

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for an increase in water and  
wastewater rates in Charlotte, Highlands, Lake,  
Lee, Marion, Orange, Pasco, Pinellas, Polk,  
and Seminole Counties by Utilities, Inc. of Florida

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Docket No. 20200139-WS

REBUTTAL TESTIMONY

OF

DEBORAH D. SWAIN

on behalf of

Utilities, Inc. of Florida

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

2 A. My name is Deborah D. Swain. I am Vice President of Milian, Swain & Associates, Inc. and  
3 head up the firm's finance, accounting and management team. My business address is 2025  
4 SW 32<sup>nd</sup> Ave., Suite 110, Miami, Florida 33145.

5 **Q. Have you previously prefiled direct testimony in this proceeding?**

6 A. Yes.

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

8 A. The purpose of my rebuttal testimony is to present information to refute some of the issues  
9 and arguments presented by Office of Public Counsel witnesses Andrea Crane.

10 **Q. What issues will you be addressing in your testimony?**

11 A. I address the following issues:

- 12 • Working Capital Adjustments
- 13 • Labor escalator adjustment
- 14 • Excess Deferred Income Tax Amortization
- 15 • AFUDC

16 **Q. Do you agree with OPC Witness Crane's adjustment to cash in the calculation of**  
17 **Working Capital included in Rate Base?**

18 A. No, I do not agree that the intercompany cash balances should be eliminated from the working  
19 capital calculation. As I explained in my direct testimony, UIF does not maintain its own  
20 unique bank accounts, and instead records cash transactions through intercompany accounts,  
21 resulting in intercompany receivable and payable accounts on the utility balance sheet. Under  
22 the definition of the balance sheet method of working capital, intercompany receivable and  
23 payable accounts should be included in working capital as they are not interest bearing, and not  
24 included otherwise in rate base nor capital structure. However, rather than include the entire  
25 net balance of intercompany receivable and payable amounts in the working capital

1 calculation, I instead proposed an approach to estimate a reasonable cash balance to serve as  
2 a surrogate. The use of KW Resorts Utilities Corp., Order No. PSC-17-0091-FOF-SU and  
3 Order No. PSC-2018-0446-FOF-SUI was not a random selection. I chose that utility  
4 because the appropriate level of cash to be included in working capital was an issue in that  
5 case, that issue was testified to in an FPSC hearing, and the FPSC made a ruling based on  
6 testimony from all parties as to the appropriate cash balance. The calculation I performed  
7 considered the relationship between cash balances and gross plant.

8 Witness Crane goes on to point out that the working capital without a cash balance is  
9 comparable to the working capital in the utility's last case. This is easily explained in that the  
10 utility did not include a cash balance in working capital in its last case. Nor did it include the  
11 intercompany accounts.

12 An alternate is to include the entire net balance of the intercompany receivables and payables  
13 in working capital. Barring that, the Utility's adjustment to increase the cash balance by  
14 2% of requested gross plant, is an appropriate adjustment to working capital.

15 **Q. Why did the utility not include a cash balance in its last case?**

16 A. I was the one that filed that last case, and it wasn't until my involvement in the KW case  
17 that I realized that it was an error in the UIF case to completely exclude cash, or a cash  
18 estimate. In the KW case, the Commission determined not to use the actual cash balance,  
19 and instead adopted OPC's estimate of a cash balance.

20 I also relied on my past experience for guidance. Before I started my consulting practice,  
21 I was Vice President and Controller of all the utility subsidiaries of the Deltona  
22 Corporation. We had a similar situation at Deltona with multiple systems, without  
23 individual bank accounts.

24 Finally, until its last case, UIF filed its rate requests on individual system, company or  
25 county basis. Most of those filings were Class B or C, and the formula approach was used

1 to determine working capital. In those cases, on their own, this issue would have been  
2 irrelevant.

3 **Q. Do you agree with Witness Crane’s assessment that the Chlorine Dioxide Pilot**  
4 **Study included in sewer working capital relates to water instead of sewer?**

5 A. Yes. This study should be included in working capital calculation for water not sewer.

6 **Q. Do you agree with OPC Witness Crane’s adjustment related to the labor escalator?**

7 A. No. Test year salaries expense included a wage increase of 3% in April 2019 for  
8 WSC/UIF employees and 3% in January 2019 for CII employees. The budgeted wage  
9 increase for 2020/2021 is 3%. Witness Crane states that she recommends including the  
10 3% increase pertaining to 2020, but that any more than that would reflect costs in 2021.  
11 However, because the WSC/UIF salary increase was implemented in April 2019, it was  
12 not in effect for the first quarter of the 2019 test year. One-fourth of 3% is .75%.  
13 Therefore, the labor escalator should be 3.75%, the sum of the 3% increase for 2020 and  
14 annualization of the 3% for 2019. This was described on B-3, page 2 in the MFRs, “To  
15 annualize 2019 Salary & Benefits and reflect 2020 increase.”

16 **Q. Do you agree with Witness Crane’s recommendation to treatment of the**  
17 **amortization of Excess Accumulated Deferred Income Taxes?**

18 A. Witness Crane’s recommendation to use the amortization of Excess Accumulated  
19 Deferred Income Taxes (Excess ADITs) as an adjustment to operating income at  
20 present rates appears to have the same effect as UIF’s methodology to include it as a  
21 component in the calculation of income taxes for the proposed revenue increase, and as  
22 such we are in agreement as to the treatment of the Excess ADITs. However, we  
23 disagree as to the amount and term of the amortization, as UIF Witness Deason explains  
24 in his rebuttal testimony.

1 **Q. Witness Crane is recommending a prospective adjustment to AFUDC. Do you**  
2 **agree?**

3 A. No, UIF is in compliance with Commission Order PSC-04-0262-PAA-WS establishing  
4 an AFUDC rate of 9.03% based on the utility's petition for the establishment of an  
5 AFUDC rate. In order to change the AFUDC rate, under 25-30.116 Florida  
6 Administrative Code, the utility must file another petition, or "The Commission may,  
7 on its own motion, initiate a proceeding to revise a utility's AFUDC rate." At this time,  
8 the utility is not filing a petition to request a new AFUDC rate.

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

10 A. Yes, it does.

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**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by E-mail to the following parties this 14<sup>th</sup> day of December, 2020:

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*/s/ Martin S. Friedman*  
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