

**Aqua Utilities Florida, Inc.
Exhibit No. 1.3**

AQUA UTILITIES FLORIDA, INC.

DIRECT TESTIMONY

OF

STEPHEN F. ANZALDO

(Docket No. 010121-WS)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

AQUA UTILITIES FLORIDA, INC.

DIRECT TESTIMONY OF STEPHEN F. ANZALDO

DOCKET NO. 010121-WS

Q. Please state your name and business address.

A. My name is Stephen Anzaldo. My business address is 762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania 19010.

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

A. I am employed by Aqua Services, Inc. as Treasurer for all of the subsidiaries of Aqua America, Inc. ("Aqua America"), including Aqua Utilities Florida, Inc. ("AUF" or "Company").

Q. Please describe your education and business experience.

A. I graduated from St. Joseph's University in 1981 with a Bachelor of Science degree in Accounting. I have received my C.P.A. Certificate from the Commonwealth of Pennsylvania in 1990. In addition, I received a Masters of Business Administration-Finance from St. Joseph's University in 1998.

At Aqua America, I was hired as a Financial Analyst in May 2004 and promoted to Assistant Treasurer in 2005. I was promoted to Treasurer in July 2008. Prior to joining Aqua America I was employed by Trigen-Philadelphia Energy Corporation from 1991 to 2003 as the Manager of Financial Planning, where I was also responsible for the preparation of three rate cases, and then as Accounting Manager

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1 for the Cogeneration Facility. I was employed by General Waterworks Corporation
2 from 1985 to 1991 as a regional accountant and corporate accountant where my
3 duties included consolidated financial reporting and assisting in the SEC reporting.
4 I was employed by two certified public accounting firms in the Philadelphia area
5 from 1981 to 1985 where my assignments included manufacturing, financial and
6 insurance clients.

7 **Q. Are you involved in any outside professional activities?**

8 A. Yes, I am a member of the American Institute of Certified Public Accountants and
9 the Pennsylvania Institute of Certified Public Accountants.

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

11 A. The purpose of my testimony is to present the capital structure for AUF and the cost
12 of debt and the cost common equity as determined by application of the Florida
13 Public Service Commission ("Commission") 2007 leverage formula to the capital
14 structure of AUF.

15 **Q. In connection with your responsibilities with AUF, were any portion of the**
16 **Minimum Filing Requirements ("MFRs") filed in connection with AUF's rate**
17 **case prepared by you or under your supervision?**

18 A. Yes

19 **Q. Please identify the specific MFRs filed in connection with AUF's rate case that**
20 **you are sponsoring.**

21 A. I am sponsoring Schedule D-1 through D-7 in Volume 1 of the MFRs.

22 **Q. Please explain the capital structure of AUF.**

23 A. The capital structure of AUF at December 31, 2007 based on a thirteen month
24

1 average consists of Common Equity of \$37,220,000 (62.31%) and Long-Term Debt
2 of \$22,517,000 (37.69%).

3 **Q. How is the above thirteen month average capital structure applied in**
4 **determining the appropriate overall rates of return for the Water and**
5 **Wastewater systems included in this rate filing?**

6 A. The consolidated capital structure noted above is applied as part of the overall
7 cost of capital determination for each system included in this rate filing. The total
8 rate base for each system is first funded with the customer deposits and
9 accumulated deferred income taxes applicable to that individual system, and then
10 the remaining balance is funded by long term debt and equity.

11 **Q. What is the cost of capital for each component of the capital structure and**
12 **how has it been determined?**

13 A. The composite cost of long term debt is 5.10% and represents the weighted-
14 average interest rate of the note between Aqua America and AUF.

15 The cost of Customer Deposits is 6.00%, which is the rate set by the Commission.

17 Deferred Taxes are included in the capital structure at zero cost, because deferred
18 taxes are funds provided as a result of the deferral of federal and state income
19 taxes.
20

21 The cost of Common Equity is determined using the Commission leverage
22 formula, which provides a method of calculating the cost of common equity based
23 on the capital structure of the company.
24

25 **Q. What is the return on common equity produced by the Commission's**

1 **leverage formula when applied to the capital structure of AUF?**

2 A. In this case, the Company accepts and has applied the current leverage formula as
3 discussed in Docket 070006-WS, which is set forth below:

4 $\text{Return on Common Equity} = 7.1\% + 1.961 / 62.31\% =$

5 $7.1\% + 3.15\% = 10.25\%$

6 AUF will accept the leverage formula in effect at the time of the Commission's
7 final vote.

8 **Q. How has the AUF consolidated capital structure been allocated to each of the
9 systems included in the current filing?**

10 Long term debt and equity for each system represents each system's rate base with
11 36.37% debt and 60.12% equity for the Water systems and 36.72% debt and
12 60.69% equity for the Wastewater systems after adjustment for deferred taxes and
13 customer deposits. Deferred taxes have been allocated to each system based on
14 Plant-In- Service balances. Customer Deposits are the actual deposit balances for
15 each system.

16 **Q. Is the capital structure of AUF reasonable?**

17 A. Yes. We believe that a capital structure of approximately 36% debt and 60%
18 equity (with 4% accounting for deferred taxes and customer deposits), is
19 appropriate for AUF. The required capital expenditures as well as the size and
20 lack of growth in most of the systems dictate more equity than a typical water
21 company would carry in order to support a 5.1% cost of debt.

22 **Q. Does that conclude your testimony at this time?**

23 A. Yes, it does.