

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
ORDER NO. PSC-08-0807-PHO-WS
ISSUED: December 4, 2008

Pursuant to Notice and in accordance with Rule 28-106.209, Florida Administrative Code (F.A.C.), a Prehearing Conference was held on December 1, 2008, in Tallahassee, Florida, before Commissioner Lisa Polak Edgar, as Prehearing Officer.

APPEARANCES:

BRUCE MAY, and GIGI ROLLINI, ESQUIRES, Holland & Knight LLP, P.O. Drawer 810, Tallahassee, Florida 32302-0810
On behalf of Aqua Utilities Florida, Inc. (AUF).

CECILIA BRADLEY, ESQUIRE, The Capitol, PL01, Tallahassee, Florida 32399-1050
On behalf of the Attorney General of the State of Florida (AG).

J.R. KELLY, CHARLIE BECK, and STEPHEN C. REILLY, ESQUIRES, Office of Public Counsel, 111 W. Madison St., Room 812, Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida (OPC).

RALPH JAEGER, KATHERINE E. FLEMING, CAROLINE KLANCKE, and ERIK SAYLER, ESQUIRES, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Florida Public Service Commission (Staff).

PREHEARING ORDER

I. **CASE BACKGROUND**

On May 22, 2008, Aqua Utilities Florida, Inc. (AUF or utility) filed an Application for Increased Rates, Increased or Revised Service Availability Charges, and for Approval of Allowance for Funds Prudently Invested Charges (Application). The utility did not request the Application be processed as a proposed agency action. Therefore, this docket was set for service hearings in the months of July and August in the utility's service areas.

DOCUMENT NUMBER-DATE

11203 DEC-4 08

FPSC-COMMISSION CLERK

By Order No. PSC-08-0429-PCO-WS (Order Establishing Procedure), issued June 27, 2008, the Application was scheduled for formal hearing to be held on December 8 – 11, 2008, with a Prehearing Conference scheduled for December 1, 2008. This Prehearing Order sets forth the agreements reached by the parties and the decisions reached by the Prehearing Officer for conduction of the formal hearing scheduled for December 8 – 11, 2008.

II. CONDUCT OF PROCEEDINGS

Pursuant to Rule 28-106.211, F.A.C., this Prehearing Order is issued to prevent delay and to promote the just, speedy, and inexpensive determination of all aspects of this case.

III. JURISDICTION

This Commission is vested with jurisdiction over the subject matter by the provisions of Chapter 367, Florida Statutes (F.S.). This hearing will be governed by said Chapter and Chapters 25-22, 25-30, and 28-106, F.A.C., as well as any other applicable provisions of law.

IV. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

Information for which proprietary confidential business information status is requested pursuant to Section 367.156, F.S., and Rule 25-22.006, F.A.C., shall be treated by the Commission as confidential. The information shall be exempt from Section 119.07(1), F.S., pending a formal ruling on such request by the Commission or pending return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been made a part of the evidentiary record in this proceeding, it shall be returned to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of this proceeding, it shall be returned to the person providing the information within the time period set forth in Section 367.156, F.S. The Commission may determine that continued possession of the information is necessary for the Commission to conduct its business.

It is the policy of this Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 367.156, F.S., to protect proprietary confidential business information from disclosure outside the proceeding. Therefore, any party wishing to use any proprietary confidential business information, as that term is defined in Section 367.156, F.S., at the hearing shall adhere to the following:

- (1) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the court reporter, in red envelopes clearly marked with the nature of the contents and with the confidential information highlighted. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.

- (2) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise confidentiality. Therefore, confidential information should be presented by written exhibit when reasonably possible.

At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the court reporter shall be retained in the Office of Commission Clerk's confidential files. If such material is admitted into the evidentiary record at hearing and is not otherwise subject to a request for confidential classification filed with the Commission, the source of the information must file a request for confidential classification of the information within 21 days of the conclusion of the hearing, as set forth in Rule 25-22.006(8)(b), F.A.C., if continued confidentiality of the information is to be maintained.

V. PREFILED TESTIMONY AND EXHIBITS; WITNESSES

Testimony of all witnesses to be sponsored by the parties (and Staff) has been prefiled and will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to timely and appropriate objections. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Summaries of testimony shall be limited to five minutes.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer. After all parties and Staff have had the opportunity to cross-examine the witness, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

The Commission frequently administers the testimonial oath to more than one witness at a time. Therefore, when a witness takes the stand to testify, the attorney calling the witness is directed to ask the witness to affirm whether he or she has been sworn.

VI. ORDER OF WITNESSES

As a result of discussions at the prehearing conference, each witness whose name is preceded by an asterisk (*) will be excused from this hearing if no Commissioner assigned to this case seeks to cross-examine the particular witness. Parties shall be notified as soon as possible as to whether any such witness shall be required to be present at the hearing. The testimony of excused witnesses will be inserted into the record as though read, and all exhibits submitted with those witnesses' testimony shall be identified as shown in Section IX of this Prehearing Order and be admitted into the record.

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
Stephen Anzaldo – direct	AUF	24, 25, 27, 28, and 29
James A. Rothschild – direct	OPC	24, 27, 28
Stephen Anzaldo – rebuttal	AUF	24, 25, 27, 28, and 29
Paul Moul – rebuttal	AUF	24, 25, 28, 29
*John F. Guastella – direct	AUF	5, 6, 7, 8, 9, 10, 11, 12, and 13
Andrew T. Woodcock – direct	OPC	1, 5, 6, 7, 8, 9, 10, 11, 12, 13,
*John F. Guastella – rebuttal	AUF	5, 6, 7, 8, 9, 10, 11, 12, and 13
Robert M. Griffin – direct	AUF	2, 3, 4, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 26 and 56
Stan F. Szczygiel – direct	AUF	14, 15, 17, 18, 19, 20, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 66, 69 and 71.
Christopher H. Franklin – direct	AUF	1
John M. Lihvarcik – direct	AUF	1, 41, 45, 48
*Gary S. Prettyman – direct	AUF	30
Kimberly H. Dismukes – direct	OPC	1, 2, 3, 4, 14, 15, 20, 22, 23, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 54, 58, 59,
Earl Poucher – direct	OPC	1,
*Patricia W. Merchant – direct	OPC	16, 17, 18, 19, 20, 21, 25, 56, 72,
Debra M. Dobiac – direct	STAFF	2, 3, 14, 15, 34, 41, 55
Christopher H. Franklin - rebuttal	AUF	1
John M. Lihvarcik – rebuttal	AUF	1, 41, 45, 48
Preston Luitweiler – rebuttal	AUF	1

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
*Gary Prettyman – rebuttal	AUF	30
*Keith Kleinmann – direct	STAFF	1
*Mark Charneski – direct	STAFF	1, 7, 8
*Michael Hambor – direct	STAFF	1
*Henry Taghiouf – direct	STAFF	1
*Josie Penton – direct	STAFF	1
*Patricia Carrico – direct	STAFF	1
*Kathleen H. Gerard – direct	STAFF	1
*John J. Davis – direct	STAFF	1
*Jeffry S. Greenwell – direct	STAFF	1
*Gary P. Miller – direct	STAFF	1
*Paul J. Morrison – direct	STAFF	1
*Richard Shackford Lott – direct	STAFF	1
Kimberly Dodson – direct	STAFF	1
*Rhonda L. Hicks – direct	STAFF	1
*Charleston J. Winston – direct	STAFF	26, 33, 34, 35
*Intesar Terkawi – direct	STAFF	33, 34, 35, 41
*Jay W. Yingling – direct	STAFF	60, 63
*Catherine A. Walker – direct	STAFF	63
David P. Smeltzer – direct	AUF	60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 72, 73, 74 and 75.
Daniel T. Franceski – direct	AUF	59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69 and 70
Paul W. Stallcup - direct	STAFF	60, 61, 62, 63, 64, 65, 66

<u>Witness</u>	<u>Proffered By</u>	<u>Issues #</u>
David Smeltzer – rebuttal	AUF	60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 72, 73, 74 and 75
Dan Franceski – rebuttal	AUF	59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69 and 70
Robert Griffin – rebuttal	AUF	2, 3, 4, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 26 and 56
Stan F. Szczygiel – rebuttal	AUF	14, 15, 17, 18, 19, 20, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 66, 69 and 71

VII. BASIC POSITIONS

AUF: AUF currently operates 57 water utility systems and 25 wastewater systems in the following Florida counties: Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington. None of those systems have had a rate case or a base rate increase in over twelve years. Since last rates were established with these systems, AUF has invested a significant level of capital to enhance its quality of service and to comply with applicable federal, state and local regulations. In addition, AUF has continued to experience increases in costs and operating expenses.

Despite ongoing efforts to control expenses and enhance revenues, AUF has continued to experience declining rates of return. The decision to seek additional revenues was not an easy one to make, but was one that was required in order for AUF to be able to continue reasonable, sufficient, adequate and efficient service to its customers and to maintain the financial integrity of AUF, which makes the provision of quality service at reasonable rates possible. Using the historic year 2007 as the test year, AUF has determined a need for increased annual water revenues in the amount of \$4,518,353 and an increase in annual wastewater revenues in the amount of \$3,856,179. The rate relief requested provides AUF with the ability to provide adequate and efficient service and an opportunity to earn a fair rate of return on its investment.

In addition, AUF requests that the Commission approve a state-wide uniform rate structure, which includes uniform tariff pricing and a single cost of service, that will result in rates that are more affordable over time than those resulting from stand-alone rates.

AG: Adopts OPC's position.

OPC: 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.

STAFF: 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.

VIII. 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?

POSITIONS

AUF: Yes. The quality of service provided by AUF is satisfactory and no further action should be taken by the Commission. (Franklin, Lihvarcik, Luitweiler)

AG: Adopts OPC's position.

OPC: 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, Woodcock)

STAFF: No position pending evidence adduced at the hearing. (Kleinmann, Charneski, Hambor, Taghiof, Penton, Carrico, Gerard, Davis, Greenwell, Miller, Morrison, Lott, Dodson, Hicks)

RATE BASE

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

POSITIONS

AUF: AUF agrees to the adjustments as outlined in its response to the Staff Audit Report (Exhibit RMG-6), as well as those contained in the Rebuttal Testimony of Robert M. Griffin. (Griffin)

AG: Adopts OPC's position.

OPC: Citizens agree with Staff.

STAFF: Yes. The following adjustments should be made.

System	Account	Adjustment	Reason for Adj.
<u>Water</u>			
Lake Suzy	Plant in Service	(\$534,219)	Unsupported Plant
Lake Suzy	CIAC	\$137,077	Corresponding CIAC Adj.
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
<u>Wastewater</u>			
Lake Suzy	Plant in Service	(\$1,119,520)	Unsupported Plant

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

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

POSITIONS

AUF: AUF agrees that one adjustment, contained in the Rebuttal Testimony of Robert M. Griffin, should be made to the land value from the Lake Suzy Wastewater MFR. The adjustment is \$171,667, which is the thirteen month average of land value based on the December 31, 2007 land sale. (Griffin)

AG: Adopts OPC's position.

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

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

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

POSITIONS

AUF: AUF agrees to the adjustments as contained in the Rebuttal Testimony of Robert M. Griffin. (Griffin)

AG: Adopts OPC's position.

OPC: Yes. The Company's pro forma plant additions are overstated. Aqua's pro forma additions for system specific projects should be reduced to \$896,218 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 \$101,673 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)

STAFF: No position pending evidence adduced at the hearing.

ISSUE 5: *Proposed Stipulation. See Section X.*

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

POSITIONS

AUF: The wastewater systems which have excessive infiltration and/or inflow are identified in the respective MFRs, and are addressed in the Direct and Rebuttal Testimony of John Guastella. All appropriate adjustments have been made in AUFs MFRs. (Guastella)

AG: Adopts OPC's position.

OPC: 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, 28, and 29 of Exhibit KHD-1. Also, OPC agrees with Staff's I&I for systems that purchase wastewater treatment. (Woodcock)

STAFF: 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?

POSITIONS

AUF: The appropriate used and useful percentages for the water treatment and related facilities for each water system are identified in AUFs MFRs as in the Direct and Rebuttal Testimony of John Guastella. The systems where revisions were made, if any, were appropriately identified in response to staff's discovery and in the Rebuttal Testimony of John Guastella. (Guastella)

AG: Adopts OPC's position.

OPC: The appropriate used and useful percentages for the water treatment and related facilities of each water system is detailed in Exhibit ATW-2, except for modifications made to Piney Woods/Spring Lake and Arredondo Combined in response to Mr. Guastella's rebuttal testimony or in response to AUF discovery. (Woodcock)

STAFF: 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 (Charneski)	88 Percent
Welaka/Saratoga Harbour	80 Percent

Hermits Cove/St. Johns Highlands	31 Percent
Chuluota	93 Percent
Sunny Hills	94 Percent

ISSUE 8: *Proposed Stipulation. See Section X.*

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

POSITIONS

AUF: The appropriate used and useful percentages for the wastewater treatment and related facilities for each water system are identified in AUF’s MFRs and in the Direct and Rebuttal Testimony of John Guastella. The systems where revisions were made, if any, were appropriately identified in response to Staff’s discovery and in the Rebuttal Testimony of John Guastella. (Guastella)

AG: Adopts OPC’s position.

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

STAFF:

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?

POSITIONS

AUF: The appropriate used and useful percentages for the water distribution and related facilities for each water system are identified in AUF’s MFRs and in the Direct and Rebuttal Testimony of John Guastella. The systems where revisions were made, if any, were appropriately identified in response to Staff’s discovery and in the Rebuttal Testimony of John Guastella. (Guastella)

AG: Adopts OPC’s position.

OPC: The appropriate used and useful percentages for the water distribution and related facilities of each water system is detailed in Exhibit ATW-4, except for a modification made to Arredondo Combined in response to AUF discovery. (Woodcock)

STAFF:

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
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?

POSITIONS

AUF: The appropriate used and useful percentages for the wastewater collection and transmission lines and related facilities for each water system are identified in AUF's MFRs and in the Direct and Rebuttal Testimony of John Guastella. The systems where revisions were made, if any, were appropriately identified in response to Staff's discovery and in the Rebuttal Testimony of John Guastella. (Guastella)

AG: Adopts OPC's position.

OPC: 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)

STAFF:

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?

POSITIONS

AUF: The used and useful percentages of water treatment and related facilities that are interconnected should be individually evaluated if each system were designed and constructed as an independent system, because the cost to serve the customers of each system was incurred on an individual basis and should be recognized for rate setting purposes on that basis. Utilities should not be penalized simply because changing circumstances enabled them to interconnected systems subsequent to their design and construction for the purpose of improving operations and reliability, or for emergencies. (Guastella)

AG: Adopts OPC's position.

OPC: 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)

STAFF: 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?

POSITIONS

AUF: Systems that are "functionally" integrated for accounting, management, administrative and operational purposes but are physically stand alone systems should be evaluated as individual systems for calculating used and useful percentages, because the respective construction cost of facilities necessary to serve their customers was incurred on an individual basis. If the weighted average of the individual used and useful percentages equals or exceeds 90%, the functionally integrated group of systems should be considered 100% used and useful. (Guastella)

AG: Adopts OPC's position.

OPC: 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)

STAFF: 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?

POSITIONS

AUF: No adjustments should be made to the test year accumulated depreciation. (Griffin, Szczygiel)

AG: Adopts OPC's position.

OPC: Yes. Plant in service adjustments should be accompanied by an adjustment to accumulated depreciation as a fallout issue. In addition, Citizens agree with the specific adjustments proposed by staff. (Dismukes)

STAFF:

System	Account	Adjustment	Reason for Adj.
Water			
Lake Suzy	Accumulated Depr.	\$108,901	Unsupported Balance
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. (Dobiac)

ISSUE 15: *Proposed Stipulation. See Section X.*

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

POSITIONS

AUF: No. (Griffin)

AG: Adopts OPC's position.

OPC: 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)

STAFF: 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?

POSITIONS

AUF: No. (Griffin, Szczygiel)

AG: Adopts OPC's position.

OPC: 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)

STAFF: 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?

POSITIONS

AUF: Yes, as stated in the Rebuttal Testimony of Robert M. Griffin. (Griffin, Szczygiel)

AG: Adopts OPC's position.

OPC: 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)

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

AUF: No. (Griffin, Szczygiel)

AG: Adopts OPC's position.

OPC: 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)

STAFF: 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?

POSITIONS

AUF: As addressed in the Rebuttal Testimony of Robert M. Griffin, AUF agrees that the average deferred rate case expense should be included. The appropriate amount of deferred rate case expense should be updated to include the revised rate case expense addressed in the Rebuttal Testimony of Stan Szczygiel. (Griffin, Szczygiel)

AG: Adopts OPC's position.

OPC: 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)

STAFF: 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?

POSITIONS

AUF: The appropriate working capital allowance is contained in the MFRs for the respective systems. (Griffin)

AG: Adopts OPC's position.

OPC: 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)

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

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

POSITIONS

AUF: No. A negative acquisition adjustment should not be included in rate base. A negative acquisition adjustment would be contrary to past Commission decisions and no extraordinary circumstances exist. (Griffin)

AG: Adopts OPC's position.

OPC: 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)

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

AUF: The appropriate rate base for each system is contained in the MFRs for the respective systems. Further, AUF agrees to the adjustments as outlined in its

response to the Staff Audit Report, as well as those contained in the Rebuttal Testimony of Robert M. Griffin. (Griffin)

AG: Adopts OPC's position.

OPC: 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)

STAFF: 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?

POSITIONS

AUF: The appropriate capital structure to be used for rate setting purposes is the capital structure of AUF, as contained in the MFRs. (Anzaldo, Moul)

AG: Adopts OPC's position.

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

STAFF: 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?

POSITIONS

AUF: The appropriate amount of accumulated deferred taxes to include in the capital structure is contained in the MFRs and Rebuttal Testimony of Stephen Anzaldo. (Anzaldo, Moul)

AG: Adopts OPC's position.

OPC: 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)

STAFF: No position pending evidence adduced at the hearing.

ISSUE 26: *Proposed Stipulation. See Section X.*

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

POSITIONS

AUF: The appropriate cost rates for long-term debt for the test year are contained in the MFRs. There is no short term debt for AUF. (Anzaldo)

AG: Adopts OPC's position.

OPC: 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)

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

AUF: The appropriate return on equity (ROE) for the test year is 10.25%. (Anzaldo, Moul)

AG: Adopts OPC's position.

OPC: 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)

STAFF: 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?

POSITIONS

AUF: AUF's recommended capital structure and weighted costs rate are set forth in the Rebuttal Testimony of Stephen Anzaldo (Exhibit SFA-1). (Anzaldo, Moul)

- AG:** Adopts OPC's position.
- OPC:** This is a fall-out issue.
- STAFF:** No position pending evidence adduced at the hearing.

NET OPERATING INCOME

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

POSITIONS

- AUF:** There are no appropriate adjustments that should be made for annualized test year revenue. The appropriate test year revenues are contained in the MFRs of the systems. (Szczygiel, Prettyman)
- AG:** No position at this time.
- OPC:** No position at this time.
- STAFF:** No position pending evidence adduced at the hearing.

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

POSITIONS

- AUF:** No adjustment should be made. (Szczygiel)
- AG:** No position at this time.
- OPC:** No position at this time.
- STAFF:** No position pending evidence adduced at the hearing.

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

POSITIONS

- AUF:** No. Non-utility revenues are properly recorded below the line. If these non-utility revenues are considered above-the-line, then the respective expenses related to those revenues must also be included in the revenue requirement calculation. (Szczygiel)

AG: Adopts OPC's position.

OPC: 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 \$9,627. (Dismukes)

STAFF: 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: *Proposed Stipulation. See Section X.*

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

POSITIONS

AUF: AUF agrees with the adjustments contained in its response to the Staff Audit Report. (Szczygiel)

AG: Adopts OPC's position.

OPC: 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)

STAFF: 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. (Winston, Terkawi, Dobiac)

ISSUE 35: *Proposed Stipulation. See Section X.*

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

POSITIONS

AUF: No. The affiliated charges are reasonable and appropriate. No adjustment is necessary. (Szczygiel)

AG: Adopts OPC's position.

OPC: 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)

STAFF: No position pending evidence adduced at the hearing.

ISSUE 37: *Proposed Stipulation. See Section X.*

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

POSITIONS

AUF: No. No adjustment is necessary or appropriate. (Szczygiel)

AG: Adopts OPC's position.

OPC: 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)

STAFF: 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?

POSITIONS

AUF: AUF agrees to the adjustment to remove charges incurred from Cynergy only. (Szczygiel)

AG: Adopts OPC's position.

OPC: 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)

STAFF: 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?

POSITIONS

AUF: No. No adjustment is necessary or appropriate. (Szczygiel)

AG: Adopts OPC's position.

OPC: 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)

STAFF: 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 and contractual services – testing expenses?

POSITIONS

AUF: No. No adjustment is necessary or appropriate. (Szczygiel, Lihvarcik)

AG: Adopts OPC's position.

OPC: 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 \$1,437. (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)

STAFF: 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. (Terkawi, Dobiac)

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

POSITIONS

AUF: No. No adjustment is necessary or appropriate. (Szczygiel)

AG: Adopts OPC's position.

OPC: 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)

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

AUF: No. No adjustment is necessary or appropriate. (Szczygiel)

AG: Adopts OPC's position.

OPC: 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)

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

AUF: No. No adjustment is necessary or appropriate. (Szczygiel)

AG: Adopts OPC's position.

OPC: 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.
- 2) 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.
- 3) 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)
- 4) 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)

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

AUF: No. No adjustment is necessary or appropriate. (Szczygiel, Lihvarcik)

AG: Adopts OPC's position.

OPC: 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)

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

AUF: No. No adjustment is necessary or appropriate. (Szczygiel)

AG: Adopts OPC's position.

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

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

AUF: Yes. AUF agrees to the adjustment proposed by OPC witness Kimberly Dismukes. (Szczygiel)

AG: Adopts OPC's position.

OPC: (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)

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

AUF: No. No adjustment is necessary or appropriate. (Szczygiel, Lihvarcik)

AG: Adopts OPC's position.

OPC: 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)

- 3) 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)
- 4) 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)
- 5) Consistent with staff audit finding 10, pension and benefits should be reduced by \$1,540 for a prior period allocation from Aqua America. (Dismukes)

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

AUF: No. No adjustment is necessary or appropriate. (Szczygiel)

AG: Adopts OPC's position.

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

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

AUF: No. No adjustment is necessary or appropriate. (Szczygiel)

AG: Adopts OPC's position.

OPC: 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)

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

AUF: No. No adjustment is necessary or appropriate. (Szczygiel)

AG: Adopts OPC's position.

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

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

AUF: The appropriate amount of rate case expense is \$1,876,438. (Szczygiel)

AG: Adopts OPC's position.

OPC: 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)

STAFF: 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?

POSITIONS

AUF: No. No adjustment is necessary or appropriate. (Szczygiel)

AG: Adopts OPC's position.

OPC: 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.

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

AUF: No. No adjustment is necessary or appropriate. (Szczygiel)

AG: Adopts OPC's position.

OPC: 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)

STAFF: No position pending evidence adduced at the hearing.

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

POSITIONS

AUF: No. No adjustment is necessary or appropriate. (Szczygiel)

AG: Adopts OPC's position.

OPC: Depreciation expense should be adjusted consistent with adjustments to plant in service.

STAFF: 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			
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

(Dobiac)

ISSUE 56: *Proposed Stipulation. See Section X.*

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

POSITIONS

AUF: No. No adjustment is necessary or appropriate. (Szczygiel)

AG: Adopts OPC's position.

OPC: Property tax adjustments should be made consistent with adjustments to plant in service.

STAFF: 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?

POSITIONS

AUF: The appropriate test year pre-repression water and wastewater operating income or loss before any revenue increase are contained in the MFRs for the respective systems. Any adjustment agreed to by AUF should be incorporated. (Szczygiel)

AG: Adopts OPC's position.

OPC: The appropriate pre-repression operating incomes before any revenue increase for water and wastewater are \$299,510 and negative \$30,922, respectively, excluding rate case expense and the revenue requirement associated with Tomoka/Twin Rivers. (Dismukes)

STAFF: 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?

POSITIONS

AUF: The appropriate test year pre-repression revenue requirement for the December 31, 2007 test year is contained in the MFRs for the respective systems. Any adjustment agreed to by AUF should also be incorporated. (Szczygiel)

AG: Adopts OPC's position.

OPC: The appropriate pre-repression revenue requirements for water and wastewater are \$699,502 and \$912,356, respectively, excluding rate case expense and the revenue requirement associated with Tomoka/Twin Rivers. (Dismukes)

STAFF: 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?

POSITIONS

AUF: If AUF's proposed two-tiered inclining block rate structure is approved, the appropriate repression adjustment should be based on -.2. However, if a three tier

inclining block rate structure is approved, the appropriate repression adjustment should be based on -.4. (Franceski, Smeltzer)

AG: Adopts OPC's position.

OPC: 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.

STAFF: No position pending evidence adduced at the hearing. (Yingling, Stallcup)

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?

POSITIONS

AUF: The Commission should approve a state-wide consolidated rate structure based on affordability. Subsidies are arbitrary and are just one consideration in establishing the appropriate rate structure. As outlined in the Rebuttal Testimony of David Smeltzer and Dan Franceski, should the Commission authorize a single cost of service for accounting purposes, AUF's alternative rate equalization plan consisting of two to three tariffs would address affordability and fairness principles. (Franceski, Smeltzer)

AG: No position at this time.

OPC: No position at this time.

STAFF: No position pending evidence adduced at the hearing. (Stallcup)

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?

POSITIONS

AUF: No. Subsidy limits based on stand-alone system rates fail to take into account that the majority of the AUF systems have not been paying their true cost of service for over 12 years. (Franceski, Smeltzer)

AG: No position at this time.

OPC: No position at this time.

STAFF: No position pending evidence adduced at the hearing. (Stallcup)

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

POSITIONS

AUF: The appropriate rate structures for the Utility's water and wastewater systems is a state wide uniform consolidated rate structure. As outlined in the Rebuttal Testimony of David Smeltzer and Dan Franceski, should the Commission authorize a single cost of service for accounting purposes, AUF's alternative rate equalization plan consisting of two to three tariffs would addresses affordability and fairness principles. (Franceski, Smeltzer)

AG: No position at this time.

OPC: No position at this time.

STAFF: No position pending evidence adduced at the hearing. (Walker, Stallcup)

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

POSITIONS

AUF: The appropriate rate structures for the Utility's water and wastewater systems is a state wide uniform consolidated rate structure and all water systems should be consolidated into a single rate structure. (Franceski, Smeltzer)

AG: No position at this time.

OPC: No position at this time.

STAFF: No position pending evidence adduced at the hearing. (Stallcup)

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

POSITIONS

AUF: The appropriate rate structures for the Utility's water and wastewater systems is a state wide uniform consolidated rate structure and all wastewater systems should be consolidated into a single rate structure. (Franceski, Smeltzer)

AG: No position at this time.

OPC: No position at this time.

STAFF: No position pending evidence adduced at the hearing. (Stallcup)

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

POSITIONS

AUF: No repression adjustment should be made to Fuel for Power. This is inconsistent with past Commission practice and there is no evidence in the record to establish why a change in Commission practice is required. (Franceski, Smeltzer, Szczygiel)

AG: Adopts OPC's position.

OPC: 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.

STAFF: No position pending evidence adduced at the hearing. (Stallcup)

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

POSITIONS

AUF: The appropriate monthly rates for the water and wastewater systems for the Utility are contained in the MFRs for each respective system. (Franceski, Smeltzer)

AG: Adopts OPC's position.

OPC: This is a fall-out issue.

STAFF: 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?

POSITIONS

AUF: Yes. AUF should be authorized to revise its miscellaneous service charges to the requested charges contained in the MFRs. (Franceski, Smeltzer)

AG: No position at this time.

OPC: No position at this time.

STAFF: 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?

POSITIONS

AUF: There should be no interim refunds. Due to an error in the Commission's interim rate order, AUF did not receive recovery of interim increases it was legally entitled in the amount of \$588,239 on an annualized basis. (Franceski, Smeltzer, Szczgyiel)

AG: Adopts OPC's position.

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

STAFF: 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.?

POSITIONS

AUF: This is a fall out calculation based on adjustments to revenue requirements and the appropriate rate case expense. (Franceski, Smeltzer)

AG: Adopts OPC's position.

OPC: This is a fall-out issue.

STAFF: 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?

POSITIONS

AUF: The appropriate service availability charges are contained in the MFRs. (Szczygiel)

AG: No position at this time.

OPC: No position at this time.

STAFF: 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?

POSITIONS

AUF: Yes as contained in AUF's Revised Volume 2. (Smeltzer)

AG: Adopts OPC's position.

OPC: 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)

STAFF: 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?

POSITIONS

AUF: This will be based on the final revenue requirement adjusted for rate case expense compared to the interim revenue requirement. The difference in what was charged for interim rates and the uncapped amount should be included in the regulatory asset. Further, the erroneous amount of interim increase not included in rates of \$588,239 should also be included in the regulatory asset. (Smeltzer)

AG: No position at this time.

OPC: The Commission should not approve a regulatory asset for any amount exceeding the amount identified in the interim rate order. To do otherwise would violate section 367.082, Florida Statutes.

STAFF: 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?

POSITIONS

AUF: Yes. Consistent with its unified cost of service methodology, AUF should be allowed to make future index and pass through filings on a consolidated basis. (Smeltzer)

AG: No position at this time.

OPC: No position at this time.

STAFF: 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?

POSITIONS

AUF: Yes. AUF should be allowed to consolidate its in-state FPSC-regulated accounting, filing and reporting requirements from individual system bases to one combined set of books. (Smeltzer)

AG: No position at this time.

OPC: No position at this time.

STAFF: No position pending evidence adduced at the hearing.

ISSUE 76: Should this docket be closed?

POSITIONS

AUF: Yes.

AG: Yes.

OPC: Yes.

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

IX. EXHIBIT LIST

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
			<u>Direct</u>
Daniel T. Franceski	AUF	DTF-1	Schedule showing rates of each system comparing: 1) rates before filing; 2) stand alone system rates assuming no consolidation; 3) proposed consolidated rates; 4) interim rates with and without proposed recovery mechanism; and, 5) rates for wastewater only service
Christopher H. Franklin	AUF	CHF-1	Customer Issue Matrix
Christopher H. Franklin	AUF	CHF-2	Customer Letters
Christopher H. Franklin	AUF	CHF-3	Issue Summary Chart
Christopher H. Franklin	AUF	CHF-4	Chuluota Test Results
Christopher H. Franklin	AUF	CHF-5	Correspondence with Oviedo
Christopher H. Franklin	AUF	CHF-6	CSR Evaluation Form
Robert M. Griffin	AUF	RMG-1	List of Water and Wastewater Systems Included in Rate Case
Robert M. Griffin	AUF	RMG-2	Schedule of Previous Commission Staff Rate Base Adjustments Recorded on AUF's Books in December 2007
Robert M. Griffin	AUF	RMG-3	Reconciliation of the December 31, 2007 Rate Base Balances to the 2007 Annual Reports

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
Robert M. Griffin	AUF	RMG-4	Listing of Computer Equipment Residing in an AUF Administrative Location Allocated to Florida Locations.
Robert M. Griffin	AUF	RMG-5	Listing of All Pro-Forma Plant Adjustments
John M. Lihvarcik	AUF	JML-1	Listing of AUF Water and Wastewater Systems by County
John M. Lihvarcik	AUF	JML-2	Description of each AUF Water and Wastewater System
Gary S. Prettyman	AUF	Appendix A to Direct Testimony of Gary S. Prettyman	Professional Qualifications
Gary S. Prettyman	AUF	Attachment B to Direct Testimony of Gary S. Prettyman	Accounting Units for Bill Analysis
Stan F. Szczygiel	AUF	SS-1	Commission Dockets and Orders Establishing Rates for Each System
Stan F. Szczygiel	AUF	SS-2	Summary of, and Sponsors for MFRs
Stan F. Szczygiel	AUF	SS-3	Normalization Adjustments Summary
Stan F. Szczygiel	AUF	SS-4	Pro Forma Expenses Adjustments Summary
Kimberly H. Dismukes	OPC	KHD-1	Schedules
Patricia W. Merchant	OPC	PWM-1	Resume of Patricia W. Merchant
Patricia W. Merchant	OPC	PWM-2	Schedules of Adjustments

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
Earl Poucher	OPC	EP-1	Customer Letter
Earl Poucher	OPC	EP-2	Customer Response
Earl Poucher	OPC	EP-3	Correspondence Analysis
Earl Poucher	OPC	EP-4	Correspondence Index
James A. Rothschild	OPC	JAR-1	Schedules
James A. Rothschild	OPC	JAR-2	Resume of James A. Rothschild
Andrew T. Woodcock	OPC	ATW-1	Resume
Andrew T. Woodcock	OPC	ATW-2	Water Used and Useful
Andrew T. Woodcock	OPC	ATW-3	Wastewater Used and Useful
Andrew T. Woodcock	OPC	ATW-4	Water Distribution and Wastewater Collection Used and Useful
Keith Kleinmann	Staff	KK-1	Pollution Prevention Project Implementation Plan Dated March 20, 2008 for South Seas
Josie Penton	Staff	JP-1	Letter Dated October 8, 2008, Setting out Results of Compliance Inspection of Sunny Hills
Kathleen H. Gerard	Staff	KG-1	Compliance Evaluation Inspection Letter Dated October 6, 2008 for Arredondo Farms
Kathleen H. Gerard	Staff	KG-2	Compliance Evaluation Letter Dated October 21, 2008 for Silver Lake Oaks
John J. Davis	Staff	JD-1	Warning Letter Dated May 23, 2008 for Pomona Park

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
Jeffry S. Greenwell	Staff	JG-1	Amendment to Consent Order Dated June 27, 2008, for Village Waters
Jeffry S. Greenwell	Staff	JG-2	Warning Letter Dated March 9, 2007, for Palm Terrace Gardens
Jeffry S. Greenwell	Staff	JG-3	Warning Letter Dated March 8, 2008, for Jasmine Lakes
Jeffry S. Greenwell	Staff	JG-4	Compliance Evaluation Inspection Letter Dated August 6, 2008, for The Woods
Gary P. Miller	Staff	GM-1	Letter on Wastewater Permit Application for Chuluota
Kimberly Dodson	Staff	KD-1	Consent Order Executed January 2007 for Chuluota Water System
Rhonda L. Hicks	Staff	RLH-1	Commission's Summary Listing of Complaints Against AUF for 2007
Rhonda L. Hicks	Staff	RLH-2	Commission's Summary Listing of Complaints Against AUF for 2008 (through September 2008)
Rhonda L. Hicks	Staff	RLH-3	Listing of Consumer Complaint Close-out Codes
Charleston J. Winston	Staff	CJW-1	Audit Report
Charleston J. Winston	Staff	CJW-2	Audit Work Papers for Working Capital
Charleston J. Winston	Staff	CJW-3	Audit Work Papers for Finding 12
Charleston J. Winston	Staff	CJW-4	Audit Work Papers for Allocated Expenses
Charleston J. Winston	Staff	CJW-5	Audit Work Papers for Finding 19

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
Intesar Terkawi	Staff	IT-1	Audit Work Papers for Audit Finding 13 (Fines and Penalties)
Debra M. Dobiac	Staff	DMD-1	Audit Work Papers for Findings 1 and 2
Debra M. Dobiac	Staff	DMD-2	Audit Work Papers for Finding 3
Debra M. Dobiac	Staff	DMD-3	Audit Work Papers for Finding 4
Debra M. Dobiac	Staff	DMD-4	Audit Work Papers for Finding 5
Debra M. Dobiac	Staff	DMD-5	Audit Work Papers for Finding 18
Jay W. Yingling	Staff	JWY-1	References
Jay W. Yingling	Staff	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	Staff	JWY-3	Single Family Residential Price Elasticities
Catherine A. Walker	Staff	CAW-1	Resume
Catherine A. Walker	Staff	CAW-2	Map of the AUF systems located within the SJRWMD Priority Water Resource Caution Areas
Catherine A. Walker	Staff	CAW-3	AUF consumptive use permit compliance table
Catherine A. Walker	Staff	CAW-4	Consent orders for Chuluota and Imperial Mobile Terrace systems
Paul W. Stallcup	Staff	PWS-1	Residential customer system statistics

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
Paul W. Stallcup	Staff	PWS-2	Comparison of customer bills using alternative rate factors
Paul W. Stallcup	Staff	PWS-3	Calculation of inflation adjusted subsidy and affordability amounts
<u>Rebuttal</u>			
Stephen F. Anzaldo	AUF	SFA-1	AUF Capital Structure
Daniel T. Franceski	AUF	DTF-2	Rate Calculations
Daniel T. Franceski	AUF	DTF-3	Summary Worksheet
Christopher H. Franklin	AUF	CHF-7	Customer Satisfaction Survey
Christopher H. Franklin	AUF	CHF-8	CRS Performance Chart
Christopher H. Franklin	AUF	CHF-9	Customer Compliments Summary
Robert M. Griffin	AUF	RMG-6	AUF Responses to Audit Findings
Robert M. Griffin	AUF	RMG-7	FPSC Order No. 97-0540-FOF-WS
Robert M. Griffin	AUF	RMG-8	RF Meter Contract and Awarded Bid
Robert M. Griffin	AUF	RMG-9	Jasmine Lakes Wastewater Treatment Plant Contracts
Robert M. Griffin	AUF	RMG-10	Schedule on Updates Capital Additions
John F. Guastella	AUF	JFG-1	Schedules
John M. Lihvarcik	AUF	JML-3	Staffing Chart
John M. Lihvarcik	AUF	JML-4	Summary by Saje
Preston Luitweiler	AUF	PL-1	Dr. James Taylor Report
Paul R. Moul	AUF	PRM-1	Educational Background

<u>Witness</u>	<u>Proffered By</u>		<u>Description</u>
Paul R. Moul	AUF	PRM-2	FPSC Memo Regarding Leverage Formula Statute
Gary S. Prettyman	AUF	GSP-1	Lake Gibson Estates Schedule
Stan F. Szczygiel	AUF	SS-5	Non-Utility Invoices
Stan F. Szczygiel	AUF	SS-6	Lake Suzy Wastewater Land Lease
Stan F. Szczygiel	AUF	SS-7	Listing of Normalization Workpapers
Stan F. Szczygiel	AUF	SS-8	Allocation of Payroll Taxes
Stan F. Szczygiel	AUF	SS-9	Normalized Service company Headcount
Stan F. Szczygiel	AUF	SS-10	Normalization Adjustment ACO costs
Stan F. Szczygiel	AUF	SS-11	Recalculation of Dismukes Wage Increase
Stan F. Szczygiel	AUF	SS-12	Market Base Study
Stan F. Szczygiel	AUF	SS-13	Carl Smith Timesheets
Stan F. Szczygiel	AUF	SS-14	Confidential Executive Compensation Analysis
Stan F. Szczygiel	AUF	SS-15	Cost Analysis
Stan F. Szczygiel	AUF	SS-16	FWSC Spreadsheet (Pre-Appeal)
Stan F. Szczygiel	AUF	SS-17	FWSC Spreadsheet (Post-Appeal)
Stan F. Szczygiel	AUF	SS-18	Comparative Cost Review
Stan F. Szczygiel	AUF	SS-19	Tank Inspections
Stan F. Szczygiel	AUF	SS-20	Bad Debt Spreadsheet
Stan F. Szczygiel	AUF	SS-21	Pro Forma Workpapers Listing

<u>Witness</u>	<u>Proffered By</u>	<u>Description</u>
Stan F. Szczygiel	AUF	SS-22 Pro Forma Worksheets
Stan F. Szczygiel	AUF	SS-23 Audit Response
Stan F. Szczygiel	AUF	SS-24 Rate Case Expense

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

X. PROPOSED STIPULATIONS

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

Stipulation: 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)	\$0	(\$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 8: What are the appropriate used and useful percentages for the water storage and related facilities of each water system?

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

Stipulation: 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	(\$11,418)	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.

(See AF 5)

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

Stipulation: 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 Ravenswood, 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. (See AF 9)

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

Stipulation: 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

(See AF 10, 16)

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

Stipulation: 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. (See AF 13)

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

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

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

Stipulation: 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 be removed. This reflects a total decrease to depreciation expense of \$12,368 for water and \$126 for wastewater.

Stipulations based on Audit Findings

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 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)
5. 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)
6. 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)

XI. PENDING MOTIONS

There are no pending motions at this time.

XII. PENDING CONFIDENTIALITY MATTERS

There are no pending confidentiality matters at this time.

XIII. POST-HEARING PROCEDURES

If no bench decision is made, each party shall file a post-hearing statement of issues and positions. A summary of each position of no more than 50 words, set off with asterisks, shall be included in that statement. If a party's position has not changed since the issuance of this Prehearing Order, the post-hearing statement may simply restate the prehearing position; however, if the prehearing position is longer than 50 words, it must be reduced to no more than 50 words. If a party fails to file a post-hearing statement, that party shall have waived all issues and may be dismissed from the proceeding.

Pursuant to Rule 28-106.215, F.A.C., a party's proposed findings of fact and conclusions of law, if any, statement of issues and positions, and brief, shall together total no more than 60 pages and shall be filed at the same time.


XIV. RULINGS

Opening statements, if any, shall not exceed ten minutes per party.

It is therefore,

ORDERED by Commissioner Lisa Polak Edgar, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner Lisa Polak Edgar, as Prehearing Officer, this 4th day of December, 2008.



LISA POLAK EDGAR
Commissioner and Prehearing Officer

(S E A L)

KEF

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.