

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and 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.

DOCKET NO. 080121-WS
FILED: NOVEMBER 20, 2008

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STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-08-0429-PCO-WS, filed June 27, 2008, the Staff of the Florida Public Service Commission files its Prehearing Statement.

a. All Known Witnesses

<u>WITNESS</u>	<u>SUBJECT MATTER</u>	<u>ISSUES</u>
Keith Kleinmann	DEP enforcement action taken due to the South Seas wastewater system providing unauthorized discharges to two golf courses in 2005; and effluent violations in 2008 from the South Seas wastewater plant.	1
Mark Charneski	AUF's compliance with a 2006 Consent Order; the capacity for the wells at Lake Josephine, Sebring Lakes, and Leisure Lakes; and past complaints of low water pressure.	1, 7, 8
Michael Hambor	AUF's compliance status with the Palm Beach County Health Department which includes warning letters, boil water notices, and a 2007-2008 Water Alert issued by the local fire agency.	1
Henry Taghiof	AUF's Polk County systems in compliance.	1
Josie Penton	Status of Sunny Hills' construction permits for the water treatment plant and the wastewater collection system with DEP; and AUF's compliance with warning and compliance letters, and a Short Form Consent Order.	1

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<u>WITNESS</u>	<u>SUBJECT MATTER</u>	<u>ISSUES</u>
Patricia Carrico	Volusia County Health Department compliance enforcement action for the Tomoka View, Twin Rivers and Jungle Den water systems; and other deficiencies at the water treatment plants and water distribution systems.	1
Kathleen H. Gerard	Compliance status of AUF's DEP operating permits for Arredondo Farms, Palm Port, Park Manor, and Silver Lake Oaks wastewater treatment systems; and AUF's compliance with warning and noncompliance letters concerning Arredondo Farms and Silver Lake Oaks.	1
John J. Davis	Compliance and enforcement status of AUF's water systems at Arredondo Estates, Arredondo Farms, Beecher's Point, Hermits Cove/St. John's Highlands, Interlachen Lake Estates, Palm Port, Pomona Park, River Grove, Saratoga Harbour, Silver Lake Oaks, Welaka, and Wootens. His testimony will include comments about noncompliance with a disinfection byproducts rule in 2005, other minor maintenance issues and warning letters, and possible enforcement related to the use of a replacement well at Pomona Park.	1
Jeffrey S. Greenwell	Tests for total sulfides for the Zephyr Shores water system; Village wastewater system is under an amended consent order, and that compliance has not been obtained due to a disposal problem; Palm Terrace and Jasmine Lakes wastewater systems have been issued a warning letter for failing effluent disposal systems, and either	1

<u>WITNESS</u>	<u>SUBJECT MATTER</u>	<u>ISSUES</u>
	need additional disposal or should be connected to the Pasco County Regional Collection System; and The Woods wastewater system has been issued a noncompliance letter because the holding ponds have still not been regraded.	
Gary P. Miller	The primary unresolved issue affecting the Chuluota wastewater system, effluent disposal capacity, which has precluded this system from completing the permit renewal process.	1
Paul J. Morrison	Consent Orders involving Chuluota and Morningview systems, MCL violations for coliforms at Hawks Point, Holiday Haven, Skycrest, and Chuluota water systems; microbial contamination of a well at Carlton Village and Valencia Terrace; and boil water notices issued in 2006-2008 for 28 of Aqua's water systems.	1
Richard Shackford Lott	Water permits issued by the DEP; the Belleair and Ocala Oaks systems that are exceeding their water plant capacities; Summit Chase is approaching its permitted water capacity; and the permit status for improvements to Valencia Terrace and Carlton Village due to well contamination issues.	1
Kimberly Dodson	The resolution of the Consent Order for Morningview; the Chuluota water plant's failure to use previously approved treatment processes for total trihalomethanes (TTHM) control; and the resultant Consent Order. Satisfactory test results for water	1

<u>WITNESS</u>	<u>SUBJECT MATTER</u>	<u>ISSUES</u>
	samples taken at Walker Elementary School on the Chuluota water system in August 2008.	
Rhonda L. Hicks	Complaints filed against AUF with the Commission for the Year 2007 and the Year 2008 through September.	1
Charleston J. Winston	Audit Findings 6-10, 12, 14, and 19.	26, 33, 34, 35
Intesar Terkawi	Audit Findings 13, and 15-17.	33, 34, 35, 41
Debra M. Dobiac	Audit Findings 1-5, 11, and 18.	2, 3, 14, 15, 34, 41, 54
Jay W. Yingling	Water conservation rate structures, price elasticity, and system specific AUF compliance issues.	59
Catherine A. Walker	Water conservation rate structures, system specific AUF compliance issues.	62
Paul W. Stallcup	Repression, rate structure, and rate consolidation.	59, 60, 61, 62, 63, 64, 65, 66

b. All Known Exhibits

<u>WITNESS</u>	<u>EXHIBIT</u>	<u>DESCRIPTION</u>
Keith Kleinmann	(KK-1)	Pollution Prevention Project Implementation Plan Dated March 20, 2008 for South Seas
Josie Penton	(JP-1)	Letter Dated October 8, 2008, Setting out Results of Compliance Inspection of Sunny Hills

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<u>WITNESS</u>	<u>EXHIBIT</u>	<u>DESCRIPTION</u>
Kathleen H. Gerard	(KG-1)	Compliance Evaluation Inspection Letter Dated October 6, 2008 for Arredondo Farms
Kathleen H. Gerard	(KG-2)	Compliance Evaluation Letter Dated October 21, 2008 for Silver Lake Oaks
John J. Davis	(JD-1)	Warning Letter Dated May 23, 2008 for Pomona Park
Jeffry S. Greenwell	(JG-1)	Amendment to Consent Order Dated June 27, 2008, for Village Waters
Jeffry S. Greenwell	(JG-2)	Warning Letter Dated March 9, 2007, for Palm Terrace Gardens
Jeffry S. Greenwell	(JG-3)	Warning Letter Dated March 8, 2008, for Jasmine Lakes
Jeffry S. Greenwell	(JG-4)	Compliance Evaluation Inspection Letter Dated August 6, 2008, for The Woods
Gary P. Miller	(GM-1)	Letter on Wastewater Permit Application for Chuluota
Kimberly Dodson	(KD-1)	Consent Order Executed January 2007 for Chuluota Water System
Rhonda L. Hicks	(RLH-1)	Commission's Summary Listing of Complaints Against AUF for 2007

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<u>WITNESS</u>	<u>EXHIBIT</u>	<u>DESCRIPTION</u>
Rhonda L. Hicks	(RLH-2)	Commission's Summary Listing of Complaints Against AUF for 2008 (through September 2008)
Rhonda L. Hicks	(RLH-3)	Listing of Consumer Complaint Close-out Codes
Charleston J. Winston	(CJW-1)	Audit Report
Charleston J. Winston	(CJW-2)	Audit Work Papers for Working Capital
Charleston J. Winston	(CJW-3)	Audit Work Papers for Finding 12
Charleston J. Winston	(CJW-4)	Audit Work Papers for Allocated Expenses
Charleston J. Winston	(CJW-5)	Audit Work Papers for Finding 19
Intesar Terkawi	(IT-1)	Audit Work Papers for Audit Finding 13 (Fines and Penalties)
Debra M. Dobiac	(DMD-1)	Audit Work Papers for Findings 1 and 2
Debra M. Dobiac	(DMD-2)	Audit Work Papers for Finding 3
Debra M. Dobiac	(DMD-3)	Audit Work Papers for Finding 4
Debra M. Dobiac	(DMD-4)	Audit Work Papers for Finding 5
Debra M. Dobiac	(DMD-5)	Audit Work Papers for

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<u>WITNESS</u>	<u>EXHIBIT</u>	<u>DESCRIPTION</u>
Jay W. Yingling	(JWY-1)	Finding 18 References
Jay W. Yingling	(JWY-2)	Water Conservation Rate Structure Requirements and Active Compliance Issues for AUF Systems Location in the Southwest Florida Water Management District
Jay W. Yingling	(JWY-3)	Single Family Residential Price Elasticities
Catherine A. Walker	(CAW-1)	Resume
Catherine A. Walker	(CAW-2)	Map of the AUF systems located within the SJRWMD Priority Water Resource Caution Areas
Catherine A. Walker	(CAW-3)	AUF consumptive use permit compliance table
Catherine A. Walker	(CAW-4)	Consent orders for Chuluota and Imperial Mobile Terrace systems
Paul W. Stallcup	(PWS-1)	Residential customer system statistics
Paul W. Stallcup	(PWS-2)	Comparison of customer bills using alternative rate factors
Paul W. Stallcup	(PWS-3)	Calculation of inflation adjusted subsidy and affordability amounts

c. Staff's Statement of Basic Position

Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

d. Staff's Position on the Issues

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by the Utility satisfactory, and, if not, what action should be taken by the Commission?

POSITION: No position pending evidence adduced at the hearing.

RATE BASE

ISSUE 2: Should any adjustments be made to test year plant-in-service balances?

POSITION: Yes. The following adjustments should be made.

System	Account	Adjustment	Reason for Adj.
Water			
Lake Suzy	Plant in Service	(\$534,219)	Unsupported Plant
Lake Suzy	CIAC	\$137,077	Corresponding CIAC Adj.
Lake Josephine	Plant in Service	(\$329,672)	Unsupported Plant
Sebring	Plant in Service	(\$20,122)	Unsupported Plant
Lake Osborne	Plant in Service	(\$3,289)	Unsupported Plant
Mobile Terrance	Trans./Dist. Mains	\$1,247	Correct Misclassification of Expense
Wastewater			
Lake Suzy	Plant in Service	(\$1,119,520)	Unsupported Plant

Additional adjustments may be necessary pending evidence adduced at the hearing.

ISSUE 3: Should any adjustments be made to test year land?

POSITION: Yes. To reflect the appropriate 13-month average balance, land for the Lake Suzy wastewater system should be reduced by \$229,259.

ISSUE 4: Should adjustments be made to the Utility's pro forma plant additions?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 5: Do any water systems have excessive unaccounted for water and, if so, what adjustments are necessary?

POSITION: Yes. Pursuant to Rule 25-30.4325(1)(e), F.A.C., twenty six of the water systems have unaccounted for water in excess of 10 percent of the amount produced. A net adjustment of (\$15,887) should be made to Purchased Water, Purchased Power, Fuel for Power, Chemicals, and Materials and Supplies, as shown in the table below.

System	EUW Over 10%	Adjustments to Utility Balances					Net Adjustment
		Purchased Water	Purchased Power	Fuel for Power	Chemicals	Materials & Supplies	
Arredondo Estates/Farms	17.17%	\$0	(\$1,708)	\$0	(\$175)	\$322	(\$1,561)
Chuluota	2.40%	\$0	(\$806)	\$0	(\$861)	\$0	(\$1,667)
Haines Creek	2.10%	\$0	(\$38)	\$0	(\$10)	\$0	(\$47)
Hobby Hills	1.90%	\$0	(\$36)	\$0	(\$4)	\$0	(\$40)
Interlachen Lake/Park Manor	37.43%	\$0	(\$2,105)	\$190	(\$538)	\$1,061	(\$1,392)
Jasmine Lakes	4.25%	\$0	(\$751)	\$0	(\$665)	\$177	(\$1,239)
Lake Gibson Estates	2.20%	\$0	(\$531)	\$0	(\$52)	\$0	(\$583)
Lake Osborne	0.10%	(\$188)	(\$0)	\$0	\$0	\$0	(\$188)
Leisure Lakes	19.60%	\$0	(\$1,097)	\$55	(\$572)	\$130	(\$1,485)
Palms MHP	8.35%	\$0	(\$69)	\$2	(\$54)	\$74	(\$47)
Picciola Island	1.50%	\$0	(\$40)	\$0	(\$5)	\$0	(\$44)
Piney Woods/Spring Lake	1.80%	\$0	(\$73)	\$0	(\$31)		(\$104)
Pomona Park	0.20%	\$0	(\$8)	\$0	(\$1)	\$0	(\$9)
Sebring Lakes	23.09%	\$0	(\$2,309)	\$74	(\$2,232)	\$413	(\$4,054)
Silver Lake Est/Western Shores	1.00%	\$0	(\$603)	\$0	(\$35)	\$0	(\$638)
Summit Chase	47.67%	\$0	(\$2,148)	\$345	(\$358)	\$484	(\$1,676)
Sunny Hills	1.10%	\$0	(\$319)	\$0	(\$9)	\$0	(\$328)
Tangerine	1.30%	\$0	(\$121)	\$0	(\$57)	\$0	(\$178)
Tomoka/Twin Rivers	5.64%	\$0	(\$60)	\$29	(\$418)	\$279	(\$169)
Welaka/Saratoga Harbour	4.34%	\$0	(\$76)	\$0	(\$18)	\$89	(\$5)
Wootens	25.31%	\$0	(\$149)	\$0	(\$36)	\$175	(\$10)
Zephyr Shores	17.46%	\$0	(\$434)	\$0	(\$131)	\$143	(\$423)
Net Adjustments		(\$188)	(\$13,480)	\$695	(\$6,262)	\$3,347	(\$15,887)

In addition, adjustments for excessive unaccounted for water are reflected in the used and useful calculations.

ISSUE 6: Do any wastewater systems have excessive infiltration and/or inflow and, if so, what adjustments are necessary?

POSITION: Yes. Six of the wastewater systems have excessive infiltration and/or inflow. No additional adjustment should be made, with the exception of Beecher's Point. The appropriate adjustment for Beecher's Point will be based on further development of the record.

ISSUE 7: What are the appropriate used and useful percentages for the water treatment and related facilities of each water system?

POSITION: Pursuant to Rule 25-30.5324, F.A.C., the water treatment plant used and useful percentages are as follows:

Water Treatment Plant Used and Useful	
All of the water treatment and related facilities of each system are 100 percent used and useful with the exception of:	
System	Used and Useful Percentage
Carlton Village	95 percent
Picciola Island	75 Percent
Venetian Village	74 Percent
Gibsonia Estates	61 Percent
Lake Josephine/Sebring Lakes	88 Percent
Welaka/Saratoga Harbour	80 Percent
Hermits Cove/St. Johns Highlands	31 Percent
Chuluota	93 Percent
Sunny Hills	94 Percent

ISSUE 8: What are the appropriate used and useful percentages for the water storage and related facilities of each water system?

POSITION: Pursuant to Rule 25-30-4325(8), F.A.C., all of the water storage and related facilities are 100 percent used and useful.

ISSUE 9: What are the appropriate used and useful percentages for the wastewater treatment and related facilities of each wastewater system?

POSITION:

Wastewater Treatment Plant Used and Useful	
All of the wastewater treatment and related facilities of each system are 100 percent used and useful with the exception of:	
System	Used and Useful Percentage
Leisure Lakes	39 Percent
Holiday Haven	75 Percent
Village Water	45 percent
Palm Port	58 Percent
Silver Lake Oaks	42 Percent
The Woods	87 Percent
Sunny Hills	49 Percent

ISSUE 10: What are the appropriate used and useful percentages for the water distribution and related facilities of each water system?

POSITION:

Water Distribution and Related Facilities Used and Useful	
All of the water distribution and related facilities of each system are 100 percent used and useful with the exception of:	
System	Used and Useful Percentage
Oakwood	97 Percent
Lake Josephine	83 Percent
Leisure Lakes	76 Percent
Sebring Lakes	7 Percent
48 Estates	85 Percent
Carlton Village	47 Percent
Holiday Haven	76 Percent
Palms Mobile Home Park	81 Percent
Picciola Island	80 Percent
Piney Woods	94 Percent
Stone Mountain	54 Percent
Tangerine	60 Percent
Gibsonia Estates	96 Percent

System	Used and Useful Percentage
Village Water	80 Percent
Beecher's Point	81 Percent
Hermits Cove	81 Percent
Interlachen Estates	83 Percent
Palm Port	90 Percent
Pomona Park	51 Percent
Silver Lake Oaks	68 Percent
St. Johns Highlands	72 Percent
Welaka/Saratoga Harbour	49 Percent
Wootens	59 Percent
The Woods	46 Percent
Sunny Hills	13 Percent

ISSUE 11: What are the appropriate used and useful percentages for the collection lines and related facilities of each wastewater system?

POSITION:

Wastewater Collection and Related Facilities Used and Useful	
All of the wastewater collection and related facilities of each system are 100 percent used and useful with the exception of:	
System	Used and Useful Percentage
Leisure Lakes	75 Percent
Holiday Haven	75 Percent
Village Water	47 percent
Palm Port	88 Percent
Silver Lake Oaks	66 Percent
The Woods	60 Percent
Sunny Hills	38 Percent

ISSUE 12: What is the appropriate method for calculating the used and useful percentages of water treatment and related facilities for water systems that are interconnected?

POSITION: Interconnected water systems should be considered one system and used and useful should be calculated pursuant to Rule 25-30.4325, F.A.C.

ISSUE 13: What is the appropriate method for calculating the used and useful percentages of water treatment and related facilities of water systems that are actually stand alone systems that have been combined for rate base purposes in this proceeding?

POSITION: Used and useful for stand alone water systems should be calculated separately, pursuant to Rule 25-30.4325, F.A.C., and weighted based on the number of ERCs connected to each system.

ISSUE 14: Should any adjustments be made to test year accumulated depreciation?

POSITION:

System	Account	Adjustment	Reason for Adj.
Water			
Lake Suzy	Accumulated Depr.	\$108,901	Unsupported Balance
Lake Josephine	Accumulated Depr.	\$82,858	Lack of Support Documentation
Sebring	Accumulated Depr.	\$4,005	Lack of Support Documentation
Lake Osborne	Accumulated Depr.	\$941	Lack of Support Documentation
Arrendondo Estates/Farms	Accumulated Depr.	\$16,992	Lack of Support Documentation
Jasmine Lake	Accumulated Depr.	\$35,249	Lack of Support Documentation
Imperial Mobile Terrace	Accumulated Depr.	(\$58)	Correct Misclassification of Expense
Wastewater			
Lake Suzy	Accumulated Depr.	\$359,506	Unsupported Balance

Additional adjustments may be necessary pending evidence adduced at the hearing.

ISSUE 15: Should any adjustments be made to test year accumulated amortization of CIAC?

POSITION: Yes. The following adjustments should be made:

System	Account	Adjustment	Reason for Adj.
Water			
Lake Suzy	Accum. Amort. of CIAC	\$8,891	Unsupported Balance
Ocala Oaks	Accum. Amort. of CIAC	\$11,481	Unsupported Balance
Tangerine	Accum. Amort. of CIAC	(\$2,830)	Correct for Duplicate Reduction
Water and Wastewater Systems			
Multiple Systems	Accum. Amort. of CIAC	(\$95,580)	Failure to Amortize CIAC Subaccounts.

Additional adjustments may be necessary pending evidence adduced at the hearing.

ISSUE 16: Should any adjustments be made to accounts receivable for officers and employees?

POSITION: Yes. Consistent with Commission practice, customer accounts receivable should be reduced by \$1,000 to remove amounts loaned to the Utility's officers and employees.

ISSUE 17: Should any adjustments be made to other deferred debits?

POSITION: Yes. To reflect the appropriate amortization of deferred maintenance projects, other deferred debits should be reduced by \$11,213.

ISSUE 18: Should any adjustments be made to accrued taxes?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 19: Should any adjustments be made to pensions and other operating reserves?

POSITION: Yes. To reflect the appropriate 13-month average for miscellaneous current and accrued liabilities in the working capital allowance, pensions and other operating reserves should be increased by \$84,225.

ISSUE 20: Should any adjustments be made to deferred rate case expense?

POSITION: Yes. Consistent with Commission practice, the simple average balance during the 4-year statutory amortization period of the Commission approved rate case expense amount should be included in the working capital allowance.

ISSUE 21: What is the appropriate working capital allowance?

POSITION: The appropriate amount is subject to the resolution of other issues.

ISSUE 22: Should a negative acquisition adjustment be included in rate base?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 23: What is the appropriate rate base for the December 31, 2007, test year?

POSITION: The appropriate amount is subject to the resolution of other issues.

COST OF CAPITAL

ISSUE 24: What is the appropriate capital structure to use for rate setting purposes?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 25: What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 26: What is the appropriate amount of customer deposits to include in the capital structure?

POSITION: The appropriate 13-month average balance of customer deposits is \$217,122 on an aggregate basis. To correct an error in the test year deposit activity, customer deposits should be reduced by \$62,301. For Ravenwood, Rosalie Oaks, and Summit Chase, customer deposits should be reduced by \$42, \$172, and \$712. The adjustments to the Utility's other respective individual systems are reflected on Page 22 of 50 and Page 23 of 50 in Exhibit CJW-1 of the Direct Testimony Staff Witness Winston.

ISSUE 27: What are the appropriate cost rates for short and long-term debt for the test year?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 28: What is the appropriate return on equity (ROE) for the test year?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 29: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure?

POSITION: No position pending evidence adduced at the hearing.

NET OPERATING INCOME

ISSUE 30: What are the appropriate annualized test year revenue adjustments?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 31: Should a miscellaneous service revenues adjustment be made?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 32: Should non-utility income be moved above the line for ratemaking purposes?

POSITION: Yes. Revenues related to commissions that AUF's parent receives from Home Service USA Corporation should be treated as above the line revenues. As such, the Utility test year revenues should be increased by \$10,838.

ISSUE 33: Should any adjustments be made to remove out-of-period costs?

POSITION: Yes. To remove prior period expenses, allocated expense from Aqua America, Inc. totaling \$12,255 should be disallowed in this rate proceeding. The respective individual system adjustments are reflected on Page 26 of 50 and Page 27 of 50 in Exhibit CJW-1 of the Direct Testimony Staff Witness Winston. In addition, the following adjustments should be made:

System	Account	Adjustment	Reason for Adj.
Water			
Lake Suzy	Purchased Water	(\$20,531)	Out of Period Expense
Morningview	Chemicals	(\$50)	Out of Period Expense
Wastewater Systems			
Rosalie Oaks	Contractual Services – Testing	(\$120)	Out of Period Expense
Lake Suzy	Contractual Services – Testing	(\$190)	Out of Period Expense
Lake Suzy	Rental of Building / Real Property	(\$15,833)	Out of Period Expense
Florida Central Commerce Park	Materials & Supplies	(\$302)	Out of Period Expense
Lake Suzy	Contractual Services – Other	(\$941)	Out of Period Expense
Morningview	Purchased Power	(\$73)	Out of Period Expense
Village Water	Chemicals	(\$110)	Out of Period Expense

ISSUE 34: Should any adjustments be made to remove non-utility expenses?

POSITION: Yes. To correct a misclassification of expense related to an abandoned preliminary engineering study project for the Lake Suzy wastewater system, Contractual Services – Engineering should be reduced by \$2,695. Moreover, to remove non-utility expenses associated with a net loss on land, Rental of Building/Real Property should be reduced by \$7,132 for Lake Suzy wastewater. To the extent other non-utility expenses were included in the Utility's requested rate increase, those expenses should also be disallowed.

ISSUE 35: Should any adjustments be made to disallow fines and penalties assessed to the Utility?

POSITION: Yes. To correct a misclassification of fines and penalties incurred by the Utility, miscellaneous Expense should be reduced by \$61,736 for water and \$23,215 for wastewater. The respective individual system adjustments are reflected on Page 37 of 50 in Exhibit CJW-1 of the Direct Testimony Staff Witness Winston.

ISSUE 36: Should any adjustment be made for charges from affiliates?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 37: Should any adjustment be made for abnormal relocation expenses?

POSITION: Yes. Relocation expenses should be reduced by \$14,228 to normalize the test year expense level.

ISSUE 38: Should any adjustments be made to advertising expenses?

POSITION: Yes. Consistent with Commission practice, advertising expense should be reduced by \$1,050 to remove image enhancing advertising.

ISSUE 39: Should any adjustments be made to lobbying expenses?

POSITION: Yes. Consistent with Commission practice, lobbying expenses in the amount \$39,387 should be disallowed.

ISSUE 40: Should any adjustments be made for executive risk insurance?

POSITION: Yes. Consistent with prior Commission decisions, expenses for directors and officers liability insurance totaling \$12,399 should be disallowed.

ISSUE 41: Should any adjustments be made to contractual services – other expenses and contractual services – testing?

POSITION: Yes. To correct a misclassification of expense related to replacing transmission and distribution equipment for the Imperial Mobile Terrace water system, Contractual Services –Other should be decreased by \$4,986. To correct a misclassification of expenses for Village Water wastewater system related to an abandoned wastewater treatment plant permit, Contractual Services – Other should be reduced by \$11,841.

ISSUE 42: Should any adjustments be made to purchased power expenses?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 43: Should any adjustments be made to sludge hauling expenses?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 44: Should any adjustments be made to maintenance, materials and supplies expenses?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 45: Should any adjustments be made to fuel for power production expenses?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 46: Should any adjustments be made for chemical expenses?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 47: Should any adjustments be made to legal expenses?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 48: Should any adjustment be made to salaries and wages?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 49: Should any adjustment be made to miscellaneous expenses?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 50: Should any adjustment be made to bad debt expense?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 51: Should any adjustments be made for unamortized debt issuing costs?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 52: What is the appropriate amount of rate case expense?

POSITION: The appropriate amount of rate case expense is subject to the evidence adduced at the hearing. However, only prudently incurred rate case expense should be allowed and amortized over four years.

ISSUE 53: Should an adjustment be made to the Utility's normalization adjustments?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 54: Should an adjustment be made to the Utility's pro forma expense adjustments?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 55: Should any adjustments be made to test year depreciation expense?

POSITION: To remove unsupported balances, depreciation should be reduced by \$10,229 for water and \$36,147 for wastewater. In addition, the following adjustments should be made:

System	Account	Adjustment	Reason for Adj.
Water			
Lake Josephine	Depreciation Exp.	(\$10,615)	Lack of Support Documentation
Sebring	Depreciation Exp.	(\$640)	Lack of Support Documentation
Lake Osborne	Depreciation Exp.	(\$84)	Lack of Support Documentation
Imperial Mobile Terrance	Depreciation Exp.	\$58	Correct for Misclassification

ISSUE 56: Should any adjustments be made to test year amortization of CIAC expense?

POSITION: Yes. To correct an error in the Utility's calculation for failing to amortize one or more CIAC subaccounts certain water and wastewater systems, accumulated amortization of CIAC should be increased by \$176,456 on an aggregate basis for those systems.

ISSUE 57: Should any adjustments be made to property taxes?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 58: What is the test year pre-repression water and wastewater operating income or loss before any revenue increase?

POSITION: The appropriate amount is subject to the resolution of other issues.

ISSUE 59: What is the appropriate pre-repression revenue requirement for the December 31, 2007 test year?

POSITION: The appropriate amount is subject to the resolution of other issues.

RATES AND CHARGES

ISSUE 60: What, if any, is the appropriate methodology to calculate a repression adjustment?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 61: What, if any, limits should be imposed on subsidy and affordability values that could result if stand-alone rates are converted to a consolidated rate structure?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 62: Is it appropriate to consider subsidy limits based on stand-alone rate structure since the majority of the Utility's systems have not had stand-alone rates for over 15 years?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 63: What are the appropriate rate structures for the Utility's water and wastewater systems?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 64: What water systems, if any, should be consolidated into a single rate structure? **(Rates Agenda Issue)**

POSITION: No position pending evidence adduced at the hearing.

ISSUE 65: What wastewater systems, if any, should be consolidated into a single rate structure? **(Rates Agenda Issue)**

POSITION: No position pending evidence adduced at the hearing.

ISSUE 66: What, if any, are the appropriate repression adjustments to be made? **(Rates Agenda Issue)**

POSITION: No position pending evidence adduced at the hearing.

ISSUE 67: What are the appropriate monthly rates for the water and wastewater systems for the Utility? **(Rates Agenda Issue)**

POSITION: No position pending evidence adduced at the hearing.

ISSUE 68: Should the Utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 69: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 70: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

POSITION: The amount of the rate reduction is subject to the resolution of other issues.

OTHER ISSUES

ISSUE 71: What are the appropriate service availability charges for the Utility?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 72: Should the Utility be authorized to charge Allowance for Funds Prudently Invested (AFPI) charges, and, if so, what are the appropriate charges?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 73: In accordance with Order No. PSC-08-0534-FOF-WS, what is the amount and who would have to pay the regulatory asset (or deferred interim revenues), if it is ultimately determined by the Commission that the Utility was entitled to those revenues when it first applied for interim rates?

POSITION: This issue is subject to the resolution of other issues.

ISSUE 74: Should the Utility be allowed to make future index and pass through filings on a consolidated basis?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 75: Should the Utility's request to consolidate its in-state FPSC-regulated accounting, filing and reporting requirements from individual system bases to one combined set of books be allowed?

POSITION: No position pending evidence adduced at the hearing.

ISSUE 76: Should this docket be closed?

POSITION: If the Commission's final order is not appealed, this docket should be closed upon the expiration of the time for filing an appeal.

e. Stipulated Issues

Staff is not aware of any stipulated issues at this time.

f. Pending Motions

Staff has no pending motions at this time.

g. Pending Confidentiality Claims or Requests

Staff has no pending confidentiality claims or requests at this time.

h. Objections to Witness Qualifications as an Expert

Staff has no objections to any witness' qualifications as an expert in this proceeding.

i. Compliance with Order No. PSC-08-0429-PCO-WS

Staff has complied with all requirements of the Order Establishing Procedure entered in this docket.

Respectfully submitted this 20th day of November, 2008.



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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and 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.

DOCKET NO. 080121-WS

FILED: NOVEMBER 20, 2008

CERTIFICATE OF SERVICE


I HEREBY CERTIFY that a true and correct copy of Staff's Prehearing Statement was furnished to the following, by electronic and U.S. Mail, on this 20th day of November, 2008.

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