

**Ruth Nettles**

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**From:** ROBERTS.BRENDA [ROBERTS.BRENDA@leg.state.fl.us]  
**Sent:** Thursday, November 20, 2008 3:27 PM  
**To:** Filings@psc.state.fl.us  
**Cc:** Bruce May; Caroline Klancke; cecilia\_bradley@oag.state.fl.us; Erik Saylor; Katherine Fleming; Kimberly A. Joyce; Ralph Jaeger; Tim Devlin  
**Subject:** e-filing (Dkt. No. 080121-WS)  
**Attachments:** 080121 Citizens Prehearing Statement.sversion.doc

Electronic Filing

a. Person responsible for this electronic filing:

Charlie Beck, Deputy Public Counsel  
Office of Public Counsel  
c/o The Florida Legislature  
111 West Madison Street, Room 812  
Tallahassee, FL 32399-1400  
(850) 488-9330  
Beck.charles@leg.state.fl.us

b. Docket No. 080121-WS

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.

c. Document being filed on behalf of Office of Public Counsel

d. There are a total of 49 pages.

e. The document attached for electronic filing is a Citizens' Prehearing Statement.

(See attached file: 080121 Citizens Prehearing Statement.sversion.doc)

Thank you for your attention and cooperation to this request.

Brenda S. Roberts

Office of Public Counsel  
Telephone: (850) 488-9330  
Fax: (850) 488-4491

Brenda S. Roberts  
Office of Public Counsel  
850-488-9330

DOCUMENT NUMBER-DATE

10833 NOV 20 8

FPSC-COMMISSION CLERK

**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.**

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**DOCKET NO. 080121-WS**

**FILED: November 20, 2008**

**CITIZENS' PREHEARING STATEMENT**

Pursuant to order no. PSC-08-0429-PCO-WS issued June 27, 2008, the Citizens of Florida (Citizens) file this prehearing statement.

**APPEARANCES:**

J. R. Kelly  
Charlie Beck  
Stephen C. Reilly

Office of Public Counsel  
c/o The Florida Legislature  
111 West Madison Street, Room 812  
Tallahassee, Florida 32399-1400

On behalf of the Citizens of the State of Florida

**WITNESSES:**

Citizens prefiled testimony by the following witnesses:

- (1) Kimberly H. Dismukes. Ms. Dismukes testifies on revenue requirement and quality of service issues.

DOCUMENT NUMBER-DATE

**10833 NOV 20 08**

FPSC-COMMISSION CLERK

(2) Patricia W. Merchant, CPA Ms. Merchant testifies on allowance for funds prudently invested (AFPI), working capital, and deferred taxes.

(3) Earl Poucher Mr. Poucher testifies about customer responses concerning the quality of service and quality of water provided by Aqua Utilities Florida, Inc. to its customers.

(4) James A. Rothschild Mr. Rothschild testifies about (1) cost of capital, (2) cost of equity, and (3) capital structure.

(5) Andrew T. Woodcock, P.E., M.B.A. Mr. Woodcock testifies on engineering issues, including used and useful (U&U). Mr. Woodcock also provides testimony regarding the importance of meeting secondary potable water standards for utilities.

### **Prefiled Exhibits**

Witnesses for Citizens prefiled the following exhibits:

Kimberly H. Dismukes.

KHD-1  
Schedules

1                      Aqua Utilities Florida, Inc.  
                            Company Requested Revenue Increase

2                      Aqua Utilities Florida, Inc.  
                            Customer Correspondence

- 3 Aqua Utilities Florida, Inc.  
PSC Customer Complaints for Aqua Utilities Florida
- 4 Aqua Utilities Florida, Inc.  
Sample of Customer Bills
- 5 Aqua Utilities Florida, Inc.  
Customer Service Center Call Metrics
- 6 Aqua Utilities Florida, Inc.  
Ms. Dirk's Correspondence
- 7 Aqua Utilities Florida, Inc.  
Water and Wastewater Billing Errors
- 8 Aqua Utilities Florida, Inc.  
Aqua America, Inc. 2007 Subsidiaries
- 9 Aqua Utilities Florida, Inc.  
Listing of Operator Contracts
- 10 Aqua Utilities Florida, Inc.  
Management & Consulting Services
- 11 Aqua Utilities Florida, Inc.  
Common Officers
- 12 Class A Utilities with Both Water and Wastewater Operations  
Comparison of Revenue and O&M per ERC  
Includes Affiliate Charges
- 13 Class A Utilities with Both Water and Wastewater Operations  
O&M Expense Account Comparison  
Includes Affiliate Charges
- 14 Class A Utilities with Both Water and Wastewater Operations  
Comparison of Revenue and O&M per ERC  
Excludes Affiliate Charges
- 15 Class A Utilities with Both Water and Wastewater Operations  
O&M Expense Account Comparison  
Excludes Affiliate Charges
- 16 Aqua Utilities Florida, Inc.  
Comparison of Expense Category per ERC for Class A  
Utilities with Water and Wastewater Operations

	Includes Affiliate Charges
17	Aqua Utilities Florida, Inc. Adjustment to Test Year Expenses for Excessive Affiliate Charges
18	Aqua Utilities Florida, Inc. Adjustments to Pro Forma Plant in Service
19	Aqua Utilities Florida, Inc. Company Pro Forma and Normalization Adjustment Index
20	Aqua Utilities Florida, Inc. Salary Examples
21	Aqua Utilities Florida, Inc. Aqua Connects Invitation
22	Aqua Utilities Florida, Inc. Aqua Connects Guidebook
23	Aqua Utilities Florida, Inc. Water and Wastewater Acquisitions
24	Aqua Utilities Florida, Inc. Adjustments to Deferred Maintenance Projects
25	Aqua Utilities Florida, Inc. Bad Debt Adjustment
26	Aqua Utilities Florida, Inc. Requested Rate Case Expense
27	Aqua Utilities Florida, Inc. Revenue Requirement
28	Aqua Utilities Florida, Inc. Rate Base Adjustments
29	Aqua Utilities Florida, Inc. Expense Adjustments

Patricia W. Merchant, CPA

(PWM-1) Resume of Patricia W. Merchant

(PWM-2)  
Schedules of Adjustments

- 1 Adjustment to Correct Test Year Amortization of CIAC
- 2 Used and Useful Amortization of CIAC
- 3(a) Working Capital Summary
- 3(b) Adjustments to Working Capital
- 3(c) Specific Adjustments and Requested Working Capital
- 3(d) Accounts Receivable & reserves
- 3(e) Accrued Taxes in Working Capital
- 3(f) Deferred Debits
- 4 Adjustment to Accumulated Deferred Income Taxes
- 5 Allowance for Funds Prudently Invested

Earl Poucher

- (EP-1) Customer Letter
- (EP-2) Customer Response
- (EP-3) Correspondence Analysis
- (EP-4) Correspondence Index

James A. Rothschild

(JAR-1)  
Schedules

- 1 Overall Cost of Capital

2	Cost of Equity Summary
3	Discounted Cash Flow Indicated Cost of Equity
4	Comparative Companies
5	External Financing Rate
6	Capital Asset Pricing Model
7	Analysis of Actual Capital Structures of Other Utilities
8	Aqua America Capital Structure
9	Dividend Growth Rate Comparison

Andrew T. Woodcock, P.E., M.B.A.

ATW-1	Resume
ATW-2	Water Used and Useful
ATW-3	Wastewater Used and Useful
ATW-4	Water Distribution and Wastewater Collection Used and Useful

**Statement of Basic Position**

The testimony of Aqua's customers provided at Commission service hearings held in Chipley, Chuluota, Gainesville, Greenacres, Lakeland, Mt. Dora, New Port Richey, Palatka, and Sebring pointed repeatedly to severe quality of service issues at Aqua related to customer service, billing, and water quality. Customers told the Commission about company service representatives who were rude, unknowledgeable, and unable to provide needed information or assistance. Billing problems concerning accuracy of the company's bills are widespread, including instances of bills off by an

order of magnitude, which go uncorrected for months despite pleas by customers to correct the problem. Water quality problems reported by customers throughout the state included low water pressure, odor, health concerns, frequent replacement of filters and appliances, and sediment and other particulate matter in the water. Commonly, customers testified that they would not drink the water provided by Aqua, and instead purchase water at the store to drink. All of these problems are confirmed by the many written complaints and comments filed by customers in this proceeding.

These problems are not unfamiliar to Aqua and the Commission -- the quality of service provided by Aqua has changed little since the last case which was ultimately dismissed. The Commission should reduce the return on equity it would otherwise authorize by 50 basis points for unsatisfactory customer service, 50 basis points for unsatisfactory billing, and 50 basis points for unsatisfactory water quality.

Aqua provides an unsatisfactory quality of service at a high cost. On an ERC basis, Aqua's operation and maintenance expenses for water are far higher than the average class A company, and for wastewater the operation and maintenance expenses are far higher. Customers are being penalized by high costs associated with ownership of the utility by Aqua America, and the Commission should make an adjustment to test year expenses for the charges from the affiliate Aqua Services to reflect a lower cost consistent with the costs incurred by other Class A water and wastewater companies.

Aqua's requested return on equity of 10.25% uses an equity-heavy capital structure of 62.31%. Part of the equity-heavy capital structure is actually financed by debt at the parent company level which artificially inflates the regulated subsidiary's



equity ratio. The Commission should use a consolidated capital structure reflecting a 44.03% equity ratio using a 9.47% return on equity for this proceeding. However, if the Commission allows the company to use a capital structure consisting of 62.31% equity, the appropriate return on equity is 8.75%.

Finally, Citizens have identified numerous specific adjustments to expenses, revenues, and rate base which should be made. Each of these adjustments is set forth in response to the issues in this proceeding.

### **Issues and Positions**

#### **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?

Citizens' Position: No, the Company's quality of service is not satisfactory. The service hearings in this proceeding were replete with customers' dissatisfaction with the Company's customer service, billing accuracy and water quality. Customer testimony on the subject of customer service was extensive and critical of the service representatives' knowledge of the issues in question, their ability to solve the problem, and willingness to help the customer. Other complaints included difficulty speaking with customer service representatives as customers were put on hold, disconnected, and did not receive the call backs as promised. Customers also complained that customer service representatives were rude and often told customers they had a leak when none

existed. Customers raised concerns about billing accuracy. Billing problems included estimated bills, inaccurate bills, bills where an extra zero was added to usage, and problems associated with the installation of radio frequency meters. On the matter of the quality of water, customers raised serious problems. Many customers complained that the water was so bad they would not drink it or bathe in it. Other complaints included black water, excessive TTHM levels, over-chlorinated water, and smelly water. In some places the water is so bad customers are forced to purchase filtering and reverse osmosis systems. Customers also raised concerns about the lack of timely boil water notices. Because of the serious deficiencies in the Company's quality of service, the Citizens recommend that the Commission disallow 50% of the salary of Mr. Lihvarcik, President of AUF, and 50% of the salary allocated to the Company for the President of Aqua America, Mr. DeBenedictis. In addition, the Commission should reduce the Company's return on equity by 1.50% for its failure to provide satisfactory customer service, accurate bills, and satisfactory water quality to its customers. (Dismukes, Poucher).

### **RATE BASE**

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

Citizens' Position: Yes. The following adjustments should be made to plant in service:

1) Staff Audit Findings 1& 2 which reduce plant in service by \$534,219 for Lake Suzy water and by \$1,119,520 for Lake Suzy wastewater, respectively; (Dismukes).

2) Staff Audit Finding 4, which reduces plant in service by \$329,672 for Lake Josephine water, by \$20,122 for Sebring Lakes water, and by \$3,289 for Lake Osborne Estates water (Dismukes).

3) Consistent with Staff Audit Finding 11, plant in service for Imperial Mobile Terrace should be increased by \$1,247. (Dismukes).

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

Citizens' Position: Citizens agree with Staff Audit Finding 18. (Dismukes)

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

Citizens' Position: Yes. The Company's pro forma plant additions are overstated.

Aqua's pro forma additions for system specific projects should be reduced to 769,033 to reflect a slower rate of completion than assumed by the Company. The \$400,000 pro forma adjustment for the Jasmine Lakes alternative effluent disposal project should be

eliminated as the scope of the project has changed considerably and will not be completed in the pro forma period. In addition, the \$350,000 pro forma adjustment for the Village Water effluent disposal site should be eliminated as the project is no longer being undertaken. Administrative projects should be reduced by \$200,629 to reflect a slower rate of completion than assumed by the Company. In addition \$12,862 should be removed from Customer Service Area Renovations as this project has been cancelled. (Dismukes).

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

Citizens' Position: Yes. Any unaccounted for water in excess of 10% of the water pumped should be considered excess unaccounted for water. Twenty-two water systems have excess unaccounted for water, as detailed in Exhibit ATW-2.

Adjustments should be made to the filing as detailed in Schedules 27 and 29 of Exhibit KHD-1. (Woodcock).

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

Citizens' Position: Yes. Four systems, Interlachen–Park Manor, Jungle Den, Rosalie Oaks, and Summit Chase have excessive infiltration and/or inflow, as detailed in Exhibit ATW-3. Adjustments should be made to the filing as detailed in Schedules 27 and 29 of Exhibit KHD-1. (Woodcock).

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

Citizens' Position: The appropriate used and useful percentages for the water treatment and related facilities of each water system is detailed in Exhibit ATW-2. (Woodcock).

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

Citizens' Position: The appropriate used and useful percentages for the water storage and related facilities of each water system with storage is detailed in Exhibit ATW-2. (Woodcock).

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

Citizens' Position: The appropriate used and useful percentages for wastewater treatment and related facilities of each wastewater system is detailed in Exhibit ATW-3. (Woodcock).

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

Citizens' Position: The appropriate used and useful percentages for the water distribution and related facilities of each water system is detailed in Exhibit ATW-4. (Woodcock).

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

Citizens' Position: The appropriate used and useful percentages for collection and transmission lines and related facilities of each wastewater system is detailed in Exhibit ATW-4. (Woodcock).

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?

Citizens' Position: The used and useful percentages for the four water systems that are interconnected should be based upon each of the two interconnected systems operating together as one system, as detailed on pages 8 and 9 of Andrew Woodcock's testimony and Exhibit ATW-2. (Woodcock).

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?

Citizens' Position: A separate used and useful percentage for water treatment and related facilities should be calculated for each stand alone system even if the system has been combined with one or more other systems for rate base purposes in this proceeding, as detailed pages 9 and 10 of Andrew Woodcock's testimony. (Woodcock).

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

Citizens' Position: Yes. Plant in service adjustments should be accompanied by an adjustment to accumulated depreciation as a fallout issue. In addition, there are four specific (non-fallout) adjustments that should be made:

1) Arrendondo Estates water depreciation should be reduced by \$16,992 for Staff Audit Finding 4;

2) Lake Osborne Estates water accumulated depreciation should be reduced by \$941 for Staff Audit Finding 4;

3) Jasmine Lakes water accumulated depreciation should be reduced by \$35,249 for Staff Audit Finding 4;

4) Depreciation expense should be reduced by \$17,352 for depreciation expense allocated by Aqua America consistent with Staff Audit Finding 19. (Dismukes).

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

Citizens' Position: Yes. Patricia W. Merchant identifies a calculation error in the company's MFR's regarding test year amortization of CIAC. As a result of this error, accumulated amortization of CIAC should be increased by \$95,580.



In addition, there are two system specific (non-fallout) adjustments that should be made consistent with Staff Audit Finding 5:

1) Ocala Oaks water accumulated amortization of CIAC should be reduced by \$11,418;  
and

2) Tangerine water accumulated amortization of CIAC should be reduced by \$2,830.  
(Dismukes)

1) Ocala Oaks water accumulated amortization of CIAC should be reduced by \$11,418;  
and

2) Tangerine water accumulated amortization of CIAC should be reduced by \$2,830.  
(Dismukes).

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

Citizens' Position: Yes. Accounts Receivable for officers and employees should be reduced by \$1,000 as these receivables are not necessary nor do they relate to the delivery of water and wastewater services. (Merchant).

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

Citizens' Position: Yes, two types of adjustments should be made. The first adjustment corrects the balance of deferred debits related to OPC's recommended balance of amortization of deferred maintenance. The second adjustment reflects that deferred debits should be included in the total company working capital calculation allocated to all of the company's systems as opposed to a direct system specific charge for deferred maintenance. The total balance of deferred debits that should be included in the working capital calculation should be \$217,890. (Merchant).

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

Citizens' Position: The company's requested negative (debit) deferred taxes should be adjusted to reflect a positive balance (credit) balance of \$657,340 that would normally belong in accrued taxes. (Merchant).

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

Citizens' Position: Yes. Pensions and other operating reserves should be increased by 84,225 as these amounts are utility related and properly included as a reduction to working capital. (Merchant).

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

Citizens' Position: Yes. Citizens will address this after reviewing the rate case expense information provided by the company in rebuttal testimony. The appropriate balance of deferred rate case expense to be included in working capital should reflect one-half of the amount of rate case expense allowed by the Commission. (Dismukes, Merchant).

ISSUE 21: What is the appropriate working capital allowance?

Citizens' Position: Adjustments to working capital should be made for accounts receivable for officers and employees, other deferred debits, accrued taxes, pensions & other operating revenues, and deferred rate case expense. For all systems combined, working capital should be decreased by \$2,354,986. (Merchant).

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

Citizens' Position: Yes. Rate base should be reduced by \$2,702,963 for a negative acquisition adjustment. The Company knew when it purchased the Florida Water Service Company systems that they were purchasing old and deteriorated systems that had not been maintained. Customers have witnessed firsthand the problems associated with these dilapidated systems which have resulted in higher rates and water quality that is not fit to drink. These circumstances are extraordinary and warrant the inclusion of a negative acquisition adjustment in rate base. (Dismukes).

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

Citizens' Position: The appropriate rate base for the water operations is \$13,584,625 and the appropriate rate base for the wastewater operations is \$8,139,484. (Dismukes).

### COST OF CAPITAL

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

Citizens' Position: The consolidated capital structure of Aqua America, Inc. should be used for rate setting purposes. (Rothschild).

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

Citizens' Position: Accumulated deferred income taxes should be increased by \$852,382. This adjustment relates to the company's failure to consider the deferred tax impact related to proforma plant additions and allocated adjustments to increase plant for corporate IT and structures and improvements. (Merchant).

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

Citizens' Position: This is a fall-out issue.

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

Citizens' Position: OPC accepts the 5.10% long term debt rate proposed by the company. However, if the Commission uses the consolidated capital structure for rate setting purposes, a computation using an allocation of the parent issued debt would be appropriate. (Rothschild).

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

Citizens' Position: If the Commission uses the consolidated capital structure of Aqua America, Inc., as the appropriate capital structure for rate setting purposes, the appropriate return on equity is 9.47%. If the Commission uses the capital structure proposed by Aqua Utilities Florida, the appropriate return on equity is 8.75%.  
(Rothschild).

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

Citizens' Position: This is a fall-out issue.

### **NET OPERATING INCOME**

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

Citizens' Position: No position at this time.

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

Citizens' Position: No position at this time.

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

Citizens' Position: Yes. Two adjustments are necessary. First, test year miscellaneous service revenue should be increased by \$222,145. The Company's response to discovery on this matter is unclear. In the absence of a showing that the costs associated with providing these non-utility functions are appropriately recorded below the line, Citizens' recommend that they be recorded above the line. Second, home service commissions earned by Aqua America for the sale of customer lists should also be moved above the line. The amount applicable to AUF is \$10,838. (Dismukes).

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

Citizens' Position: Yes. The Commission should adopt the out-of-period adjustments proposed by the Staff in Audit Finding 16. (Dismukes)

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

Citizens' Position: Consistent with Staff Audit Finding 12, Shareholder Services of \$32,134 should be recorded as miscellaneous nonutility expenses and contractual services – other should be reduced by \$32,134. (Dismukes, p. 32 and Schedule 29)

In addition, test year expenses should be reduced by \$2,695 for Lake Suzy sewer consistent with Staff Audit Finding 15. (Dismukes).

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

Citizens' Position: Yes. Test year expenses should be reduced by \$85,984 for fines and penalties incurred during the test year. This is in accordance with past Commission findings that such expenses are not appropriately recovered from ratepayers.

(Dismukes).

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

Citizens' Position: Yes. Test year expenses should be reduced by \$641,156 for the Company's water operations and by \$329,646 for the Company's wastewater operations for affiliated charges which are excessive when compared to other Class A



water and wastewater companies that operate in the State of Florida. The analysis conducted by Ms. Dismukes clearly shows that the Company's operating costs are substantially above the operating costs of comparable companies. This analysis demonstrates that costs charged or allocated to the Company from its parent are excessive and should be excluded from rates. (Dismukes).

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

Citizens' Position: Yes. During the test year the Company incurred \$35,758 of expenses associated with relocating Jack Lihvarcik, Jerry Connolly, and Carl Smith to Leesburg, Florida from various locations. This level of expense compares to \$21,550 in 2006 and \$7,282 in 2005. This shows that during the test year the Company incurred a higher than normal level of relocation expenses. Therefore, test expenses should be reduced by \$14,228 to reflect the three year average level of relocation expenses. (Dismukes).

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

Citizens' Position: Yes. The Company included advertising expenses in the test year associated with image enhancement which the Commission has disallowed in the past. Therefore, test year expenses should be reduced by \$1,050. (Dismukes).

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

Citizens' Position: Yes. Test year expenses should be reduced by \$39,387. During the test year the Company included expenses associated with Mr. George Lane, a rural marketing consultant and media management specialist. Mr. Lane provided the Company with input on media articles and customer letters, managed situations where news media was involved, and assisted in potential acquisitions. In addition, the Company utilized the services of Cynergy which provides legislative services to AUF. The Commission has historically disallowed such expenses in the past and should disallow the expenses incurred by Aqua. (Dismukes).

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

Citizens' Position: Yes. Executive risk insurance should be reduced by \$12,339. This insurance is designed to protect directors from the financial losses that they might incur for wrong doing. No customers have filed a claim that would activate this insurance. Any claims that would require the use of this insurance will most likely be the result of actions taken by stockholders or employees. The Commission should not hold customers responsible for protecting the directors and officers of Aqua America; since

its stockholders are more likely to make a claim against the Company, stockholders should absorb the cost. (Dismukes).

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

Citizens' Position: Yes. The following contractual services–other adjustments should be made:

1) Test year expenses for Village Water wastewater should be reduced by \$11,841 for expenses for a permit which was never received, consistent with Audit Finding 17. Test year expenses should be reduced by \$10,065 consistent with Staff Audit Finding 10. (Dismukes).

2) Contractual services-other expenses for Leisure Lakes water should be reduced by \$2,348 for repairs and maintenance expenses that occurred during the test year, which do not appear to be recurring. (Dismukes).

3) Test year expenses for Florida Central Commerce sewer should be reduced by \$11,447 due to several abnormal expenses in the test year, including a large pond clean-up, repairs, grounds and pond maintenance, major maintenance for a pump, and lift station cleaning. (Dismukes).

4) Test year expenses for Jungle Den water should be reduced by \$1,000 for the repair of a water pipe and Jungle Den sewer expenses should be reduced by \$840 for lift station maintenance and cleaning. (Dismukes).

5) Test year expenses for Sunny Hills should be reduced by \$1,575 in connection with a cleaning or pumping of the chlorine contact chamber of the sewer plant as that is not a recurring expense. (Dismukes).

6) During the test year the Company included expenses associated with deferred maintenance which will be fully amortized by the end of the pro forma test year or should be amortized over a longer period of time. Accordingly, test year expenses should be reduced by \$22,632. (Dismukes).

7) An adjustment should be made for costs included in the test year associated with billings from Severn Trent because they are duplicative of services being provided by ACO. (Dismukes).

8) Consistent with Staff Audit Finding 11, contractual services-other for Imperial Mobile Terrace should be reduced by \$4,986. (Dismukes).

The following adjustments should be made to contractual services-testing expenses:

1) Adjustments to the following systems should be made because test year expenses were abnormal compared to the 2005-07 three year average: Fern Terrace \$474, Grand Terrace \$832, Jasmine Lakes \$3,071, Lake Gibson \$182, Panoma Park \$1,677, River Grove \$434, Zephyr Shores \$2,432. (Dismukes).

2) Testing expenses should be reduced by \$120 for the Rosalie Oaks wastewater system and \$190 for the Lake Suzy wastewater system consistent with Staff Audit Finding 16. (Dismukes).

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

Citizens' Position: Yes. The following adjustments should be made to purchased power expenses:

1) Test year purchased power expenses should be reduced by \$1,993 caused by abnormal flushing. (Dismukes)

2) Lake Josephine test year expenses should be reduced by \$3,795 to recognize the higher level of expense included in the test year relative to a more normal level. The Company explained that the test year expense increase related to the Lake Josephine plant being offline for a period of time. Rehab work was done on the plant and it was

then brought back on-line. In addition, there was extra line flushing in this area during this time period which would also contribute to increased power. (Dismukes).

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

Citizens' Position: Yes. Sludge hauling expenses should be reduced for the Sunny Hills sewer system by \$350. During the test year the Company incurred an abnormally high level of expenses which should be normalized. (Dismukes).

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

Citizens' Position: Yes. Several adjustments are required.

1) Test year expenses for materials and supplies for the Oakwood water system should be reduced. During the test year, this expense account had considerably more charges than in the prior year and increased by 95% over 2006. Therefore, test year expenses should be reduced by \$197.

1) For the same reasons as given with respect to Oakwood, the Commission should reduce test year materials and supplies expense for Arredondo Estates wastewater by \$172.

2) The Commission should reduce test year material and supplies expense by \$3,324 for Imperial Mobile Terrace water due to abnormally high expenses during the test year. (Dismukes).

3) During the test year the Company included expenses associated with deferred maintenance which will be fully amortized by the end of the pro forma test year or should be amortized over a longer period of time. Accordingly, test year expenses should be reduced by \$346. (Dismukes).

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

Citizens' Position: Yes. Several adjustments are required.

1) Ravenswood water fuel for purchased power expenses associated with additional fuel required due to a tank leak and for the repair of the tank leak should be amortized over a 3-year amortization. This would reduce test year expenses by \$355. (Dismukes).

2) Fuel expense included in the test year is overstated due to the fueling of the generators purchased in preparation for hurricanes. The Commission typically requires that costs associated with hurricanes be amortized over four years. Therefore the additional fuel costs should be amortized over four years for the following systems: 48 Estates, Chuluota, Friendly Center, Grand Terrace, Haines Creek, Hobby Hills, Holiday Haven, Lake Josephine, Lake Suzy, Leisure Lakes, Ocala Oaks, Picciola Island, Rosalie Oaks, The Woods, Sebring Lakes, South Seas, Summit Chase, and Sunny Hills. The adjustment for all systems is \$7,095. (Dismukes).

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

Citizens' Position: Yes. Test year chemical expenses should be reduced by \$395 for abnormal line flushing. (Dismukes).

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

Citizens' Position: (Possible stipulation) Yes.

1) Legal expenses incorrectly booked to Village Water in the amount of \$25,572 should be removed. These expenses should have been charged to Jasmine Lakes, however,



the amount should be amortized over five years. Jasmine Lakes' legal expenses should be increased by \$5,142. (Dismukes).

2) Legal expenses should be reduced by \$626 consistent with Staff Audit Finding 10. (Dismukes).

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

Citizens' Position: Yes. Several adjustments should be made.

1) During the test year the Company incurred wages and benefits for Mr. Carl Smith in the amount of \$93,541. Mr. Smith is in charge of corporate development and acquisitions in the State of Florida. In addition, the Company was also charged for \$3,953 for Mr. Kropilak who is in charge of acquisitions at the Aqua Services level. These charges should be removed from the test year as they are not typically allowed by the Commission. (Dismukes).

2) The portion of salaries related to employees that will no longer be reading meters as a result of the conversion to radio frequency meters should be removed from test year expenses. The Company has assumed that these employees will be utilized to perform other functions. However, the Company has not provided any support that these employees will be utilized efficiently or that they will not replace other employees. In

addition, the Company has failed to consider the other cost saving associated with conversions to RF meters, like reduced fuel and vehicle maintenance, reduced labor due to fewer customer complaints and fewer rebills. Rather than ignore these cost savings, test year expenses should be reduced by \$55,813. (Dismukes).

4) The salary of Mr. Lihvarcik should be reduced by 50% because of the Company's poor quality of service. In addition, if the Commission does not adopt Ms. Dismukes recommendation on adjustments to excessive affiliate charges, Mr. DeBenedictis' salary should also be reduced by 50% due to the poor quality of service provided by the Company. (Dismukes).

5) An adjustment should be made to salaries and wages for South Seas. The Company included a pro forma adjustment in the test year in the amount of \$102,276 for a new contract operator. However, the Company made no offsetting adjustments to test year wages and salaries. (Dismukes).

6) Consistent with staff audit finding 10, pension and benefits should be reduced by \$1,540 for a prior period allocation from Aqua America. (Dismukes)

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

Citizens' Position: Consistent with Staff Audit Findings 10 and 14, miscellaneous expenses should be reduced by \$24 and \$1,345, respectively. (Dismukes).

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

Citizens' Position: Yes. The Company's test year bad debt expense is overstated due to numerous billing problems, meter misreads, and temporary suspension of collection efforts. Compared to comparable companies operating in the State of Florida, the Company's test year bad debt is substantially higher than the average. Consequently, bad debt expense should be reduced by \$106,049. (Dismukes).

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

Citizens' Position: An adjustment to unamortized debt issuance cost of \$1,345 should be made consistent with Staff Audit Finding 14. (Dismukes).

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

Citizens' Position: The amount of rate case expense should be no greater than one-half of the amount of prudently incurred costs. By sharing rate case expenses between the

Company's stockholders and customers, the Company will be incented to hold rate case expense to a minimum. (Dismukes).

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

Citizens' Position: Yes. Several adjustments should be made to the Company's normalization adjustments.

1) Test year rent expense should be reduced by \$27,056 for Lake Suzy land lease.

2) Allocated payroll taxes of \$247,827 from the administration department should be removed.

3) A \$7,420 proposed increase in expenses to normalize the service company's headcount should be removed.

4) A \$37,777 proposed increase in expenses to normalize Aqua Customer Operations (ACO) costs should be removed.

5) The Company's proposed 2007 4% wage normalization increase should be reduced by \$694 and FICA taxes should be reduced by \$53.

6) The 2007 4% Service Company wage increase should be removed in the amount of \$4,928 and FICA taxes should be removed in the amount of \$377.

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

Citizens' Position: Yes.

1) The Company's proposed market based adjustments should be reduced from 10% to 4% as the proposed 10% market-based increase is not supported. The Company's adjustment should be reduced by \$70,594 and FICA taxes should be reduced by \$5,169.

2) The 2008 4% Service Company proposed wage increase should be removed in the amount of \$19,413 and FICA taxes should be removed in the amount of \$1,485.

3) The 2008 4% ACO pro forma wage increase should be removed in the amount of \$8,236 and FICA taxes should be removed in the amount of \$630.

4) The pro forma adjustment for Mr. Rendell's salary in the amount of \$95,000 should be removed as the Company has not demonstrated any benefits to customers associated with Mr. Rendell's employment.

5) The associated pro forma lease expense for Mr. Rendell's office space should also be removed in the amount of \$8,400.

6) The Company's adjustment for a Controller in the amount of \$75,000 should be disallowed as the Company provided no testimony on this subject. Nor did it provide any other information in its workpapers.

7) The Company's pro forma adjustment of \$60,000 for Aqua Connects should be disallowed. The Aqua Connects meetings are designed to enhance the Company's image. Costs of this nature have historically been disallowed by the Commission and there should be no exception for these expenses.

8) The Company failed to provide supporting workpapers for the following expenses adjustments. These adjustments should be removed as unsupported: \$122,190 for property taxes on 2007 net additions, \$4,996 for additional 2008 service company headcount, \$13,227 for additional 2008 service company benefits, and \$59,362 for additional 2008 Aqua Customer Operations employee benefits.

9) Pro forma adjustments for Lake County Facility Operator should be reduced by \$2,184 and the pro forma adjustment for Sebring Lakes Facility Operator should be reduced by \$2,184.

10) Lake Suzy purchased water pro forma adjustment of \$94,443 should be rejected. The Company failed to provide adequate documentation supporting this adjustment (Dismukes).

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

Citizens' Position: Depreciation expense should be adjusted consistent with adjustments to plant in service.

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

Citizens' Position: Yes. Amortization of CIAC should be increased by \$176,456, which is reflected as a decrease to depreciation expense. In addition, the company's reduction to amortization of CIAC on non-used and useful depreciation expense should not be permitted and should be removed. This reflects a total decrease to depreciation expense of \$12,368 for water and \$126 for wastewater. (Merchant).

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

Citizens' Position: Property tax adjustments should be made consistent with adjustments to plant in service.

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

Citizens' Position: The appropriate pre-repression water and wastewater operating income before any revenue increase is \$153,476 for water and negative \$64,966 for wastewater. (Dismukes).

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

Citizens' Position: The appropriate pre-repression revenue requirement for water is \$1,182,284 and for wastewater is \$967,349. (Dismukes).

### **RATES AND CHARGES**

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



Citizens' Position: OPC does not take issue with the use of a -.2 price elasticity of demand for water usage in excess of 5,000 gallons per month proposed in the company's filing. No greater price elasticity of demand should be allowed.

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?

Citizens' Position: No position at this time.

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?

Citizens' Position: No position at this time.

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

Citizens' Position: No position at this time.

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

Citizens' Position: No position at this time.

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

Citizens' Position: No position at this time.

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

Citizens' Position: The adjustments, if any, should be made using no more than a -.2 price elasticity of demand for water usage in excess of 5,000 gallons per month.

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

Citizens' Position: This is a fall-out issue.

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

Citizens' Position: No position at this time.

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?

Citizens' Position: The Commission should follow the steps set forth in Florida Statute section 367.082 to compute the refund of interim rates.

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.?

Citizens' Position: This is a fall-out issue.

## OTHER ISSUES

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

Citizens' Position: No position at this time.

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

Citizens' Position: Adjustments to the revised AFPI tariffs filed by AUF should reflect the revenue requirement and capital structure approved by the Commission and should be limited where there is no new growth. The charges for Hermits Cove water and Village Water wastewater should be corrected. Finally, AFPI charges should be cancelled for those systems indicated on page 28 of the prefiled testimony of Tricia W. Merchant. (Merchant).

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?

Citizens' Position: No position at this time.

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

Citizens' Position: No position at this time.

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?

Citizens' Position: No position at this time.

ISSUE 76: Should this docket be closed?

Citizens' Position: Yes.

**Stipulated Issues**

Citizens will stipulate to the following:

- 1: To reflect prior order balances for the Lake Osborne Estates water system, plant in service, accumulated depreciation, and depreciation expense should be reduced by \$3,289, \$941, and \$84, respectively. (AF 4)
  
- 2.To remove an unsupported balance for the Arredondo Estates/Farms water system, accumulated depreciation should be reduced by \$16,992. (AF 4)
  
- 3.To remove an unsupported balance for the Jasmine Lakes water system, accumulated depreciation should be reduced by \$35,249. (AF 4)
  
- 4.To remove an unsupported balance for the Ocala Oaks water system, accumulated amortization of CIAC should be reduced by \$11,481. (AF 5)
  
- 5.To correct for a duplicate reduction for the Tangerine water system, accumulated amortization of CIAC should be increased by \$2,830. (AF 5)
  
6. 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 reduce 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. (AF 9)

7. 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. (AF 10)

8. 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 reduced by \$4,986, Transmission and Distribution – Mains should be increased by \$1,247, depreciation expense and accumulated depreciation should both be increased by \$58. (AF 11)

9. 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. (AF 13)

10. 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. (AF 15)

11. To remove out of period expenses, the following adjustments should be made. Contractual Services – Testing should be reduced by \$120 for the Rosalie Oaks wastewater system and \$190 for the Lake Suzy wastewater system. Materials and

supplies should be reduced by \$302 for the Florida Central Commerce Park wastewater system. Purchased water should be reduced by \$20,531 for the Lake Suzy water system. Contractual Services – Other should be reduced by \$941 for the Lake Suzy wastewater system. Purchased power should be reduced by \$73 for the Morningview wastewater system. Chemicals should be reduced by \$50 for the Morningview water system. Chemicals should be reduced by \$110 for the Village Water wastewater system. (AF 16)

12. 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. (AF 17)

### **Pending Motions**

Citizens have no pending motions.

### **Pending Requests or Claims for Confidentiality**

Citizens have no pending requests or claims for confidentiality. However, Citizens provide this notice of our intent to use the following documents, which may contain information claimed by Aqua to be confidential, during cross-examination:

1. Executive Compensation Meeting Minutes (produced in response to Citizens' request for production of documents number 69).
2. Executive Compensation Study (produced in response to Citizens' request for production of documents number 70).



3. Incentive Compensation (produced in response to Citizens' request for production of documents number 66).

Citizens understand that the utility does not claim any portion of the prefiled testimony of Kimberly H. Dismukes to be confidential.

### **Requirements of Order Establishing Procedure**

Citizens believe that we have complied with the requirements of the order establishing procedure.

### **Objections to Witness's Qualification as an Expert**

Citizens have no objection to witness's qualifications as experts.

Respectfully submitted,

s/ Charlie Beck  
J. R. Kelly  
Charlie Beck  
Stephen C. Reilly

Office of Public Counsel  
c/o The Florida Legislature  
111 W. Madison Street  
Room 812  
Tallahassee, FL 32399-1400

(850) 488-9330

Attorneys for Florida's Citizens

**CERTIFICATE OF SERVICE**  
**DOCKET NO. 080121-WS**

I HEREBY CERTIFY that a true and correct copy of the foregoing Citizens' Prehearing Statement has been furnished by electronic mail and U.S. Mail to the following parties on this 20th day of November, 2008.

Ralph Jaeger  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

Ms. Kimberly A. Joyce  
Aqua Utilities Florida, Inc.  
762 West Lancaster Avenue  
Bryn Mawr, PA 19010-3402

Bruce May, Esq.  
Gigi Rollini, Esq.  
c/o Holland & Knight Law Firm  
P.O. Drawer 810  
Tallahassee, FL 32302-0810

Cecilia Bradley  
Office of the Attorney General  
The Capitol-PL101  
Tallahassee, FL 32399-1050

s/ Charlie Beck  
Charlie Beck  
Deputy Public Counsel