAND FOR
4 WASTEWATER TREATMENT SERVICE PROVIDED BY KWRU IN 2018 OR 2019?

5 A. No, I am not aware of any such demand-dampening events either having
6 occurred or expected to occur over this time period. Recent trends suggest the
7 opposite with increased development, especially on South Stock Island.

8

9

RECOMMENDATIONS

10 Q. WHAT DO YOU BELIEVE THAT THE FLORIDA PSC SHOULD DO WITH THE
11 INFORMATION THAT YOU HAVE PROVIDED IN YOUR TESTIMONY?

12 A. The Commission should use this information to ensure that KWRU charges fair
13 rates to the County and to its other customers on Stock Island. This should be
14 accomplished by using the additional wastewater treatment gallons that I have
15 identified to calculate the amount of any allowed rate increase and to calculate
16 any new rates for KWRU in this case. If the Commission allows KWRU to include
17 additional costs that it claims to have incurred after July 2017 in its rates, then it
18 is only fair to include additional sales units in setting the rates to recover those
19 costs. Otherwise, KWRU will get an unfair windfall through whatever new rates
20 the PSC would approve.

21

CONCLUSIONS

1

2

Q. PLEASE SUMMARIZE THE MAIN CONCLUSIONS OF YOUR TESTIMONY.

3

A. Based on the best available information, including actual usage data for two confirmed large developments on South Stock Island, based on my personal knowledge, and based on reliable information obtained from the City of Key West and Monroe County's Planning and Building Departments, I believe that KWRU will provide approximately 10.55 Million gallons of additional wastewater treatment service during the first twelve months that any new rates approved by the Commission in this proceeding will be in effect. As explained above, I believe that this estimate is conservative.

4

5

6

7

8

9

10

11

The PSC should use these additional gallons of service provided – and charged for – by KWRU in setting any new rates for KWRU in this case. Doing so will help to ensure that the County and KWRU's other customers pay only fair rates based on costs incurred to serve and the units of wastewater treatment service provided.

12

13

14

15

16

17

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

18

A. Yes.

19

1 BY MR. WRIGHT:

2 Q Mr. Wilson, please summarize your testimony
3 for the Commissioners in fewer than five minutes.

4 A The main reason for my testimony is my
5 experience with the population on Stock Island and
6 wastewater operations in general and the development
7 potential on Stock Island.

8 So, I was asked to develop projections for
9 what -- what additional wastewater consumption would
10 happen on North and South Stock Island during the next
11 year, as compared to the test year in question.

12 And that's what I've done. I've looked at the
13 various developments going on out there, what their
14 potential for additional wastewater consumption is, and
15 made those projections. Those are the numbers you see
16 here in my testimony and in the exhibits attached to it.

17 MR. WRIGHT: Does that conclude your summary?

18 THE WITNESS: It does.

19 MR. WRIGHT: Thank you.

20 Monroe County tenders Mr. Wilson for cross-
21 examination.

22 COMMISSIONER POLMANN: Thank you, Mr. Wright.

23 EXAMINATION

24 BY MR. SMITH:

25 Q Mr. Wilson, what you've been provided is the

1 pre-hearing order. And I have you already turned to
2 Page 16, Issue 16. Do you see that there?

3 A I do.

4 Q Under the County, the County's position is
5 that the appropriate test-year revenue's values,
6 excluding any increase, is approximately 2,502,000. Do
7 you see that?

8 A I do.

9 Q You were not involved in the -- creating that
10 proposed test-year revenue, were you?

11 A I was not.

12 Q Okay. Then, if you go to Issue 35, which is
13 rate -- under rate structure and rates -- it's on
14 Page 22.

15 A Page 22, Issue 35?

16 Q Correct.

17 A Which were the -- the County paragraph?

18 Q Page 22, Issue 35, correct. And it provides:
19 As supported by Monroe County witnesses, appropriate
20 adjustments to the number of bills is an increase of
21 2- -- 864 bills, yielding a total of 22,601 bills,
22 assuming that Harbor Shores counts as only one bill; and
23 "B," the appropriate adjustment to the number of gallons
24 is an increase of 10,000 -- 10,540,000 gallons, yielding
25 a total of 227,719,000 gallons.

1 **Do you see that testimony?**

2 A I do.

3 **Q Was your testimony utilized in the creation**
4 **of -- of that position?**

5 A I don't know. I doubt seriously if
6 Paragraph A -- because I didn't look at any numbers of
7 bills -- the number to the increase in -- in gallonage,
8 10,540 is very close to the projected number in my
9 Exhibit 9 of 9 -- nine-and-a-quarter-million gallons,
10 round numbers.

11 So, I -- while I didn't directly participate
12 in developing that number, that may well be utilized in
13 it.

14 **Q Okay. Just to be clear, you -- but you stated**
15 **you were not involved in par- -- the Subparagraph A?**

16 A No, I was not.

17 **Q Turning to your testimony -- can you please**
18 **turn to Page 24.**

19 A Is there a copy here?

20 **Q If you do not have a copy, I can provide you**
21 **my copy here.**

22 A I -- I do not see one here and I don't have a
23 full copy here.

24 (Discussion off the record.)

25 ///

1 BY MR. SMITH:

2 Q I'm going to read from your testimony, on
3 Lines 13 to 16. In discussion of Sunset Marina -- I'm
4 going to focus on Sunset Marina first --

5 A Excuse me.

6 MS. HALL: Excuse me, Mr. Smith. Can you wait
7 for a minute until --

8 MR. SMITH: Sure.

9 MS. HALL: -- Mr. Wilson identifies --
10 finds the page?

11 BY MR. SMITH:

12 Q Page 24 --

13 A Okay.

14 Q -- Lines 13 through 16.

15 A Okay.

16 Q And this is in discussion of Sunset Marina.
17 You state, first, with respect to Sunset Marina: I've
18 personally observed the construction of Sunset Marina is
19 well along and confirmed with Patrick Wright, the City
20 of Key West planning director, that the Sunset Marina
21 project will be fully online by June 2018.

22 Do you see that testimony?

23 A I do.

24 Q This is a residential project, correct?

25 A It is. In fact, this is the one that was some

1 of the confusion, sometimes known as Stock Island
2 Apartments on North Stock Island.

3 Q All right. Do you -- are you aware of whether
4 it's a rental project or a -- going to be owner-
5 occupied?

6 A I am not.

7 Q You would agree, if it's a rental project, it
8 would not be fully occupied the day it is -- is
9 completed, correct?

10 A No way to know that.

11 Q Are you aware of whether all of the units have
12 pre-existing leases prior to --

13 A I am not.

14 Q -- being completed?

15 Are you aware if there are sales contracts on
16 every unit prior to --

17 A I am not.

18 Q Thank you.

19 And there is a court reporter. I know the
20 answers are pretty straightforward, but try --

21 A I understand.

22 Q Okay. As -- as to the -- the meters that
23 exist on this property, do you know what types of FKAA
24 meters service the property?

25 A I'm told by the Aqueduct, one meter services

1 the entire complex of several parcels.

2 Q Okay. And you would agree that there's going
3 to be no new FKA meters put in for the residential
4 units.

5 A I don't know that. I've not asked the
6 question.

7 Q But as of today, there's only -- your
8 testimony is there's only one meter that serves that
9 entire property?

10 A I'll accept, as of about a week ago, when I
11 asked the question.

12 Q That's perfectly fine.

13 Going down to Lines 18 to 21 --

14 A Same page?

15 Q Same page. You pro- -- and I'm just going to
16 paraphrase this. You provide that the projected gallons
17 are approximately -- 15,000 gallons per day, according
18 to an appraisal report. You see that?

19 A I do.

20 Q Okay. Did you utilize that 15,000 gallons per
21 day for your calculation of this total gallonage this
22 property will produce?

23 A I honestly don't recall.

24 Q All right. Let's turn to your Exhibit 9.

25 A Okay. The revised one.

1 Q Yes.

2 A Yes.

3 Q If you look on the North Stock Island, you --
4 you see under Sunset Marina, you provide this 3.- --
5 3,780,000 gallons. Do you see that?

6 A Yes.

7 Q Do you have a phone with you with a
8 calculator?

9 A I have a phone with a calculator. It's in the
10 back.

11 Q All right.

12 MS. HALL: Hold on.

13 Q You notice I didn't just ask for a calculator.
14 I asked for the phone with the calculator.

15 A Yes. Yes, sir. Okay.

16 So, I -- I won't presume to figure out what --
17 what question you're asking, but go ahead.

18 Q Can you divide 3.- -- 3,780,000 --

19 A Got it.

20 Q -- divided by 365.

21 A I'm sorry. Divided by what?

22 Q 365.

23 A And it's 10,356.

24 Q Okay. And then divide that by 62.

25 A 167.

1 **Q** Okay. To use the 167 -- 10,000 gallons a day
2 **for your projection, not -- not 15,000, correct?**

3 **A** Yes. In fact, that -- yes, we used -- I used
4 167 gallons because of the confusion there had been over
5 the years about what's the right number for -- of
6 gallons for ERC for the utility, whether it's 250, 205,
7 or -- I standardly use and the County standardly uses
8 167, as you're aware.

9 **Q** Okay. Just to be clear, though, you're not
10 **utilizing the 5.65 million gallons per day -- per year**
11 **that you've identified on your Page 24 of your**
12 **testimony?**

13 **A** It would appear not. What we've used in --
14 what I've used in that table is that calculation,
15 exactly, yes.

16 **Q** Staying on Exhibit 9, you've updated Gerald
17 **Adams, I see, correct?**

18 **A** I have, after -- go ahead and ask what you
19 want.

20 **Q** Are you aware if there's going to be any new
21 **meters added to the property?**

22 **A** I'm not.

23 **Q** Do you believe there's going to be any new
24 **meters added to the property?**

25 **A** I have no reason to believe one way or the

1 other.

2 Q Next, I want to turn your attention to Stock
3 Island Marina Village.

4 A Yes.

5 Q And specifically, if you can, turn to your
6 Exhibit 10.

7 A Yeah.

8 MR. WRIGHT: For -- for everyone's
9 convenience, I would note that you should have an
10 11-by-17 copy of that exhibit now.

11 Q All right. Do you see, at top of the
12 Exhibit 10, on the first page, that has labeled on the
13 right-hand side, Stock Island Marina Village Hotel?
14 Right -- right-hand side of the page. There you go.

15 A Oh, yeah. Yeah. Yes.

16 Q Okay. And you've identified two -- what
17 appears to be two separate accounts, correct?

18 A I -- I do.

19 Q Are you aware of how many accounts Stock
20 Island -- FKA accounts Stock Island Marina Village has?

21 A It's my impression there -- there are two
22 because I asked that question.

23 Q Are you aware of how many FKA metered accounts
24 Stock Island Marina Village had during the test year?

25 A I am not.

1 **Q** You would agree -- all right. Going to your
2 **testimony, you identify that the -- the Stock Island**
3 **Marina Village went online in the test year, correct?**

4 A I believe so. Where are we looking at in --
5 in the testimony?

6 **Q** If you can, turn to Page 26.

7 A Okay. My recollection with the Stock Island
8 Marina Village Hotel is that it started to have some
9 occupants, certainly, in the second half of 2017
10 before -- immediately after the storm pressed into
11 service, but it didn't receive its certificate of
12 occupancy until December of '18 [sic], if I remember
13 correctly.

14 **Q** Yes. You're -- you're aware of what a
15 **temporary certificate of occupancy is.**

16 A Of course.

17 **Q** Would you have any belief that it didn't
18 **obtain a temporary CO?**

19 A I didn't check. I don't know. It is not --
20 it's not unusual for that to happen.

21 **Q** Going back to your Exhibit 10, the first
22 **meter, which is 7001 Shrimp Road -- do you know which**
23 **meter that -- that meter is for?**

24 A That is -- that is the one that is
25 identified -- that was identified to me as -- let me --

1 let me double-check before I -- before I misspeak.

2 (Examining document.) I'm not remembering off
3 the top of my head. One of them -- oh, I'm sorry.
4 The -- I'm sorry. Repeat which one you were talking
5 about, Bart?

6 **Q The top meter.**

7 A The top one? Is it identified as the -- as
8 the hotel, to me. I asked the Aqueduct specifically
9 which meter serves the hotel, and does it serve anything
10 else. And their answer was that meter serves the hotel
11 and nothing else.

12 **Q Okay. You would agree it had water readings**
13 **prior to the hotel coming online in 2017?**

14 A Yes, there -- there are some back in earl- --
15 in '16, obviously.

16 **Q And identified below it is another meter,**
17 **correct?**

18 A That's correct.

19 **Q And you're aware that the test year is**
20 **July 2016 through June 2017, correct?**

21 A I am.

22 **Q You would agree that both these meters are in**
23 **existence for that period?**

24 A It would appear -- I don't know what the
25 meaning of the "NA" up through July of 2016 is for the

1 one that's highlighted in green, but it certainly has
2 readings from August onward.

3 Q Okay. And you've calculated the flows for --
4 for this hotel based on a projection for the year -- the
5 first year that the new rates will be in service,
6 correct?

7 A Correct.

8 Q Going to that -- the hotel, which is the top
9 meter --

10 A Yes, sir.

11 Q All right. I want you to specifically look at
12 the September and October flow rates.

13 A Of which year?

14 Q Of 2017.

15 A Okay. September and October of 2017. So, the
16 numbers are 204,647, and 286,505.

17 Q Yes. The hotels are a tourist use, correct?

18 A For the most part, yes.

19 Q You would agree that September and the first
20 part of October are the slower tourist months, correct?

21 A That is the traditional wisdom in this county.
22 As you're aware, more and more, we're not looking at
23 individual months as being high tourist months, but
24 traditionally, those are slow months.

25 Q After Hur- -- was the county under mandatory

1 evacuation at the start of October?

2 A No.

3 Q Hurricane Irma did not require the county
4 to -- sorry -- the -- September. Let me -- was the
5 county under mandatory evacuation?

6 A The mandatory evacuation was ordered on either
7 the 6th or 7th of September -- I don't remember which --
8 and generally reopened by the end of the following week.

9 Q Yes. And were tourists allowed back in by the
10 end of the following week?

11 A End of the following week, everybody was
12 allowed back in.

13 Q Were tourists allowed back into hotels?

14 A Everybody was allowed back in. Whether they
15 came or not is a different question.

16 Q Are you aware of displaced residents staying
17 at hotels?

18 A Yes.

19 Q Are you aware of whether Stock Island Marina
20 Village helped displaced residents?

21 A It did.

22 Q Okay. You would agree that the family
23 residing in a room would utilize more water than a
24 tourist couple downtown at the Conch Train, correct?

25 A I -- I don't know. It's -- I can -- I can

1 argue both sides of that one.

2 **Q Generally speaking, does a fam- -- a -- a**
3 **permanent resident utilize more water than a tourist?**

4 A Well, are you comparing a hotel to a -- to a
5 single-family residence?

6 **Q Yes.**

7 A Typically, I would guess that a -- a hotel
8 room would probably not be comparable to a single-family
9 residence, but in general, Keys residents use less water
10 per household than most -- most households do. They're
11 more aware of water -- water-use losses.

12 **Q All right. But comparable to a hotel rooms.**

13 A No way to compare, Bart. Sorry.

14 **Q Ocean's Edge -- you would agree that you**
15 **created a projection of the flows during the -- the**
16 **period that the new rates will be in effect?**

17 A I'm sorry. I missed the first part of what
18 you said.

19 **Q Ocean's Edge.**

20 A Yes. Okay. Ocean's -- Ocean's Edge. And the
21 question is --

22 **Q You would agree that you created a projection**
23 **for the period that the new rates would be in effect.**

24 A I'm assuming, by Ocean's Edge, you're
25 referring to what I call in my -- in my table, Oceanside

1 Investors Hotel?

2 Q Yes. Yes.

3 A And yes, I did create a projection.

4 Q I have been trained by people to call it
5 Ocean's Edge.

6 A I understand.

7 Q The -- under that yellow highlighted line --
8 is that the account for Ocean's Edge?

9 A It is.

10 Q Okay. Did that account exist between
11 July 1st, 2016, and June 1st, 2017?

12 A It -- it did. There's clearly data there for
13 that.

14 Q Are you aware of whether the meter has
15 changed?

16 A I am not.

17 Q Do you believe the FKA meters changed for that
18 account?

19 A I don't know if it was or not. The numbers
20 here are not meter readings; they're actual gallon --
21 gallonages.

22 Q All right. But it's for a singular account.

23 A This is for a singular account, yes.

24 Q Are you aware of whether the Aqueduct has a
25 different -- separate accounts for each meter?

1 A When they have -- when they have multiple
2 meters, typically each one is a separate account.

3 Q Bernstein Park -- you're familiar with the
4 redevelopment of Bernstein Park, correct?

5 A Yes, sir.

6 Q It's a park, right?

7 A Yes.

8 Q Going to your Exhibit 9 --

9 A Yes, sir.

10 Q Under Bernstein Park, you quantified that it
11 will utilize approximately .66 million gallons per year,
12 correct?

13 A Yes.

14 Q And if you pull out your calculator, that is
15 approximately 1800 gallons per day? Please check.

16 A I need the password.

17 (Laughter.)

18 Okay. 660,123 divided by 365 is 1808, divided
19 by 167. Are we going towards --

20 Q No, I just wanted the 1800 gallons per day.

21 A Okay.

22 Q Correct? Approximately.

23 A Yes, sir.

24 Q All right. Is this -- this is for the
25 building that's at that park facility?

1 A It's based on the entire park, and it's based
2 upon the number of ERCs that the utility assigned to the
3 park after they reviewed the plans.

4 Q All right. Is that -- is that facility going
5 to be utilized daily?

6 A Presum- -- presumably.

7 Q Do you have any plans for it to be utilized
8 daily at this point?

9 A We expect to open that park within the next
10 month or -- month or six weeks.

11 Q Okay. And once it's open, is there going to
12 be staff there permanently?

13 A Yes.

14 Q How many staff members will be there?

15 A Two.

16 Q Two staff members. Are they going to be
17 showering there?

18 A I don't know if they'll be showering there.
19 There -- that's not part of our formal plan. There will
20 be maintenance people that work regular eight-hour
21 shifts.

22 Q Okay. So, you'll have two people working
23 eight-hour shifts?

24 A Yes.

25 Q And they're going to utilize -- and is there

1 any other use that is going to utilize the rest of the
2 gallonage?

3 A Oh, the building will be used by community
4 groups and so forth. I don't know how many or at what
5 times. That -- that's probably a usage that will change
6 over time.

7 Q Okay.

8 A And there are, of course, public bathrooms
9 in -- in the building for the park.

10 Q So, to be clear, this is just a projection of
11 the gallonage based on the ERCs calculated by the
12 utility?

13 A It is -- it is. And I assume the utility use
14 64E-6.08 -- whatever it is -- 6.008.

15 Q But this isn't based on an actual data that
16 was calculated for the --

17 A No, it can -- it cannot be because the park
18 has not yet reopened.

19 Q Before the park was redeveloped, there was
20 structures on the park, correct?

21 A There was a pre-built residential unit on the
22 park, and there was a small public restroom, yes.

23 Q Are you aware if those building had meters at
24 that time?

25 A I'm sure they did.

1 Q And there's meters there today, correct?

2 A Yes.

3 Q How many meters?

4 A I believe two. I'm not sure.

5 Q All right. And do both those FKA meters
6 service the building?

7 A No. One services the building and one
8 services the irrigation system.

9 Q Is that irrigation system going to return
10 wastewater to the utility?

11 A No.

12 Q So, there's just the one FKA meter for the
13 building.

14 A Yes.

15 Q Going to the Florida Keys SPCA building --

16 A Okay.

17 Q Does the County intend to demolish the
18 existing SPCA building?

19 A We're contractually obligated to.

20 Q So, the meter at the SPCA building that exists
21 today will be removed.

22 A I don't know if it will be removed by the City
23 or not. There is some intricacies, as I'm sure you're
24 aware with the Aqueduct, if you remove a meter and the
25 cost of replacing it, but I'm -- I'm certain it will be

1 turned off. Whether the meter will be removed or not is
2 a different question.

3 Q I believe in your testimony you state that
4 you're an assistant county administrator?

5 A Yes, sir.

6 Q Part of your duties are -- are assisting in
7 the preparation of a budget for the county?

8 A Painfully, yes.

9 Q You've got some budget meetings coming up,
10 correct?

11 A Yes, sir.

12 Q Is one of the discussions right now to raise
13 the property tax millage rate?

14 A There's no -- been no discussions of that yet.

15 Q You haven't heard of statements being made to
16 the newspaper by the County as to potentially raising
17 the millage rate?

18 MR. WRIGHT: Mr. Chairman, I'm -- I'm going to
19 object to relevance. If he can make clear -- he's
20 asking it as a legit predicate question.

21 MR. SMITH: Let me -- let -- it's very simple.
22 They- -- they've brought that issue, known-and-
23 measurable changes in income and expenses. One
24 known-and-measurable change is property taxes,
25 which was based on the millage rate that the County

1 provides.

2 MR. WRIGHT: This -- this is not a proper
3 question for Mr. Wilson's direct testimony.

4 MR. SMITH: He's the -- this is the County
5 administrator. He's stock -- talked about known --

6 COMMISSIONER POLMANN: Does --

7 MR. WRIGHT: His testimony -- no, he hasn't.
8 He's talked about usage levels. He -- his
9 testimony addresses usage levels and the --

10 COMMISSIONER POLMANN: Understood.

11 MR. WRIGHT: -- status of the isle.

12 COMMISSIONER POLMANN: Mr. Smith, if you
13 can -- if you can find a place in his testimony
14 where this relates, then you can proceed.

15 MR. SMITH: I -- I'll just move on.

16 If you will just give me a moment, I'm almost
17 wrapped up.

18 Thank you. I have no further questions.

19 COMMISSIONER POLMANN: Thank you, Mr. Smith.
20 Public Counsel?

21 MR. SAYLER: No questions.

22 COMMISSIONER POLMANN: Thank you, Mr. Saylor.
23 Staff?

24 MS. MAPP: Yes, thank you. Staff has a few
25 questions.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

EXAMINATION

BY MS. MAPP:

Q Good afternoon, Mr. Wilson.

A Good afternoon.

Q Can you please turn to Page 8 of your testimony.

A Okay.

Q Okay. Beginning on Line -- approximately Line 15, on Page 8, you discuss new residential and commercial developments that will be added to KWRU's system; is that correct?

A Yes.

Q Impact fees or otherwise known as service availability charges have been or will be applied to these new developments; is that correct?

A As new residential units come online with the utility, utility charges a -- a system-development fee of \$2700, yes.

Q And those -- those fees are paid by the developers, i.e., the cost-causers?

A Yes, the -- I -- I'm not exactly sure where -- where in the permitting process they pay them, but they're not paid to the county. They're paid directly to the utility.

Q And the fees that are paid to the utility for

1 **these new developments -- they are not paid by current,**
2 **existing customers, are they?**

3 A They have already been paid by existing
4 customers because when the -- there are two parts to
5 the -- the c- -- to the utility system. The County paid
6 for and had constructed by the utility a section of the
7 collection system consisting of 1,500 ERCs, or EDUs.

8 And as part of that construction, the County
9 and -- collected the system-development fee to reimburse
10 the County for having paid the utility to expand that
11 collection system.

12 If they're -- that -- that part of the system
13 is, now, closed, finished. There's still some
14 construction to be done, as you heard earlier, but any
15 other new construction that goes on or people that
16 were -- that preceded that, paid the utility their --
17 their system-development fee.

18 So, the direct answer to your question is all
19 existing users who were connected should have already
20 paid their system-development fee, yes.

21 **Q So, current, existing residential customers**
22 **will not be required to pay the impact fees with, we'll**
23 **say, the Oceanside Investors' Property; is that correct?**

24 A They will not be required to pay additional
25 system-development fee, that is correct.

1 MS. MAPP: Thank you. No further questions
2 from staff.

3 COMMISSIONER POLMANN: Thank you, Ms. Mapp.
4 Commissioners?
5 Commissioner Fay?

6 COMMISSIONER FAY: Mr. Wilson, on -- if you,
7 turn to Page 27 of your testimony, right at the
8 bottom of that page, you'll see a paragraph that
9 starts, "Finally, there" --

10 THE WITNESS: I'm sorry. The paragraph that
11 starts --

12 COMMISSIONER FAY: The last paragraph on that
13 page.

14 THE WITNESS: On Line 16?

15 COMMISSIONER FAY: Actually start at Line 20,
16 "Finally, there are at least 40 acres" --

17 THE WITNESS: Okay. Yes.

18 COMMISSIONER FAY: -- "in there" -- okay. So,
19 if you follow that paragraph to the end, you say,
20 "Accordingly, I believe the estimates are
21 conservative."

22 Can you just clarify, is that statement
23 related back to your -- your estimates, as a whole?
24 Are you specifically speaking to the exclusion of
25 those 40 acres?

1 THE WITNESS: Exclusively, the -- the
2 additional undeveloped property on -- this is the
3 statement re- -- relates to the fact that there are
4 still undeveloped property out there, and there may
5 be additional development done; not the ones that
6 I've already -- that I know are in the pipeline and
7 that I previously testified -- to which I
8 previously testified.

9 COMMISSIONER FAY: You believe those other
10 estimates are just your accurate testimony based on
11 the information --

12 THE WITNESS: The others are -- are accurate
13 based on what I know is going on today. This is a
14 speculative statement going forward.

15 COMMISSIONER FAY: Okay. Perfect. Thank you.

16 COMMISSIONER POLMANN: Redirect?

17 MR. WRIGHT: Briefly, Commissioner. Thank you
18 very much.

19 FURTHER EXAMINATION

20 BY MR. WRIGHT:

21 Q Mr. Wilson, Mr. Smith asked you a question
22 about whether your estimated consumption for Ocean's
23 Edge or Oceanside --

24 A Okay.

25 Q -- was based on a projection?

1 A Okay.

2 **Q What -- what data were included in your**
3 **projection?**

4 A It was -- I compared the test year, actual
5 flow from the meter, with the year-to-date from July '17
6 onwards and then annualized that by converting by the
7 number of months. And that's how I projected the -- the
8 post-test-year flow.

9 **Q And you said the year to date from**
10 **July '17 onwards was -- was that data actual data or**
11 **projected data?**

12 A It was actual data from the water meters I got
13 from the Aqueduct Authority.

14 **Q Thank you.**

15 **You made a very quick reference -- this was in**
16 **connection with questioning on Bernstein Park.**

17 A Yes, sir.

18 **Q You made a very quick reference to the**
19 **gallorage, I think, per ERC, per 64- -- .808 or**
20 **something like that. Would you please clarify exactly**
21 **what that reference was?**

22 A Florida Administrative Code 64E, as in "echo,"
23 -6.008 is the section of the administrative code and
24 under the Department of Health for making projections
25 for wastewater flow coming from various types of

1 facilities.

2 In the case of Bernstein Park, the utility
3 would have used that and made an -- made an estimate of
4 what the wastewater flow coming out of it would be,
5 based upon the types of facilities it -- it contains.

6 I don't remember the specific details of parks
7 and recreational facilities. One with which I'm very
8 familiar is regular office buildings. Regular office
9 buildings are projected to have 15 gallons per day per
10 100 square feet of office space.

11 There's similar kinds of heuristics in that --
12 in that section of the administrative code from which
13 you can make projections.

14 **Q Does your projected value for Bernstein Park**
15 **consumption include anything for irrigation?**

16 A It does not.

17 **Q You were asked a brief question about the SPCA**
18 **facility. What exact SPCA facility is addressed by your**
19 **projection in KGW-9?**

20 A The difference between the existing facility,
21 which is assigned by the utility 6.5 ERCs, and the new
22 facility, which has been assigned 7.28 ERCs. And what I
23 projected in -- in Exhibit 9 is the difference between
24 the two.

25 Since one will shut down when the other one

1 opens, they -- we presume that the full flow will come
2 from the new facility. The old facility will shut down.
3 So, all we've attributed for additional flow is the
4 difference between the two assignments by the utility.

5 MR. WRIGHT: Thank you very much. That
6 concludes my redirect.

7 COMMISSIONER POLMANN: Thank you, Mr. Wright.

8 MR. WRIGHT: Thank you, Commissioner. I think
9 I --

10 COMMISSIONER POLMANN: Do you have any
11 exhibits?

12 MR. WRIGHT: Yes, I would like to move
13 exhibits -- I believe they are 39 through 48 on the
14 comprehensive exhibit list.

15 MS. HELTON: And -- and Mr. -- Mr. Chairman,
16 can we just make sure the record is clear about
17 which specific exhibits Mr. Wilson has revised for
18 purposes of today?

19 My notes show that he has revised KGW-9, which
20 is marked as Exhibit No. 46 -- I mean, strike
21 that -- 47 on our comprehensive exhibit list. And
22 then he passed out two versions of KGW-10. Those
23 are the same exhibits, just one is larger than the
24 other. And those have been marked as
25 Exhibit No. 48 on the comprehensive exhibit list.

1 I just want to make sure that the record is clear.
2 Thank you.

3 MR. WRIGHT: And that is -- that's correct,
4 per my understanding. There's an issue with using
5 oversized paper in the -- in the record. So,
6 that's why we have to submit a 8-1/2-by-11s. I --

7 COMMISSIONER POLMANN: Yes.

8 MR. WRIGHT: -- just provided the big one as a
9 courtesy and for everyone's ocular health.

10 COMMISSIONER POLMANN: Thank you.

11 MR. WRIGHT: And so, with that, I -- again, I
12 would move the admission of Exhibits 39 through 48.
13 I believe that 128, his errata, has already been
14 admitted -- no, that's not true. I -- no, I would
15 move 39 through 48 and 128. Thank you.

16 COMMISSIONER POLMANN: We'll accept
17 Exhibits 39 through 48. And those are identified
18 on the comprehensive exhibit list, including the
19 revised exhibit provided today, KGW-9, and revised
20 KGW-10, which were numbered on the comprehensive
21 exhibit list as -- KGW-9 is No. -- whatever --

22 (Simultaneous speakers.)

23 MS. HELTON: 47.

24 MR. WRIGHT: 47.

25 COMMISSIONER POLMANN: 47, and KGW-10 is

1 No. --

2 MS. HELTON: 48.

3 MS. MAPP: 48.

4 COMMISSIONER POLMANN: 48, in stereo.

5 The oversized handout that was provided here
6 today was for convenience only. That is not an
7 additional exhibit.

8 And then the errata sheet was identified as
9 Exhibit No. 128. And that is entered into the
10 record also.

11 MR. WRIGHT: Thank you.

12 (Whereupon, Exhibit Nos. 39 through 48, and
13 128 were admitted into the record.)

14 COMMISSIONER POLMANN: Anything else for this
15 witness?

16 MR. WRIGHT: Not from me. And with that, I
17 would request that Mr. Wilson be excused.

18 COMMISSIONER POLMANN: You are excused, sir.

19 THE WITNESS: Thank you.

20 COMMISSIONER POLMANN: Safe travels.

21 MR. WRIGHT: And again, I -- I thank all the
22 parties --

23 COMMISSIONER POLMANN: Yes.

24 MR. WRIGHT: -- and you for your indulgence.

25 COMMISSIONER POLMANN: Very good. Thank you.

1 We are going to break for lunch. And the
2 mission is 45 minutes only. We will return
3 promptly. And the County's next witness is Jeffrey
4 Small.

5 MR. WRIGHT: Correct.

6 COMMISSIONER POLMANN: And we will begin in 45
7 minutes. I expect the witness to be on the stand.
8 Counsel be ready. Commissioners will be here, a
9 quorum, so we can proceed timely.

10 Yes, sir?

11 MR. WRIGHT: Yes, sir.

12 COMMISSIONER POLMANN: Absolutely.

13 MR. HETRICK: Mr. Chairman, that will be by
14 2:00, everyone gets back.

15 COMMISSIONER POLMANN: We'll start at 2:00.
16 I'm going to start the timer. When this thing gets
17 to 45 minutes, we will commence.

18 We are off the record.

19 (Transcript continues in sequence in Volume
20 4.)

21

22

23

24

25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, ANDREA KOMARIDIS, Court Reporter, do hereby
certify that the foregoing proceeding was heard at the
time and place herein stated.

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

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

DATED THIS 24th day of May, 2018.



ANDREA KOMARIDIS
NOTARY PUBLIC
COMMISSION #GG060963
EXPIRES February 9, 2021