

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Application for increase in water and) Docket No. 080121-WS
Wastewater rates in Alachua, Brevard,)
DeSoto, Highlands, Lake, Lee, Marion,)
Orange, Palm Beach, Pasco, Polk,)
Putnam, Seminole, Sumter, Volusia, and)
Washington Counties by Aqua Utilities)
Florida, Inc.)
_____) Filed: October 13, 2008

DIRECT TESTIMONY

OF

PATRICIA W. MERCHANT, CPA

On Behalf of the Citizens of the State of Florida

Respectfully submitted,
J.R. Kelly
Public Counsel

Office of Public Counsel
c/o The Florida Legislature
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Of the State of Florida

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09680 OCT 13 08

FPSC-COMMISSION CLERK

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1 **DIRECT TESTIMONY**

2 **OF**

3 **PATRICIA W. MERCHANT, CPA**

4 On Behalf of the Office of Public Counsel

5 Before the

6 Florida Public Service Commission

7 Docket No. 080121-WS

8
9 Introduction

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

11 A. My name is Patricia W. Merchant. My business address is Room 812, 111
12 West Madison Street, Tallahassee Florida, 32399-1400.

13
14 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR
15 POSITION?**

16 A. I am a Certified Public Accountant licensed in the State of Florida and
17 employed as a Chief Legislative Analyst with the Office of Public Counsel
18 (OPC). I began my employment with OPC in March, 2005.

19
20 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
21 PROFESSIONAL EXPERIENCE.**

22 A. In 1981, I received a Bachelor of Science degree with a major in accounting
23 from Florida State University. In that same year, I was employed by the
24 Florida Public Service Commission (PSC) as an auditor in the Division of
25 Auditing and Financial Analysis. In 1983, I joined the PSC's Division of

1 Water and Sewer as an analyst in the Bureau of Accounting. From May, 1989
2 to February, 2005 I was a regulatory supervisor in the Division of Water and
3 Wastewater which evolved into the Division of Economic Regulation.

4

5 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA**
6 **PUBLIC SERVICE COMMISSION?**

7 A. Yes, I have testified numerous times before the PSC. I have also testified
8 before the Division of Administrative Hearings as an expert witness.

9

10 **Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS CASE?**

11 A. Yes. I am sponsoring Exhibit PWM-1, a summary of my regulatory
12 experience and qualifications, which is attached to my testimony. I also have
13 attached Exhibit PWM-2, which supports calculations for some of my
14 recommended adjustments.

15

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A. The purpose of my testimony is to address accounting issues and adjustments
18 in this docket that the Office of Public Counsel believes are necessary in order
19 to establish base rates for Aqua Utilities Florida, Inc. (AUF) on a going
20 forward basis. I am also providing testimony on the company's requested
21 charges for Allowance for Funds Prudently Invested (AFPI).

22

23 **Q. ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF**
24 **THE FLORIDA OFFICE OF PUBLIC COUNSEL IN THIS CASE?**

25 A. Yes. Kimberly A. Dismukes, James A. Rothschild, Andrew T. Woodcock, and

1 Earl Poucher are also presenting testimony.

2

3 Recommended Adjustments

4 **Q. WOULD YOU PLEASE DISCUSS EACH OF THE ADJUSTMENTS**
5 **TO AUF'S FILING YOU ARE SPONSORING?**

6 A. Yes, I am addressing issues related to amortization of contributions in aid of
7 construction (CIAC), working capital, deferred income taxes and Allowance
8 for Funds Prudently Invested. I will address each adjustment I am sponsoring
9 below.

10

11 Amortization of CIAC

12 **Q. HAVE YOU RECOMMENDED ADJUSTMENTS TO TEST YEAR**
13 **AMORTIZATION OF CONTRIBUTIONS IN AID OF**
14 **CONSTRUCTION (CIAC)?**

15 A. Yes I have recommended two types of adjustments to the test year balances of
16 amortization of CIAC. The first adjustment corrects a calculation error in the
17 MFRs in which the company failed to correctly amortize all CIAC balances.
18 The second adjustment relates to a cloaked adjustment that the company made
19 to reduce test year amortization of CIAC as a part of its non-used and useful
20 depreciation expense adjustment.

21

22 **Q. PLEASE DESCRIBE THE CONCEPT OF CIAC.**

23 A. CIAC is part of a company's service availability policy that requires new
24 customers and/or developers to contribute an upfront portion of the total
25 investment on a per customer basis. This upfront contribution is similar to a

1 down payment on a loan. Because the CIAC is paid by or on behalf of a
2 customer, through a service availability charge or the plant is contributed by a
3 developer, the utility is prohibited by statute to earn a rate of return on any
4 contributed portion of property. Typical service availability charges that are
5 collected include plant capacity fees, meter installation fees, and main
6 extension fees. Typical contributed plant components received by a utility
7 (mostly from developers) are water distribution or wastewater collection
8 mains, and pumping or lift station equipment. When CIAC cash or property is
9 received, it is recorded on the utilities books as a credit balance on the same
10 side of the balance sheet as debt and equity. The CIAC is grouped into
11 subcategories according to what type of charge was collected or physical plant
12 assets contributed. In the rate base calculation, the CIAC recorded offsets the
13 cost of plant and is shown as a reduction to rate base (plant is reflected as a
14 positive balance and CIAC is reflected as a negative balance. Plant is offset
15 by accumulated depreciation (negative balance) and CIAC is offset by
16 accumulated amortization of CIAC (positive balance) in the rate base
17 calculation.

18

19 **Q. PLEASE EXPLAIN HOW CIAC IS AMORTIZED.**

20 A. Amortization of CIAC is similar to depreciation of plant. When plant is added
21 by a company, that plant is depreciated over its useful life and each year's
22 annual depreciation expense is added to the balance of accumulated
23 depreciation. For example, if a meter is added to plant at a cost of \$1,000 and
24 the useful life of that pump is 10 years, the annual depreciation expense would
25 be \$100 ($\$1,000/10$). At the end of the first year, the accumulation

1 depreciation balance for that pump would be \$100. The net book value (or
2 rate base assuming no CIAC) of the pump at the end of year one would be
3 \$900 (\$1,000 - \$100). At the end of 3 years, the accumulated depreciation
4 balance for that pump would be \$300 (3 years x \$100), with a net book value
5 of \$700. Similar to how plant is depreciation over its useful life, CIAC is also
6 amortized over the related plant asset lives according to the type of CIAC
7 charge collected or plant received. For example, the CIAC subaccount for
8 meter installation fees would be amortized over the depreciable life of meters
9 and meter installations. Contributed water mains would be amortized over the
10 useful life of water transmission and distribution mains.

11

12 CIAC Amortization Error

13 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO CORRECT THE**
14 **COMPANY'S CALCULATION ERROR IN THE MFRS IN WHICH**
15 **THE COMPANY FAILED TO CORRECTLY AMORTIZE ALL CIAC**
16 **BALANCES.**

17 A. In response to OPC's Interrogatory No. 115, the company stated that it
18 inadvertently failed to amortize one or more subaccounts for CIAC for 34
19 water and/or wastewater systems. In its response to OPC Interrogatory 116,
20 the company provided a corrected calculation of the test year amortization of
21 CIAC. In Schedule 1 of Exhibit PWM-2, I have reflected the per system
22 adjustment that is necessary to correct the test year balances of amortization of
23 CIAC. The total company adjustment is an increase to amortization (decrease
24 to operating expenses) of \$176,456. The corresponding increase to
25 accumulated amortization of CIAC for the total company is \$95,580.

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Adjustment for non-used and useful Amortization of CIAC

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO AMORTIZATION OF CIAC RELATED TO THE COMPANY'S NON-USED AND USEFUL DEPRECIATION EXPENSE.

A. On MFR Schedule B-3, the company reflects its adjustments made to non-used and useful depreciation expense. These adjustments should correspond to the adjustments made to non-used and useful plant and accumulated depreciation in rate base. The adjustments to non-used and useful depreciation expense shown on MFR Schedule B-3, Adjustments to Operating Income, should tie to the adjustments calculated on MFR Schedules B-13 and B-14, Depreciation Expense. However, the company changed the column titles and format on MFR Schedules B-13 and B-14 to reflect used and useful as opposed to non-used and useful depreciation expense. While this might seem innocuous, the change in format reflected the beginning and ending amount and did not show the non-used and useful adjustment in total or by subaccount.

In order to tie the adjustment back to the NOI adjustment schedule (B-3), you have to subtract the individual accounts and totals to calculate the adjustment and then compare that to the adjustment made on the operating statement Schedule B-3. When I made this calculation, I found that in addition to the non-used and useful adjustments to depreciation expense, the Company also reduced test year amortization of CIAC. The company did not disclose on any schedule or testimony that it made a non-used and useful adjustment to test

1 year amortization of CIAC.

2

3 **Q. IS THE COMPANY REQUIRED TO SHOW THE ADJUSTMENTS**
4 **FOR NON-USED AND USEFUL?**

5 A. Yes. The official MFR instructions for Schedules B-13 and B-14 requires
6 companies to reflect the amount of non-used and useful depreciation expense
7 and the percentages applied to each account. The company in this case altered
8 the schedule to reflect the used and useful percentages instead of non-used and
9 useful depreciation. This would not have been a problem if the company had
10 added a column to show the non-used and useful adjustment by amount and in
11 total.

12

13 **Q. IS A NON-USED AND USEFUL ADJUSTMENT TO TEST YEAR**
14 **AMORTIZATION OF CIAC APPROPRIATE?**

15 A. No, it is inappropriate for several reasons. First, as a general rule, it is
16 improper to make non-used and useful adjustments to CIAC. CIAC is a
17 payment made by or for current customers and proper matching reflects that
18 the customers that paid CIAC also pay current rates for service and by
19 definition are "used and useful." There are rare circumstances when a used
20 and useful adjustment would be made to prepaid CIAC, but the burden is on
21 the company to show that prepaid CIAC relates to connections outside of the
22 5 year margin reserve period. The company has not provided any justification
23 in this case that making a used and useful adjustment to CIAC or amortization
24 of CIAC is justified or appropriate.

25

1 **Q. WHAT IS THE SECOND REASON YOU BELIEVE A NON-USED**
2 **AND USEFUL ADJUSTMENT TO TEST YEAR AMORTIZATION OF**
3 **CIAC IS INAPPROPRIATE?**

4 A. In making used and useful adjustments, it is appropriate to apply the same
5 non-used and useful percentage to the plant primary accounts, with
6 corresponding adjustments in the same percentages to accumulated
7 depreciation, depreciation expense for those same accounts. Non-used and
8 useful property tax adjustments are also made based on a composite
9 percentage of non-used and useful plant to total taxable plant. Adjustments
10 should be applied to the same primary accounts in the same percentages for
11 plant, accumulated depreciation and depreciation expense. Furthermore, it
12 would also be inappropriate to calculate a non-used and useful adjustment to
13 one component without consistent adjustments to the corresponding accounts.
14 Accordingly, without an adjustment to CIAC, it is inappropriate to apply a
15 non-used and useful adjustment to test year amortization of CIAC. Also,
16 using a composite rate applied to all amortization of CIAC violates the
17 account by account consistency that I mentioned above.

18

19 **Q. IN WHICH SYSTEMS DOES AN ADJUSTMENT TO TEST YEAR**
20 **AMORTIZATION OF CIAC NEED TO BE MADE TO REMOVE THE**
21 **COMPANY'S ERRONEOUS USED AND USEFUL ADJUSTMENT?**

22 A. There are 22 systems in which the company made this inappropriate
23 adjustment. The systems are identified in my Exhibit ___ PWM-2, Schedule
24 2. Based on my review of the MFRs, the total adjustment to increase test year
25 amortization of CIAC (which results in a decrease to test year operating

1 expenses) is \$12,368 for water and \$126 for wastewater. The three most
2 material adjustments to correct this error will result in a reduction to expenses
3 for Sunny Hills Water by \$9,284, Sebring Lakes Water by \$1,400 and Carlton
4 Village Water by \$998.

5
6 Working Capital Allowance

7 **Q. PLEASE DESCRIBE HOW THE COMPANY CALCULATED ITS**
8 **WORKING CAPITAL ALLOWANCE THAT IT HAS REQUESTED IN**
9 **THIS CASE.**

10 **A.** In its MFRs, the company calculated its total company working capital using
11 the following accounts:

12
13 Assets (positive balances): Accounts Receivable Customer, Allowance for
14 Bad Debts, Unbilled Revenue, Prepayments, and Other Current Assets;

15 and

16 Liabilities (negative balances): Accounts Payable, Accrued Taxes, Accrued
17 Interest, and Miscellaneous Current & Accrued Liabilities.

18
19 Once the total amounts from the above accounts were added together, the
20 company allocated the sum to all AUF systems, including the non-regulated
21 systems. The Company then made three types of adjustments for direct
22 assignments to individual water and wastewater systems in this docket. The
23 first adjustment was to allocate the deferred rate case expense for the current
24 docket. I will address deferred rate case expense on page 23 of my testimony.
25 The second adjustment was to reflect the Other Regulatory Assets approved

1 by the Commission on a system-specific basis related to the purchase by Aqua
2 of some of the former Florida Water Services Corporation systems. These
3 regulatory assets were approved by Order No. PSC-05-1242-PAA-WS, issued
4 on December 20, 2005, in Docket No. 040952-WS. I have reviewed these
5 amounts and the average balance reflected is consistent with the ten-year
6 amortization period approved by the Commission, which was to commence
7 amortization on January 1, 2006. The third specific adjustment related to the
8 company's request to add Other Deferred Debits to working capital to
9 individual systems based on the requested balances of deferred maintenance.

10
11 **Q. PLEASE DESCRIBE THE ADJUSTMENTS THAT YOU HAVE**
12 **RECOMMENDED TO AQUA'S WORKING CAPITAL ALLOWANCE.**

13 A. I have recommended adjustments to the Company's requested Working
14 Capital Allowance for Accounts Receivable for Officers and Employees,
15 Other Deferred Debits, Deferred Rate Case Expense, Accrued Taxes, and
16 Pensions & Other Operating Reserves. Exhibit ___ (PWM-2, Schedules 3(a)
17 to 3(e), attached to my direct testimony, reflect the working capital
18 calculations that I use.

19
20 Accounts Receivable for Officers and Employees

21 **Q. PLEASE EXPLAIN THE ADJUSTMENT THAT YOU HAVE MADE**
22 **TO ACCOUNTS RECEIVABLE FOR OFFICERS AND EMPLOYEES.**

23 A. In its Accounts Receivable balance the company included \$1,000 for both
24 2006 and 2007 for Accounts Receivable for Officers and Employees. These
25 are amounts that the company has loaned to its officers and employees that

1 have not yet been paid. I believe that these receivables are not necessary and
2 do not relate to the delivery of water and wastewater services and should not
3 be included in the working capital calculation. Accordingly, I have removed
4 this \$1,000 from the balance of Customer Accounts Receivable to be allocated
5 to all AUF systems. This is consistent with the treatment approved by the
6 Commission for accounts receivable in the recent rate case of Florida Public
7 Utilities Company. See Order No. PSC-08-0327-FOF-EI, page 28, issued on
8 May 19, 2008 in Docket Nos. 070300-EI and 070304-EI. (See Exhibit ____
9 (PWM-2, Schedule 3(d)).

10
11 Other Deferred Debits

12 **Q. WHAT ADJUSTMENT HAVE YOU MADE TO OTHER DEFERRED**
13 **DEBITS?**

14 A. I have made two types of adjustments related to the amount of Other Deferred
15 Debits that the Company has requested to be recovered through working
16 capital. I have made adjustments to the balances of deferred maintenance and
17 I have also recommended a change in how the company should be able to
18 collect the balance of other deferred debits as part of the working capital
19 allowance.

20
21 **Q. PLEASE DESCRIBE THE FIRST ADJUSTMENT THAT YOU**
22 **MENTIONED THAT IS RELATED TO THE COMPANY'S**
23 **REQUESTED DEFERRED MAINTENANCE PROJECTS.**

24 A. Consistent with the testimony of OPC Witness Dismukes, I have taken her
25 recommended adjustments to amortization of deferred maintenance and

1 determined the impact of those adjustments on the average balance included
2 in working capital. The Company has requested a total balance of Other
3 Deferred Debits of \$229,104. Based on Ms. Dismukes' adjustments, the
4 requested balance of Other Deferred Debits should be reduced by \$11,213.
5 This reflects a net balance of Other Deferred Debits of \$217,890. I have
6 attached Exhibit ___ PWM-2, Schedule 3(e), which reflects the adjustments
7 made to each system based on Ms. Dismukes' adjustments.
8

9 **Q. PLEASE DESCRIBE THE SECOND ADJUSTMENT THAT YOU ARE**
10 **RECOMMENDING TO OTHER DEFERRED DEBITS.**

11 A. I am recommending that the approved balance of deferred maintenance should
12 be included in the overall working capital allowance that is spread to the total
13 company. I believe that it is improper to specifically add these deferred debits
14 to each system's previously allocated working capital allowance. These
15 deferred debits relate to maintenance projects were performed on a plant
16 specific basis and the amortization, where appropriate, should be specifically
17 assigned to each individual system. However, once the project is deferred the
18 deferral is recorded on a total company balance sheet where the asset is used
19 by the company as a whole. This is no different than how net income or debt
20 is recorded on the total company balance sheet and allocated to individual
21 systems. By adding the deferred maintenance to working capital on an
22 individual system basis overstates the investment of that one system when the
23 whole company is allowed to benefit from this deferral. The true nature of
24 working capital for a company of this size and with the large number of
25 systems is that working capital funds are included in one big "fund" that is

1 used to serve all systems in the company. In any given period, a system may
2 be a contributor to the "fund" while another system is a user. This is a
3 constantly flowing system of deposits and withdrawals and it is improper to
4 single out just the deposits for individual systems that may have deferred debit
5 balances at one point in time. If one were to take the company's methodology
6 to the extreme, we could ask the company to analyze its accounts to
7 specifically identify any working capital account such as accounts
8 receivables or payables, unbilled revenues or insurance prepayments.
9 Allocating common accounts that are utility-related on a consistent basis is the
10 most economical and accurate basis, which generates a reasonable estimate of
11 the working capital needs of the total company.

12

13 **Q. HAVE YOU INCLUDED ANY OTHER DEFERRED DEBITS BESIDES**
14 **THOSE ASSOCIATED WITH MAINTENANCE IN YOUR WORKING**
15 **CAPITAL CALCULATION?**

16 A. No, I have not. Upon review of the company's 2006 and 2007 annual reports,
17 I was unable to reconcile the amounts reported by the company as other
18 deferred debits. If the company wishes to request recovery of any additional
19 amount, it should be required to submit competent support to reflect the
20 purpose of each item deferred, and whether the amounts are utility-related and
21 reasonable to be recovered by the customers on a going-forward basis.

22

23 **Q. WHAT IS THE TOTAL BALANCE OF OTHER DEFERRED DEBITS**
24 **THAT YOU HAVE INCLUDED IN WORKING CAPITAL?**

25 A. As addressed above, the adjusted balance of \$217,890 should be added to the

1 total company working capital to be allocated among all AUF systems,
2 including the systems not regulated by the Florida PSC. I did not make an
3 adjustment to remove these specific adjustments from each system's working
4 capital as I made one combined adjustment to reflect the total working capital
5 adjustment per system.

6
7 Accrued Taxes

8 **Q. PLEASE EXPLAIN THE ACCOUNTING CONCEPT OF ACCRUED**
9 **TAXES.**

10 A. The accrued taxes account is a short-term liability that represents the amount
11 of tax expense that has been recorded on the company's books but has not yet
12 been paid. The term accrual describes an accounting concept where a revenue
13 or expense is recorded at the time that the revenue or expense is measured or
14 becomes known, not when the payment is received or paid. The accrued taxes
15 account includes taxes other than income (real estate, personal property,
16 payroll, regulatory assessment fees, etc.) as well as income taxes. When a tax
17 expense is recorded but not paid, accrued taxes are increased (credited) and
18 when the tax payment is made, accrued taxes are decreased (debited).
19 Estimates are used to spread the expected tax expense out on a monthly basis
20 and then the total is adjusted when the actual amount becomes known. Since
21 the accrued tax account is a liability account, the balance in the account
22 normally will be a credit balance similar to other liability accounts.

23
24 **Q. WHAT ARE THE BALANCES OF ACCRUED TAXES THAT AUF**
25 **REPORTS ON ITS BALANCE SHEET?**

1 A. As reflected on Schedule A-19 of each system's MFRs, accrued taxes for
2 December 2006 has a negative balance of \$601,457. December 2007 reflects
3 a negative balance of \$2,860,234, and the 13-month average has a negative
4 balance of \$1,155,342. Instead of reflecting a liability account as a credit
5 balance, AUF's books reflect essentially an asset or debit balance. Since this
6 account is normally a credit balance, having a negative (debit) balance in the
7 accrued tax account reflects an anomaly that an unusual event has occurred to
8 change the direction in which this account usually appears.

9

10 **Q. WHY DO BELIEVE THAT THE COMPANY HAS SUCH A LARGE**
11 **DEBIT BALANCE IN ACCRUED TAXES?**

12 A. I believe that the company's accrued taxes are negative (a debit balance)
13 because of the large amounts of negative income taxes expensed during 2007.
14 Looking at the 2007 PSC Annual Report, the company had a positive expense
15 of \$1.6 million in taxes other than income (real estate, payroll, regulatory
16 assessment fees, etc.) but recorded negative income taxes of approximately \$2
17 million. Of this \$2 million, only \$478,000 reportedly related to PSC-regulated
18 systems. One reason that the company incurred such a large negative income
19 tax expense in 2007 most certainly had to relate to the fact that the company
20 had to write-off \$2.07 million in rate case expense related to the prior rate
21 case in Docket No. 060368-WS. The income tax impact of this below-the-line
22 adjustment alone is almost \$800,000.

23

24 **Q. EXPLAIN WHAT HAPPENS WHEN A COMPANY INCURS**
25 **NEGATIVE INCOME TAX EXPENSE.**

1 A. When a company incurs a loss in a given period, it normally would not owe
2 income tax expense on a stand-alone basis and would be able to use some of
3 those losses to offset income for future periods for that company. This
4 concept of using losses in past periods to offset income in future periods is
5 referred to as a net operating loss carry-forward tax benefit. If the company is
6 a subsidiary that belongs to an entity that participates in filing a consolidated
7 tax return, the losing company's losses are used by the parent company to
8 offset the income tax expense owed in other areas of the company. For book
9 purposes, the losing company records that loss as a negative income tax
10 expense on its operating income statement. Assuming that the losing
11 company's losses were offset by the parent company who ultimately paid less
12 income taxes, no net operating loss carry-forward benefit was provided to the
13 parent, and thus none was passed down to the losing company. The negative
14 income tax expense described above is what created AUF's negative balance
15 in accrued taxes.

16
17 **Q. EXPLAIN THE IMPACT THAT A NEGATIVE BALANCE IN**
18 **ACCRUED TAXES HAS ON THE WORKING CAPITAL**
19 **ALLOWANCE.**

20 A. Normally, the balance in accrued taxes serves to decrease the amount of the
21 company's investment in working capital. A negative balance in accrued
22 taxes not only doesn't decrease the working capital but exacerbates the
23 company's investment in working capital requirement. If the Commission
24 were to allow a negative balance in accrued taxes to be included in the
25 working capital calculation for a rate case proceeding, then the customers

1 would be paying a return on an investment that is based on an anomaly and a
2 non-recurring event. The non-recurring event is that the company has
3 petitioned the Commission for a rate increase which would be designed to
4 generate sufficient income with a corresponding positive income tax
5 obligation.

6
7 **Q. HAS THE PSC STAFF COMMUNICATED ANY CONCERNS ABOUT**
8 **THE NEGATIVE BALANCE IN ACCRUED TAXES FOR THIS CASE?**

9 A. Yes. The PSC staff auditors also questioned the appropriateness of such a
10 large negative balance for accrued taxes in Staff Audit Finding No. 7. The
11 staff auditors noted in that finding the following:

12 The ending balance for accrued taxes, as included in the
13 working capital allowance, for all systems has a year-end debit
14 balance of \$2,860,234 and a 13-month average balance of
15 \$1,155,342. Per the utility "The accrued liabilities section on
16 the balance sheet in the MFR reports the liabilities owed and
17 since more taxes are due to the company and not owed from
18 the company a negative amount appears on the accrued taxes
19 section of the balance sheet." The utility provided a detailed
20 listing of system balances, however, this response did not
21 address why the accrual has a substantial debit balance. The
22 company should reconcile the accrued taxes so that it is clear
23 how much is owed for each type of tax and how much is a
24 receivable for each type of tax. This information will need to
25 be reviewed by the analyst to determine what balances relate to

1 a normalized expense for the test year. Any additional balance
2 should be reviewed for appropriate disposition.

3

4 **Q. WHAT REGULATORY ADJUSTMENT SHOULD BE MADE TO**
5 **ACCRUED TAXES?**

6 A. I agree with the staff auditors that the balance in accrued taxes should be
7 normalized to recognize that the company will be given a fully compensatory
8 income tax expense through its revenue requirement. While the company
9 reported losses in 2006 and 2007, the parent and AUF have benefitted from
10 the net operating losses that AUF has generated. If the Commission finds that
11 some rate relief is required, the company will be given the opportunity to
12 collect compensatory rates including income tax expense. This rate increase
13 will include a revenue increase that commonly takes the negative income tax
14 expense up to a positive expense on the revenue requirement calculated.
15 Because the customers have to pay rates sufficient to bring the negative
16 income tax expense up to the positive level on the new revenue requirement, it
17 would be unfair for the customers to also pay a return on negative accrued
18 taxes. To remedy this, I have made a pro forma adjustment to reflect the
19 balance of accrued taxes related to income tax expense will be generated when
20 the company receives fully compensatory income tax expense in this docket.

21

22 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT RELATED TO ACCRUED**
23 **TAXES IN THE WORKING CAPITAL ALLOWANCE.**

24 A. I have recommended that the company's requested negative (debit)
25 \$1,155,342 balance of accrued taxes be adjusted to properly reflect a positive

1 (credit) balance to reflect the type of balance that would normally belong in
2 accrued taxes.

3

4 **Q. HOW DID YOU MAKE YOUR PRO FORMA ADJUSTMENT TO**
5 **ACCRUED TAXES?**

6 A. First, I calculated the incremental difference between the 2007 book income
7 tax expense to the requested final income tax expense that AUF has requested
8 in this rate case. I then calculated the incremental income tax expense that the
9 company received as part of its rate case proceeding for a non-PSC
10 jurisdictional system that was just finalized with Sarasota County. This
11 calculation generated an estimated balance of accrued taxes of \$1.6 million.
12 As a sanity check, I compared this result with the 2007 projected balance of
13 \$693,933 for accrued taxes that the company used in Docket No 0060368-
14 WS. After conducting this sanity check, it appeared that \$1.6 million in
15 accrued taxes was too high of an estimate to use as a proxy of what a normal
16 balance of accrued taxes for this company would be. To compensate for this I
17 reduced the income tax effect on the requested revenue increase by 30%.
18 After making this calculation, I generated a proforma balance of accrued taxes
19 of \$657,340. Comparing this amount to the prior case projected balance of
20 \$693,933 provided by the company, I believe that the end result of my
21 calculation of proforma accrued taxes is reasonable to use to calculate
22 working capital for AUF. Exhibit ___ (PWM-2, Schedule 3(e)), reflects my
23 calculations related to accrued taxes.

24

25 **Q. WHICH PARTY HAS THE BURDEN TO PROVE THE**

1 **REASONABLENESS OF ITS REQUESTED COSTS?**

2 A. Ultimately, the burden is on the utility to show why its requested accrued tax
3 balance should be allowed, and I do not believe that the company has met this
4 burden in this case. Absent this showing, I believe that my recommended
5 balance is an estimate of what is a reasonable level of accrued taxes to be used
6 to set future rates. This is confirmed by the projected balance that the
7 company requested in its last rate case. Based on the above, the balance of
8 accrued taxes to include in the working capital calculation should be
9 \$657,340.

10

11 Pensions and Other Operating Reserves

12 **Q. WHAT ADJUSTMENT HAVE YOU MADE TO PENSIONS AND**
13 **OTHER OPERATING RESERVES?**

14 A. I have reflected the average balance of Pension & Other Operating Reserves
15 as an additional liability to the working capital calculation as the accounts
16 relate to utility operations. The company has already included the balance of
17 its Pension Reserve as part of in its 2006 balance of Miscellaneous Current
18 and Accrued Liabilities. However, it did not include the balance of Pension
19 Reserves or Other Operating Reserves in its 2007 liabilities. Accordingly, I
20 have increased Pensions & Other Operating Reserves by an average balance
21 of \$84,225. Because the Pensions Reserves were already included in the 2006
22 Miscellaneous Current & Accrued Liabilities, I reflected the balance of
23 Pension Reserves as zero for 2006 to not double count the amount that was
24 already included in the 2006 balance. Exhibit ___ PWM-2, Schedule 3(d),
25 attached to my direct testimony reflects the supporting calculation for this

1 adjustment.

2

3 Deferred Rate Case Expense

4 **Q. WHAT ADJUSTMENT HAVE YOU MADE TO DEFERRED RATE**
5 **CASE EXPENSE?**

6 A. I have removed the deferred rate case expense for this current case from the
7 working capital calculation. This is based on the testimony of OPC witness
8 Dismukes who has recommended that rate case expense be zero at this time.
9 Witness Dismukes is waiting until all documentation for rate case expense is
10 received from the Company and will update her recommendation when that
11 support is received.

12

13 **Q. IF THE COMMISSION DOES ALLOW RATE CASE EXPENSE TO**
14 **BE RECOVERED BY CUSTOMERS, WHAT METHOD SHOULD BE**
15 **USED TO REFLECT THE UNAMORTIZED BALANCE IN THE**
16 **WORKING CAPITAL CALCULATION?**

17 A. I believe that one-half of the total rate case expense allowed by the
18 Commission should be included in working capital. This reflects that working
19 capital will only be increased by the average, unamortized balance of deferred
20 rate case expense that will be in affect during the 4-year amortization period.
21 This is consistent with the treatment that the Commission has allowed in the
22 past, most recently in the 2007 rate case for Florida Public Utilities Company.
23 See Order No. PSC-08-0327-FOF-EI, issued on May 19, 2008 in Docket Nos.
24 070300-EI and 070304-EI. On page 33 of the order, the Commission stated:
25 "Our practice in prior rate cases, including FPUC's, is to allow one-half of the

1 rate case expense in Working Capital.” If the Commission ultimately
2 determines that AUF has shown that any of its requested rate case expense is
3 prudent, then only one-half of the total balance of rate case expense approved
4 should be included in the working capital calculation.

5
6 Total Recommended Working Capital Allowance

7 **Q. WHAT IS THE TOTAL BALANCE OF WORKING CAPITAL THAT**
8 **YOU ARE RECOMMENDING SHOULD BE INCLUDED IN THIS**
9 **RATE CASE?**

10 A. Based on the adjustments that I have discussed above, working capital that
11 should be allocated to all AUF systems should be \$646,660. The allocated
12 share of working capital for the systems in the current rate case is \$425,797.
13 Additionally, the balance of regulatory assets approved by Order No. PSC-05-
14 1242-PAA-WS, which total \$564,563, should be added on a system-specific
15 basis. This results in a total working capital for the combined systems of
16 \$990,360. In its MFRs AUF requested a total working capital allowance of
17 \$3,345,346 and my adjustments reflect a decrease to the requested amount of
18 \$2,354,986.

19
20 Accumulated Deferred Income Taxes

21 **Q. DO YOU RECOMMEND ANY ADJUSTMENTS TO ACCUMULATED**
22 **DEFERRED INCOME TAXES WHICH ARE INCLUDED IN THE**
23 **CAPITAL STRUCTURE?**

24 A. Yes. In its response to OPC Interrogatory No. 102, the company admitted that
25 it did not consider the deferred taxes related to the proforma additions to plant

1 when the MFRs were originally filed. AUF stated that the appropriate amount
2 of deferred income taxes associated with its proforma plant adjustment was
3 provided on a compact disc labeled "AUF's 7-28-08 Answers to OPC 2nd
4 ROGs." According to this spreadsheet, the total company amount of deferred
5 income taxes should be increased by \$830,318 (\$117,477 related to IT
6 equipment and \$712,841 related to other 2008 proforma plant additions).
7 Also, in response to OPC Interrogatory 103, the company provided the
8 December 2006 and 2007 balances of deferred income taxes associated with
9 Corporate IT and Corporate Structure and Improvements. The December
10 2006 balance was \$23,453 and December 2007 balance was \$20,675,
11 reflecting an average balance of \$22,064, which should be added to the capital
12 structure. In total, accumulated deferred income taxes should be increased by
13 \$852,382. My calculations are reflected on Exhibit ___ (PWM-2, Schedule 4)
14 attached to my direct testimony.

15
16 Allowance for Funds Prudently Invested (AFPI)

17 **Q. CAN YOU EXPLAIN THE CONCEPT OF AFPI?**

18 A. Yes. AFPI allows the utility the opportunity to collect revenues from future
19 customers to pay for the portion of plant and expenses that have been removed
20 from the rate case revenue requirement calculation by non-used and useful
21 adjustments. This revenue is collected when the prospective customers
22 connect onto the system and is in addition to the amount of service availability
23 charges (CIAC) that the new customer is required to pay. This revenue is
24 considered as below the line, meaning that it is not added into utility operating
25 revenues when rates are set in a rate proceeding.

1

2 **Q. HAVE YOU REVIEWED THE COMPANY'S REQUESTED AFPI**
3 **CHARGES?**

4 A. Yes. The company originally filed AFPI charges with its MFRs on a system
5 specific basis for each system in which the company calculated a non-used
6 and useful adjustment in this case. The original requested AFPI petition and
7 calculations submitted contained numerous methodology errors. After
8 responding to OPC discovery, the company filed revised AFPI charges and
9 corrected many of those errors. The revised tariffs are what I will address in
10 my testimony.

11

12 **Q. DO YOU HAVE ANY GENERAL COMMENTS ABOUT THE**
13 **COMPANY'S REVISED AFPI CHARGES?**

14 A. Yes I do. There are several fall-out adjustments that need to be considered by
15 the Commission. First, I believe that the Commission should adjust each
16 AFPI calculation for all corresponding changes in the revenue requirement
17 calculations. These include adjustments made to used and useful for plant,
18 accumulated depreciation, depreciation expense, property taxes, and future
19 customers. Further, if the Commission makes adjustments to the company's
20 requested rate of return on equity or other cost of capital components
21 impacting the overall rate of return, these percentages should be changed in
22 the AFPI calculation. Second, there are several limiting factors that I believe
23 that the Commission should consider. Most of the plants in which the
24 company has requested new AFPI charges are systems that currently have a
25 tariff and are former Florida Water Services Corp. systems. For a given

1 system, if the company has not shown that it has added any new growth-
2 related plant that is subject to a non-used and useful adjustment above what
3 was approved in the last rate case, the charge should be limited to the charge
4 that exists in the current tariff. Further, in several instances the company has
5 requested new charges which are less than those approved in the current tariff.
6 Likewise, those charges should be limited to the charges requested.

7
8 **Q. WHAT CONCERNS DO YOU HAVE ABOUT THE INFORMATION**
9 **SUBMITTED ON THE COMPANY'S REQUESTED TARIFF**
10 **SHEETS?**

11 A. The company's requested tariff sheets for AFPI do not state the number of
12 remaining connections to which each charge applies. If the Commission
13 approves a new tariff or revises a prior tariff, the tariff should provide this
14 crucial information. While this information was left off of the company's
15 proposed tariffs submitted in this case, the future connections to which the
16 charges apply are currently shown on Aqua's existing AFPI tariff page. The
17 purpose for having this notation on the tariff is to place the company on notice
18 that the charges are not unbounded and will expire when the stated numbers of
19 connections have paid the charge.

20
21 **Q. DO YOU HAVE ANY SPECIFIC COMMENTS ON ANY AFPI**
22 **CHARGES REQUESTED?**

23 A. Yes. There are two instances in which the company has used incorrect
24 numbers for future equivalent residential connections (ERCs) customers. This
25 happened on the AFPI calculations for Hermits Cove water treatment plant

1 and on Village Water wastewater treatment plant. These systems will need to
2 be corrected prior to determining whether the requested AFPI charge for
3 treatment plant should be approved.

4

5 **Q. ARE THERE ANY AFPI TARIFFS THAT NEED TO BE**
6 **CANCELLED?**

7 A. Yes. There are numerous systems that have existing AFPI tariffs which the
8 company did not include in its AFPI petition. These systems are also shown
9 as 100% used and useful in the company's MFRs. Unless, the Commission
10 makes non-used and useful adjustments to these systems, the following AFPI
11 tariffs should be cancelled:

12 Beecher's Point, Chuluota, FL Central Commerce Park, Friendly Center,
13 Hobby Hills, Jungle Den, Kingswood, Morningview, Palm Terrace, Piney
14 Woods, Quail Ridge, River Grove, Silver lake Est/Western, Valencia Terrace,
15 and Zephyr Shores.

16

17 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

18 A. Yes, it does.

CERTIFICATE OF SERVICE
DOCKET NO. 080121-WS

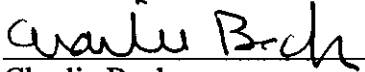
I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U.S. Mail to the following parties on this 13th day of September, 2008.

Ralph Jaeger
Florida Public Service Commission
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Resume

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Professional Experience:

March, 2005 to Present

Office of Public Counsel –Chief Legislative Analyst

In my current position, I perform financial and accounting analysis and reviews, and provide testimony, as required, involving utility filings before the Florida Public Service Commission on behalf of the Citizens of the State of Florida.

1981 to February, 2005 - Florida Public Service Commission

2000 to February, 2005

Public Utilities Supervisor – File and Suspend Rate Case Section, Bureau of Rate Filings, Division of Economic Regulation

In this capacity I supervised 5 to 8 regulatory professionals. This section performed financial, accounting, engineering and rate review and evaluation of rate proceedings for large water and wastewater utilities, as well as electric and gas utilities regulated by the Commission. The types of cases included file and suspend rate cases, limited proceedings, overearning investigations, annual report reviews, service availability and tariff filings, rulemaking, and customer complaints. The section reviewed utility filings, requested and reviewed Commission staff audits, and generated and analyzed discovery requests. I coordinated and prepared staff recommendations to the Commission for agenda conferences. I reviewed the analyses and written documentation of all analysts in this section for proper regulatory theory, grammar and accuracy. I also made presentations to customer groups at Commission staff customer meetings for the rate proceedings to which I was assigned. We presented recommendations at agenda conferences, providing responses to comments and questions by other parties and Commissioners. I also prepared and presented testimony, and assisted in the preparation of cross-examination questions for depositions and formal hearings. Additionally, I provided training in regulatory theory for new staff and provided training on regulatory and accounting issues for other analysts at the Commission.

1989 – 2000

Regulatory Analyst Supervisor, Accounting Section, Bureau of Economic Regulation, Division of Water and Wastewater

I supervised 5-7 regulatory accounting analysts. This section performed the same job activities as above specifically for the larger Commission regulated Class A and B water and wastewater companies.

1983 – 1989

Regulatory Analyst – Accounting Bureau, Division of Water and Wastewater

As an accounting analyst, I performed the same job activities as described above for water and wastewater companies in a non-supervisory role.

1981 – 1983

Public Utilities Auditor, Division of Auditing and Financial Analysis

As an auditor in the Tallahassee district of the Commission, I performed financial and accounting audits of electric, gas, telephone, water and wastewater utilities under the Commission's jurisdiction.

Education and Professional Licenses

1981 Bachelor of Science with a major in accounting from Florida State University

1983 Received a Certified Public Accountant license in Florida

List of Cases in which Testimony was Submitted

Dockets before the Florida Public Service Commission:

Docket No. 070304-EI - Petition for rate increase by Florida Public Utilities Company and
Docket No. 070300-EI - Review of 2007 Electric Infrastructure Storm Hardening Plan filed pursuant to Rule 25-6.0342, F.A.C., submitted by Florida Public Utilities Company. (Testified at hearing)

070052-EI - Petition by Progress Energy Florida, Inc. to recover costs of Crystal River Unit 3 Uprate through fuel clause. (Testified at hearing)

060162-EI – Petition by Progress Energy Florida, Inc. to recover modular cooling tower costs through the Environmental Cost recovery clause. (Filed testimony stipulated into record)

050958-EI – Petition for approval of new environmental program for cost recovery through Environmental Cost Recovery Clause by Tampa Electric Company. (Testified at hearing)

060658-EI - Petition on Behalf of Citizens of the State of Florida to require Progress Energy Florida, Inc. to Refund Customers \$143 million. (Filed testimony stipulated into record)

060362-EI - Petition to Recover Natural Gas Storage Project Costs through Fuel Cost Recovery Clause, by Florida Power & Light Company. (Testified at hearing)

050045-EI - Petition for Rate Increase by Florida Power & Light Company. (Filed testimony, deposed, case settled prior to hearing)

991643-SU - Application for Increase in Wastewater Rates in Seven Springs System in Pasco County by Aloha Utilities, Inc. (testified at hearing)

971663-WS - Application of Florida Cities Water Company, Inc. for a limited proceeding to recover environmental litigation costs. (All testimony and exhibits stipulated into record without hearing)

940847-WS - Application of Ortega Utility Company for increased water and wastewater rates. (Testified at hearing)

911082-WS - Water and Wastewater Rule Revisions to Chapter 25-30, Florida Administrative Code. (Testified at hearing)

881030-WU - Investigation of Sunshine Utilities of Central Florida rates for possible over earnings. (Testified at hearing)

850151-WS - Application of Marco Island Utilities, Inc. for increased water and wastewater rates. (Testified at hearing)

850031-WS - Application of Orange/Osceola Utilities, Inc. for increased water and wastewater rates in Osceola County (testified at hearing)

840047-WS - Application of Poinciana Utilities, Inc. for increased water and wastewater rates (testified at hearing)

Cases before the Division of Administrative Hearings:

97-2485RU - Aloha Utilities, Inc., and Florida Waterworks Association, Inc., Petitioners, vs. Public Service Commission, Respondents, and Citizens of the State of Florida, Office of Public Counsel, Intervenors (deposed and testified at hearing)

Aqua Utilities Florida, Inc.
Adjustment to Correct Test Year
Amortization of CIAC

Docket No. 080121-WS
Exhibit No. ___(PWM-2)
Schedule 1
CIAC Amortization Adjustment
Page 1 of 1

<u>Acct Unit</u>	<u>Division</u>	<u>Increase (Credit)</u> <u>TY Amort. of CIAC</u>	<u>Increase (Debit) Avg.</u> <u>Acc. Amort. of CIAC</u>
6439	Beecher's Point Wastewater	(\$972)	\$526
6405	Carlton Village Water	(\$944)	\$511
6456	Chuluota Water	(\$10,658)	\$5,773
6457	Chuluota Wastewater	(\$66,745)	\$36,153
6407	Fern Terrace Water	(\$439)	\$238
6461	Florida Central Commerce Pk WW	(\$29,198)	\$15,816
6408	Friendly Center Water	(\$300)	\$162
6433	Gibsonia Estates Water	(\$299)	\$162
6409	Grand Terrace Water	(\$60)	\$32
6462	Harmony Homes Water	(\$25)	\$13
6440	Hermits Cove Water	(\$238)	\$129
6410	Hobby Hills Water	(\$146)	\$79
6411	Holiday Haven Water	(\$231)	\$125
6412	Holiday Haven Wastewater	(\$3,862)	\$2,092
6467	Jungle Den Water	(\$480)	\$260
6468	Jungle Den Wastewater	(\$7,349)	\$3,981
6434	Lake Gibson Water	(\$8,167)	\$4,424
6435	Lake Gibson Wastewater	(\$8,715)	\$4,720
6414	Morningview Water	(\$182)	\$99
6415	Morningview Wastewater	(\$375)	\$203
6436	Orange Hill/Sugar Creek Water	(\$899)	\$487
6429	Palm Terrace Water	(\$76)	\$41
6430	Palm Terrace Wastewater	(\$19,016)	\$10,300
6416	Palms MH Park Water	(\$177)	\$96
6418	Piney Woods Water	(\$796)	\$431
6446	Pomona Park Water	(\$651)	\$353
6419	Quail Ridge Water	(\$3,637)	\$1,970
6420	Silver Lake Estates Water	(\$3,688)	\$1,998
6449	Silver Lake Oaks Wastewater	(\$60)	\$33
6421	Skycrest Water	(\$611)	\$331
6450	St. Johns Highlands Water	(\$517)	\$280
6422	Stone Mountain Water	(\$196)	\$106
6428	Tangerine Water	(\$1,527)	\$827
6388	The Woods Wastewater	(\$1,866)	\$1,011
6469	Tomoka/Twin Rivers Water	(\$2,197)	\$1,190
6423	Valencia Terrace Water	(\$355)	\$192
6424	Valencia Terrace Wastewater	(\$486)	\$263
6453	Wootens Water	(\$319)	\$173
	Grand Total	(\$176,454)	\$95,580

Aqua Utilities Florida, Inc.
Adjustments to Working Capital
Historical Test Year Ended December 31, 2007

Docket No. 080121-WS
Exhibit No. ___(PWM-2)
Schedule 3(b), Page 1 of 2

<u>System Name</u>	<u>Reallocated WCA</u>	<u>Specific Reg. Assets</u>	<u>OPC Recom WCA</u>	<u>Requested WCA</u>	<u>OPC WCA Per System</u>
<u>PSC Regulated Systems</u>					
1 48 Est - Water	\$1,448	\$0	\$1,448	\$8,990	(\$7,542)
2 Arredondo Est/Farms- Water	\$10,291	\$0	\$10,291	\$63,469	(\$53,178)
3 Arredondo Farms - Sewer	\$6,134	\$0	\$6,134	\$37,216	(\$31,082)
4 Beecher's Point - Water	\$886	\$4,503	\$5,389	\$9,813	(\$4,423)
5 Beecher's Point - Sewer	\$307	\$1,888	\$2,195	\$3,726	(\$1,531)
6 Carlton Village - Water	\$4,174	\$6,986	\$11,160	\$32,002	(\$20,841)
7 Chuluota - Water	\$24,194	\$33,577	\$57,771	\$217,369	(\$159,599)
8 Chuluota - Sewer	\$10,325	\$6,384	\$16,709	\$79,037	(\$62,328)
9 E Lake Harris Estates - Water	\$3,016	\$8,333	\$11,349	\$26,406	(\$15,057)
10 Fern Terrace - Water	\$2,130	\$5,937	\$8,067	\$18,700	(\$10,633)
11 FCC Park - Sewer	\$1,107	\$6,944	\$8,051	\$80,324	(\$72,273)
12 Friendly Center - Water	\$528	\$967	\$1,495	\$4,133	(\$2,637)
13 Gibsonia Estates - Water	\$3,339	\$0	\$3,339	\$20,012	(\$16,673)
14 Grand Terrace - Water	\$1,874	\$5,216	\$7,091	\$16,750	(\$9,660)
15 Haines Creek - Water	\$1,891	\$0	\$1,891	\$11,334	(\$9,442)
16 Harmony Homes - Water	\$1,090	\$2,956	\$4,047	\$10,639	(\$6,593)
17 Hermits Cove - Water	\$3,118	\$8,185	\$11,303	\$26,870	(\$15,567)
18 Hobby Hills - Water	\$1,772	\$4,531	\$6,303	\$15,150	(\$8,847)
19 Holiday Haven - Water	\$2,130	\$5,271	\$7,401	\$18,034	(\$10,633)
20 Holiday Haven - Sewer	\$1,891	\$4,378	\$6,270	\$30,086	(\$23,817)
21 Imperial Mobile Ter - Water	\$4,225	\$11,459	\$15,684	\$37,422	(\$21,737)
22 Interlac Lk/Pk Manor - Water	\$4,907	\$11,920	\$16,827	\$41,326	(\$24,499)
23 Interlac Lk/Pk Manor - Sewer	\$528	\$1,574	\$2,102	\$5,198	(\$3,096)
24 Jasmine Lakes - Water	\$26,596	\$0	\$26,596	\$163,222	(\$136,625)
25 Jasmine Lakes - Sewer	\$26,460	\$0	\$26,460	\$169,387	(\$142,927)
26 Jungle Den - Water	\$1,959	\$5,307	\$7,266	\$17,049	(\$9,783)
27 Jungle Den - Sewer	\$2,334	\$5,518	\$7,852	\$22,808	(\$14,956)
28 Kings Cove - Water	\$3,561	\$0	\$3,561	\$21,971	(\$18,410)
29 Kings Cove - Sewer	\$3,408	\$0	\$3,408	\$20,421	(\$17,013)
30 Kingswood - Water	\$1,090	\$2,914	\$4,004	\$9,448	(\$5,444)
31 Lake Gibson Estates - Water	\$14,363	\$0	\$14,363	\$86,074	(\$71,711)
32 Lake Gibson Estates - Sewer	\$5,435	\$0	\$5,435	\$32,571	(\$27,136)
33 Lake Josephine - Water	\$9,763	\$0	\$9,763	\$60,536	(\$50,773)
34 Lake Osborne Est - Water	\$7,991	\$0	\$7,991	\$47,887	(\$39,896)
35 Lake Suzy - Water	\$9,626	\$0	\$9,626	\$57,689	(\$48,062)
36 Lake Suzy - Sewer	\$4,600	\$0	\$4,600	\$28,356	(\$23,756)
37 Leisure Lakes - Water	\$4,941	\$11,420	\$16,361	\$41,030	(\$24,669)
38 Leisure Lakes - Sewer	\$4,805	\$10,785	\$15,590	\$39,578	(\$23,989)
39 Morningview - Water	\$647	\$2,232	\$2,880	\$6,112	(\$3,233)
40 Morningview - Sewer	\$613	\$1,715	\$2,329	\$6,141	(\$3,812)
41 Oakwood - Water	\$3,936	\$9,822	\$13,758	\$33,408	(\$19,650)
42 Ocala Oaks - Water	\$30,975	\$0	\$30,975	\$197,721	(\$166,746)
43 Orange Hill/Sugar Cr - Water	\$4,140	\$0	\$4,140	\$24,811	(\$20,671)

Aqua Utilities Florida, Inc.
Adjustments to Working Capital
Historical Test Year Ended December 31, 2007

Docket No. 080121-WS
Exhibit No. ___(PWM-2)
Schedule 3(b) Page 2 of 2

<u>System Name</u>	<u>Reallocated WCA</u>	<u>Specific Reg. Assets</u>	<u>OPC Recom WCA</u>	<u>Requested WCA</u>	<u>OPC WCA Per System</u>
<u>PSC Regulated Systems (cont.)</u>					
44 Palm Port - Water	\$1,840	\$5,001	\$6,841	\$16,028	(\$9,187)
45 Palm Port - Sewer	\$1,823	\$5,005	\$6,828	\$15,930	(\$9,102)
46 Palm Terrace - Water	\$20,207	\$57,097	\$77,304	\$178,192	(\$100,888)
47 Palm Terrace - Sewer	\$17,464	\$48,619	\$66,083	\$154,484	(\$88,401)
48 Palms MHP - Water	\$1,056	\$2,746	\$3,802	\$9,076	(\$5,274)
49 Picciola Island - Water	\$2,556	\$6,442	\$8,998	\$22,796	(\$13,798)
50 Piney Woods - Water	\$3,050	\$7,883	\$10,933	\$26,160	(\$15,227)
51 Pomona Park - Water	\$3,016	\$8,901	\$11,917	\$26,974	(\$15,057)
52 Quail Ridge - Water	\$1,636	\$826	\$2,462	\$10,628	(\$8,166)
53 Ravenswood - Water	\$767	\$0	\$767	\$4,925	(\$4,158)
54 River Grove - Water	\$1,823	\$4,910	\$6,734	\$15,836	(\$9,102)
55 Rosalie Oaks - Water	\$1,653	\$0	\$1,653	\$10,385	(\$8,732)
56 Rosalie Oaks - Sewer	\$1,653	\$0	\$1,653	\$12,875	(\$11,222)
57 Sebring Lakes - Water	\$1,312	\$0	\$1,312	\$8,864	(\$7,552)
58 Silver Lake Oaks - Water	\$750	\$1,347	\$2,097	\$5,840	(\$3,743)
59 Silver Lake Oaks - Sewer	\$733	\$1,265	\$1,997	\$10,166	(\$8,168)
60 Silver Lake/W Shores - Water	\$27,448	\$84,225	\$111,673	\$248,714	(\$137,041)
61 Skycrest - Water	\$2,079	\$5,397	\$7,475	\$17,853	(\$10,378)
62 South Seas - Sewer	\$1,159	\$0	\$1,159	\$11,754	(\$10,595)
63 St. John's Highlands - Water	\$1,687	\$3,967	\$5,654	\$14,075	(\$8,422)
64 Stone Mountain - Water	\$170	\$356	\$527	\$1,377	(\$851)
65 Summit Chase - Water	\$3,748	\$0	\$3,748	\$24,595	(\$20,847)
66 Summit Chase - Sewer	\$3,714	\$0	\$3,714	\$25,230	(\$21,515)
67 Sunny Hills - Sewer	\$3,067	\$29,383	\$32,450	\$88,603	(\$56,153)
68 Sunny Hills - Water	\$9,882	\$8,424	\$18,306	\$26,802	(\$8,497)
69 Tangerine - Water	\$4,856	\$0	\$4,856	\$29,100	(\$24,244)
70 The Woods - Water	\$1,295	\$0	\$1,295	\$7,920	(\$6,626)
71 The Woods - Sewer	\$1,227	\$0	\$1,227	\$12,846	(\$11,620)
72 Tomoka/Twin Rivers - Water	\$4,617	\$0	\$4,617	\$27,670	(\$23,053)
73 Valencia Terrace - Water	\$6,031	\$18,191	\$24,222	\$54,474	(\$30,252)
74 Valencia Terrace - Sewer	\$5,946	\$18,308	\$24,254	\$62,162	(\$37,908)
75 Venetian Village - Water	\$2,811	\$6,587	\$9,398	\$23,434	(\$14,036)
76 Venetian Village - Sewer	\$1,619	\$4,183	\$5,801	\$13,883	(\$8,081)
77 Village Water - Water	\$3,135	\$0	\$3,135	\$18,787	(\$15,652)
78 Village Water - Sewer	\$596	\$0	\$596	\$27,134	(\$26,537)
79 Welaka/Saratoga - Water	\$2,641	\$6,591	\$9,232	\$22,417	(\$13,185)
80 Wootens - Water	\$494	\$1,155	\$1,649	\$4,116	(\$2,467)
81 Zephyr Shores - Water	\$8,877	\$23,564	\$32,440	\$76,760	(\$44,319)
82 Zephyr Shores - Sewer	\$8,809	\$23,469	\$32,278	\$76,257	(\$43,979)
Total PSC Regulated Systems	<u>\$425,797</u>	<u>\$564,563</u>	<u>\$990,360</u>	<u>\$3,345,346</u>	<u>(\$2,354,986)</u>
Total Other Jurisdictions	<u>\$220,864</u>	<u>\$0</u>	<u>\$220,864</u>		
Total Aqua Utilities Florida	<u>\$646,660</u>	<u>\$564,563</u>	<u>\$1,211,223</u>		

Accounts Receivable

1 Remove officer and employee receivables (\$1,000)

Pension & Other Operating Reserves Adjustment

2 Misc. Current & Accrued Liabilities (MC&AL)
 3 Balance Per 2006 annual Report \$414,459
 4 Pension Reserve \$49,446
 8 Balance MC&AL Per Balance Sheet MFRs 12/31/06 \$463,905

	<u>12/31/2006</u>	<u>12/31/2007</u>	<u>Average</u>
6 <u>Pension & Other Operating Reserves</u>			
7 Pension & Benefits Reserve	\$0	\$46,208	\$23,104
8 Other Operating Reserves	<u>\$0</u>	<u>\$122,242</u>	<u>\$61,121</u>
9 Total	<u>\$0</u>	<u>\$168,450</u>	<u>\$84,225</u>

10 Note: Pension Reserve included in Misc. Current & Accr. Liabilities in company's 2006 balance

**Aqua Utilities Florida, Inc.
Accrued Taxes in Working Capital**

**Exhibit No. ___(PWM-2)
Schedule No. 3(e)
Accrued Taxes
Page 1 of 1**

	<u>Company Average Balance</u>	<u>OPC Recomm. Adjustment</u>	<u>OPC Adjusted Balance</u>
<u>Accrued Taxes-Summary</u>	<u>(\$1,155,342)</u>	<u>\$1,812,682</u>	<u>\$657,340</u>

Calculation of Proforma Adjustment

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(10)	(11)
	Per Books 2007	Utility Test Year Adjustment	Adjusted Test Year 2007	Pro Forma Adjustments	Pro Forma Adjusted	Requested Revenue Adjustment	Requested Annual Revenues	2007 Gross Difference	OPC Net Adjustment
<u>Docket No. 080121-WS AUF *</u>									
Provision for Income Taxes									
Water	(\$335,216)	(\$240,727)	(\$575,943)	(\$349,088)	(\$925,031)	\$1,638,781	\$713,750		
Sewer	<u>(\$320,050)</u>	<u>(\$194,940)</u>	<u>(\$514,990)</u>	<u>(\$210,971)</u>	<u>(\$725,961)</u>	<u>\$1,398,614</u>	<u>\$672,653</u>		
	<u>(\$655,266)</u>	<u>(\$435,667)</u>	<u>(\$1,090,933)</u>	<u>(\$560,059)</u>	<u>(\$1,650,992)</u>	<u>\$3,037,395</u>	<u>\$1,386,403</u>	<u>\$2,041,669</u>	

Adjustment to reduce income tax expense approved (\$969,268)
Adjusted Total Estimated Change in Income Tax Expense \$1,072,401

Sarasota Rate Increase in income taxes **

	<u>Test Year 2006</u>	<u>Projections</u>	<u>Adj 2007</u>	<u>Adjustments</u>	<u>Adjusted Proposed</u>	<u>Staff Adjustments</u>	<u>Approved</u>	<u>2007 Gross Difference</u>	
Water	(\$8,724)	(\$146,357)	(\$155,081)	\$198,292	\$43,211	(\$4,806)	\$38,405		
Sewer	<u>\$482,722</u>	<u>(\$430,087)</u>	<u>\$52,635</u>	<u>\$673,077</u>	<u>\$725,712</u>	<u>(\$126,282)</u>	<u>\$599,430</u>		
Total	<u>\$473,998</u>	<u>(\$576,444)</u>	<u>(\$102,446)</u>	<u>\$871,369</u>	<u>\$768,923</u>	<u>(\$131,088)</u>	<u>\$637,835</u>	<u>\$740,281</u>	<u>\$740,281</u>
Adjustment Prior to Sanity Check								<u>\$2,781,950</u>	

OPC Recommended Adjustment

\$1,812,682

Sources:

* Response to OPC POD Nos. 2,3,&4, CD#2 file: Mstr_groups_08 Excel File, Schedules B-1 and B-2

** Application of Aqua Utilities Florida on Behalf of Dolomite Utilities Corporation for Adjustment of its Water and Sewer Rates, Fees and Charges
Resolution No. 2008-195 Sarasota County

Aqua Utilities Florida, Inc.
Adjustment to Working Capital
Deferred Debits

Docket No. 080121-WS
Exhibit No. ____ (PWM-2)
Schedule 3(f)
Deferred Debits
Page 1 of 1

		OPC	
		Adjustment	
		to Deferred	
System	System	Debits	Project Description
Name	Code		
1 48 Estates Water	6597	-\$311	Tank Inspection and Report
2 FL Central Commerce Park	6461	-\$178	Repair 40HP motor and pump
3 FL Central Commerce Park	6461	\$8,281	Pond Clean-up
4 Grand Terrace Water	6409	-\$303	Tank Inspection and Report
5 Harmony Homes Water System	6462	-\$14	Wash Hydro Tank/Building, Paint Piping
6 Imperial Terrace	6413	\$599	Wash/paint hydro tank, building, concrete
7 Jasmine Lakes - Wastewater	6391	-\$739	Jetting/cleaning
8 Jasmine Lakes Water	6574	-\$425	Tank Inspection and Report
9 Jungle Den - Wastewater	6468	-\$102	Wastewater facilities O&M manual
10 Kings Cove Water	6595	-\$631	Tank Inspection and Report
11 Lake Suzy - Wastewater	6392	\$1,158	Clean grit tank
12 Palm Terrace - Wastewater	6430	-\$1,208	Sewer lift station and pump repair
13 Picciola Island Water	6417	-\$1,038	Generator Repair
14 Ravenswood Water	6561	-\$330	Tank Inspection and Report
15 Rosalie Oaks - Wastewater	6386	-\$311	Wastewater facilities permit renewal
16 Rosalie Oaks - Wastewater	6386	-\$211	Wastewater facilities O&M manual
17 Rosalie Oaks Water	6562	-\$481	Tank Inspection and Report
18 South Seas - Wastewater	6831	-\$653	Emergency sewer repair
19 Summit Chase - Wastewater	6396	-\$330	Wastewater facilities permit renewal
20 Summit Chase - Wastewater	6396	-\$141	Wastewater facilities O&M manual
21 Village Water - Wastewater	6390	<u>-\$13,846</u>	Pond Berm Clearing
22 Total Adjustment to Deferred Debits		<u>-\$11,213</u>	
23 Company Requested Individual Deferred Debits		<u>\$229,104</u>	
24 Net Increase to Deferred Debits in Working Capital		<u>\$217,890</u>	

Source: Response to OPC Interrogatory 108, provided in AUF's 7-28-08 Responses to OPC 2nd ROGs and Kimberly H. Dismukes Exhibit KHD-1, Schedule 24

Deferred Income Taxes on Proforma Plant and IT Equipment

Response to OPC Interrogatory No. 102

Company admitted that it did not consider the deferred taxes related to the proforma additions to plant when the MFRs were originally filed. AUF calculated the appropriate amount of deferred income taxes associated with proforma plant adjustment on CD labeled "AUF's 7-28-08 Answers to OPC 2nd ROGs."

Proforma Adjustments

\$117,477	IT equipment
<u>\$712,841</u>	other 2008 proforma plant additions
\$830,318	Total addition (Credit) to Deferred Income Taxes

Test Year Corporate IT and Corporate Structure and Improvements

Response to OPC Interrogatory 103

\$23,453	Dec-06
<u>\$20,675</u>	Dec-07
\$22,064	Average
\$852,382	Total Increase (Credit) to Deferred Taxes

Aqua Utilities Florida, Inc.
Allowance for Funds Prudently Invested
Revised AFPI Petition

Docket No. 080121-WS
Exhibit No. ____(PWM-2)
Schedule 5, Page 1 of 1
AFPI Tariffs

<u>SYSTEM</u>	<u>WTP</u>	<u>W Lines</u>	<u>WWTP</u>	<u>WW Lines</u>
48 Estates		1		
* Carlton Village		1		
* Hermits Cove	3	1		
* Holiday Haven		2	1	2
* Interlachen Lake Est	4	1		
* Leisure Lakes		2	2	1
* Palm Port	4	4	4	2
* Palms MH Park		1		
* Picciola Island	1	1		
* Pomona Park	1	2		
Sebring Lakes	1			
* Silver Lake Oaks	4	1	1	1
* St. John's Highlands		1		
* Stone Mountain		1		
* Sunny Hills	4	1	4	1
Tangerine		1		
The Woods		1		1
* Venetian Village	1	4		4
Village Water			3	1
* Welaka/Saratoga	1	1		
* Wootens		1		
<u>Not Included in MFRs</u>				
* Beecher's Point		4	4	4
* Chuluota		4		
* FL Cent Comm park			4	
* Friendly Center		4		
* Hobby Hills	4	4		
* Jungle Den		4	4	
* Kingswood		4		
* Morningview		4	4	4
* Palm Terrace				4
* Piney Woods		4		
* Quail Ridge		4		
* River Grove	4	4		
* Silver Lake Est/W Shores	4	4		
* Valencia Terrace			4	
* Zephyr Shores		4	4	4

Notes:

- * Former FWS systems
- 1 Charges are fine
- 2 Limit charge to current tariff
- 3 Correct future ERCs - company used lines instead of treatment plant ERCs
- 4 Tariffs should be cancelled if no non-used and useful adjustment made in this case.