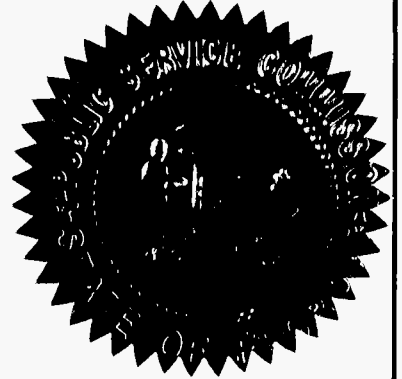


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 080121-WS

In the Matter of:

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.



VOLUME 10

Pages 1432 through 1619

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THE OFFICIAL TRANSCRIPT OF THE HEARING,
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PROCEEDINGS: HEARING

BEFORE: CHAIRMAN MATTHEW M. CARTER, II
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER KATRINA J. McMURRIAN
COMMISSIONER NANCY ARGENZIANO
COMMISSIONER NATHAN A. SKOP

DATE: Thursday, December 11, 2008

TIME: Commenced at 9:30 a.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JANE FAUROT, RPR
Official FPSC Reporter
(850) 413-6732

APPEARANCES: (As heretofore noted.)

DOCUMENT NUMBER-DATE
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CHAIRMAN CARTER: We are back on the record. And we got a chance to exchange our court reporters, and let's roll.

Mr. -- wait a minute, we were going to staff. Staff, you're recognized. Wait a minute, hang on a second.

Commissioners, any questions before we -- we can always come back to the bench.

Staff, you're recognized.

MS. KLANCKE: Staff has no questions for this witness.

CHAIRMAN CARTER: Hold on the phone. You guys sucker-punched me on that one. Typical. No, no. Just kidding, just kidding, guys.

If I slip up and call you Paul, I apologize.

Mr. Stallcup, on Page 16, as you go through your rate consolidation methodologies, in your responses to some of the questions with Mr. May you were saying that there were two proposals. One was for the company proposed the rate structures that were in place before; secondly, was their proposed rate structure; then you said there was two others. And I think those were in response to this monster exhibit he was using to ask you that. And you said that it actually came out to about -- was it four or five --

THE WITNESS: I think in total we have six.

1 **CHAIRMAN CARTER:** Now, what I really wanted to ask
2 you about was -- you were talking about the subsidization issue
3 in terms of the fairness -- remember, I was asking Mr. -- who
4 was that that I asked about that? -- Mr. Franceski, I think it
5 was.

6 **THE WITNESS:** Yes.

7 **CHAIRMAN CARTER:** Paul, could you walk me through
8 your perspective in terms of an alternative on using this?
9 Because one of the things -- I may sound like I'm rambling,
10 that's only because I am -- is that when you were talking with
11 Mr. May about this handout here, and he said it was a
12 75 percent -- you said that 75 percent was including the rates
13 requested as well as the other rates that were in place. But
14 your perspective was just dealing with the proposed rate
15 increase.

16 **THE WITNESS:** Correct.

17 **CHAIRMAN CARTER:** Okay. Now, could you walk me
18 through that alternative as you go through dealing with the
19 subsidization issue as well as -- I think you said you would be
20 recommending -- the rate would be uniform rates, but it would
21 be 75 percent of the rate increase. Am I close?

22 **THE WITNESS:** To be quite honest with you, Mr.
23 Chairman, I'm not following you.

24 **CHAIRMAN CARTER:** Okay. Then walk me through your
25 alternative, the one that you are proposing, that's easier.

1 **THE WITNESS:** Okay. We have the two rate
2 consolidation methodologies contained in the company's direct
3 testimony. One is stand-alone rates as they exist now, the
4 other is fully statewide consolidated rates. In my testimony,
5 I provide two alternatives that are kind of halfway between the
6 two. One is the capband methodology that was used in the
7 Southern States case, and the other one is something that we
8 have come to call the portfolio method that combines high cost
9 systems that tend to be small with low cost systems that tend
10 to be large, and that helps dilute the high-cost systems' high
11 rates.

12 The two others are the alternative that Mr. Franceski
13 presents in his rebuttal testimony, and that's what this
14 handout was dealing with. And the other deals with the
15 possibility of reallocating some of the wastewater revenue
16 recovery to the water system, should the Commission feel that
17 the wastewater rates are prohibitively high or unaffordable.

18 **CHAIRMAN CARTER:** Okay. Let's get through the weeds
19 then. Tell me about the last one first.

20 **THE WITNESS:** All right. The last one has to do with
21 reallocating revenue requirements recovery from wastewater to
22 water. When I was working with the numbers, all the systems'
23 revenue requirements, number of bills, number of gallons, and
24 so forth, and was seeing the rates coming out the way they were
25 for the wastewater systems, in my mind they appear to be

1 problematic because they are just very high.

2 If we were to take a hypothetical -- if I'm
3 remembering how this ratio is working -- if we were to take,
4 let's say, \$100 off the total revenue requirements on the
5 wastewater side, it would show up -- let's say \$100 per
6 customer on the wastewater side, it would show up as an
7 increase on the water side as about \$60 per customer. So there
8 is a ratio there where you pull down some money over here, but
9 some guys over here are going to have to pay for it. It's a
10 ratio of about ten to six, if you will.

11 Whether or not that is going to be a practical
12 solution at this point, I really can't tell you because we
13 don't have the final numbers to really judge whether or not it
14 makes sense. I was simply searching for some methodology to
15 find a way to bring down those rates on the wastewater side.

16 **CHAIRMAN CARTER:** Okay. Now, skip those that Mr.
17 Franceski talked about. Tell me about the two scenarios that
18 you proposed that were in the center.

19 **THE WITNESS:** Okay. Those would be the two that were
20 in my direct testimony.

21 **CHAIRMAN CARTER:** Right.

22 **THE WITNESS:** The first one is the capband rate
23 methodology. And how that works is that -- imagine you had a
24 list just like you do here of the systems with the most
25 expensive at the top, you know, a customer bill at the top, and

1 the cheapest down at the bottom. And let's suppose it ranges
2 from \$100 down to \$20. If in your judgment you decide that,
3 say, \$60 is the maximum affordable bill for water, what would
4 happen under that rate consolidation method is that every bill
5 that was -- or every system for whom the bills are greater than
6 60, you would cap those systems at a rate equal to 60. So
7 everybody above that would be able to avoid the high bills and
8 they would pay 60 bucks a month. That would result in an
9 underrecovery from those systems who rates were capped. So you
10 would take those dollars and allocate them down to the less
11 expensive systems so the company still recovers its full
12 revenue requirement.

13 **CHAIRMAN CARTER:** So the ones beneath, theirs would
14 go up to 60.

15 **THE WITNESS:** Their bills would go up, but not
16 necessarily to 60, because it really depends on --

17 **CHAIRMAN CARTER:** On the revenue requirement?

18 **THE WITNESS:** Yes. And so what happens next under
19 the capband (phonetic) system after you have reallocated those
20 dollars down is that you group systems together that have
21 similar costs or similar bills such that within each group the
22 level of subsidization would -- I've jumped ahead a step.
23 Within each group you consolidate rates for that group, and
24 because they are of similar cost, the level of subsidization
25 between those customer groups would be minimized, say within

1 the 5.90 figure that I mentioned in my testimony. And so you
2 could end up with, of those lesser expensive systems, maybe
3 three, two, five groups. It depends on how the numbers fall
4 out. So what you are doing is you are approaching
5 affordability first by capping the systems and then of those
6 uncapped systems bundling them together in such a way that you
7 don't exceed the subsidy cap, or the subsidy threshold.

8 **CHAIRMAN CARTER:** Let me ask you this, don't lose
9 your train of thought, but I want to ask you this before I lose
10 mine, is that the cap will have to be based upon the actual
11 revenue requirements, though, correct, for the entire system?

12 **THE WITNESS:** You have to be cognizant of it. Let me
13 give you an example on the wastewater side. There, if the
14 company were to get its full rate relief, you would have an
15 average bill around 90 bucks. If you were to say that the
16 maximum affordable wastewater bill were \$50, then by definition
17 you can't cap it and still have the company recover its revenue
18 requirement. So, yes, there has to be some recognition of what
19 the appropriate revenue requirement is to prudently set the
20 affordability threshold.

21 **CHAIRMAN CARTER:** And in the process of doing the
22 revenue requirement -- and I'm probably mixing apples and
23 grapefruit, but it won't be the first time -- is that you'd,
24 first of all, have to set what that number would be. I think I
25 kind of fixed up what Mr. Franceski was saying with what you

1 were saying in terms of the 75 percent or whatever that number
2 may be, but the number that you were talking about actually
3 dealt with the actual rate increase request.

4 **THE WITNESS:** That's correct.

5 **CHAIRMAN CARTER:** As opposed to -- okay.

6 **THE WITNESS:** Yes.

7 **CHAIRMAN CARTER:** So then you go through that process
8 and say, okay, we're going to cap it based upon what the whole
9 number is going to be.

10 **THE WITNESS:** You would cap it based upon your
11 judgment of what is affordable knowing what or in recognition
12 of about what those total revenue requirements would be.

13 **CHAIRMAN CARTER:** Okay. And in the process, as we
14 get into the subsidization issue in terms of the fairness
15 discussion I got into with Mr. Franceski, is that you are
16 saying that there is probably greater leeway within the water
17 side as opposed to the wastewater side? Because on the
18 wastewater side -- if I misheard you, please correct me -- I
19 think you said on the wastewater side that the costs are fairly
20 substantial.

21 **THE WITNESS:** More so than on the water, far and
22 away.

23 **CHAIRMAN CARTER:** Okay. And now the -- that's the
24 capped portion. The other one, you said there was another one
25 of the two the examples that you had run.

1 **THE WITNESS:** Yes, and I call it the portfolio
2 approach. It is sometimes referred to in the testimony here as
3 Alternative 2. What's going on there is that imagine, again,
4 you have a list of systems like this ranked high to low. The
5 high cost systems in Aqua's service territory tend to be small,
6 and they have high costs because they don't have many customers
7 to spread the costs around. The less expensive systems tend to
8 be large. They have a lot of customers to spread the costs
9 around.

10 So, the second approach, the portfolio approach says
11 let's take some high cost systems up here, just a few
12 customers, not a lot, and let's mix them together. Group them
13 together with one of these bigger systems down here at the
14 bottom that have low rates. And because you're mixing a few
15 customer with their high rates with a lot of customers down
16 here with low rates, the result consolidated rate of those
17 people being put together is going to be a rate just a little
18 bit above what the low cost system would be paying on their
19 own. And that is an approach that we offer to help address the
20 issue of affordability. That is its primary goal.

21 And to the extent that you do this, you know, you may
22 take your first grouping together, and when you group them
23 together and calculate consolidated rates for that group you
24 are going to do it in such a way that the subsidy threshold is
25 not violated, either. So, again, just like under the capband,

1 we're trying to address simultaneously the affordability
2 thresholds and the subsidy thresholds.

3 **CHAIRMAN CARTER:** Okay. Now, from a really
4 pedestrian standpoint is that they're saying -- I think in my
5 discussion with Mr. Franceski he was saying that they are
6 asking for like 40 bucks a month across the board.

7 **THE WITNESS:** Yes.

8 **CHAIRMAN CARTER:** In the scenarios, I think you said
9 there were six of them, but in the six scenarios -- and that's
10 just the water.

11 **THE WITNESS:** That is just water, that is correct.

12 **CHAIRMAN CARTER:** In the six scenarios, did you do
13 just kind of an evaluation, or just kind of a guesstimate in
14 terms of what it would cost per month from each one as well as
15 what it would cost per month doing each one for the wastewater,
16 each one of those scenarios, or just the ones that you are --

17 **THE WITNESS:** Oh, I see. Yes, we are putting
18 together the spreadsheets, the calculation engines to do it for
19 both water and wastewater. When I finish putting one of these
20 things together, you know, I test it some to make sure, you
21 know, to the best that I can anyway that it's all functioning
22 correctly. And part of the fallout of that is taking a look at
23 the rates that result. At this point, I'm really not prepared
24 to say yes, one is looking better than the other, but -- well,
25 I'm just not prepared to say so.

1 **CHAIRMAN CARTER:** That's fine. That's fine.
2 Commissioners? Commissioner McMurrrian, you're
3 recognized.

4 **COMMISSIONER McMURRIAN:** Thank you.

5 And, Mr. Stallcup, I think both in your testimony and
6 in the discussion you had with Commissioner Carter, I think
7 that a lot of the options are pretty well developed. The only
8 one I guess I'm wondering more about is the one that you
9 said -- and I think you said earlier we haven't really
10 developed it as much, and I think you said it came up in your
11 depo, the one about reallocating the revenue requirements from
12 the wastewater side to the water side.

13 **THE WITNESS:** Yes.

14 **COMMISSIONER McMURRIAN:** And I just want to
15 understand, would that option be done in conjunction with one
16 of the other methods? Would it be that perhaps you could use
17 your capband or portfolio approach and then also take what's
18 left, the revenue requirements from wastewater and move it to
19 water?

20 **THE WITNESS:** That's exactly right. You can mix that
21 last option with the others. And just to step back a hair and
22 let you know how that would work, suppose we got the final
23 revenue requirements for all the water systems decided on, we
24 got the final wastewater revenue requirements decided on. We
25 could take, hypothetically, 10 percent of the revenue

1 requirements on the wastewater side, that will give you a pile
2 of dollars, alright, and reduce the wastewater revenue
3 requirements and, therefore, the rates.

4 Take that 10 percent, and just add it to the total
5 revenue requirements on the water side. And then once you have
6 reallocated those dollars, start a capband approach, or a
7 portfolio approach, or statewide consolidated approach. This
8 is something that to the best of my knowledge, and I have kind
9 of snoopied around some amongst other staff, this is something
10 that has never been done before. So maybe it's prudent, maybe
11 it's not. Maybe lawyers need to answer that question rather
12 than me, but it's something that we are looking at primarily to
13 try and address the affordability issue on the wastewater side.

14 **COMMISSIONER McMURRIAN:** Okay. And following up on
15 that, that was very helpful, and it seems like maybe the reason
16 it has never been done before is because it also, perhaps,
17 leads back to the subsidy issue and how much is too much of a
18 subsidy. And your testimony goes through that and takes the
19 old Southern States case and uses inflation to determine where
20 that range would be that you think would be acceptable for us
21 to use.

22 But if you were to allocate a portion of the revenue
23 requirements from wastewater to water in conjunction with one
24 of your other approaches, do you think that that would end up
25 making it easier, I guess, to violate that range?

1 **THE WITNESS:** It would. Because let's suppose that
2 when you reallocate the dollars from the wastewater side to the
3 water side that may cost customers two dollars a month, let's
4 say. That's two dollars higher than they would otherwise pay,
5 which represents a subsidy. So, basically, the water customers
6 would be subsidizing the wastewater customers.

7 **COMMISSIONER McMURRIAN:** Okay. And I guess one other
8 question, and I know that because you are a witness in the case
9 you won't be working on the recommendation, but because we have
10 talked about how this approach maybe isn't as well-developed
11 maybe as some of the others in the testimony, do you think the
12 Commission has what it needs in the record for all of these
13 approaches in order to give us enough flexibility to do what we
14 think we need to do after we make the revenue requirements
15 decision?

16 **THE WITNESS:** Oh, absolutely. That's what we have
17 been doing for the last couple of months.

18 **COMMISSIONER McMURRIAN:** Thank you. That's all.

19 **CHAIRMAN CARTER:** Thank you. And you even made me
20 sound intelligent asking economic questions. At least I
21 thought I did anyhow. That's my story and I'm sticking to it.

22 Anything further from the bench? Staff?

23 **MS. KLANCKE:** We just need to move in his exhibits.

24 **CHAIRMAN CARTER:** Okay. Exhibit Numbers 131, 132,
25 and 133. Any objections?

1 **MR. MAY:** We had one cross-examination exhibit we
2 would like to enter at the appropriate time.

3 **CHAIRMAN CARTER:** Okay. Any objections on
4 131 through 133? Any objection? Without objection, show it
5 done.

6 (Exhibit Number 131 through 133 admitted into the
7 record.)

8 **CHAIRMAN CARTER:** On the cross-examination, Mr. May,
9 is that with the two charts, is that what you wanted?

10 **MR. MAY:** Yes, sir.

11 **CHAIRMAN CARTER:** That will be 211, Commissioners.
12 Number 211.

13 Mr. Beck, have you guys got -- do you all have this?
14 Okay. Any objection?

15 **MS. KLANCKE:** Mr. Chairman, just for clarity sake,
16 both documents are already part of the record.

17 **CHAIRMAN CARTER:** I know. It's just for ease of
18 understanding, just for ease of understanding.

19 **MS. KLANCKE:** Absolutely.

20 **CHAIRMAN CARTER:** Mr. May, a title, please.

21 **MR. MAY:** Aqua's Consolidated Rate Alternatives.

22 **CHAIRMAN CARTER:** Aqua rate alternatives. Aqua's
23 Consolidated Rate Alternatives. Any objection? Without
24 objection, show it done.

25 (Exhibit Number 211 admitted into the record.)

1 **CHAIRMAN CARTER:** Thank you, Mr. Stallcup.

2 **THE WITNESS:** Thank you.

3 **CHAIRMAN CARTER:** Call your next witness.

4 We move now to rebuttal. Mr. May, you're recognized.

5 I believe I'm right. Staff, is that correct, we are now on
6 witness --

7 **MR. MAY:** Aqua would call its rebuttal witness David
8 Smeltzer.

9 **CHAIRMAN CARTER:** Okay. Mr. Smeltzer.

10 DAVID P. SMELTZER

11 was called as a rebuttal witness on behalf of Aqua Utilities
12 Florida, and having been duly sworn, testified as follows:

13 DIRECT EXAMINATION

14 BY MR. MAY:

15 **Q** Good morning, Mr. Smeltzer.

16 **A** Good morning.

17 **Q** You have previously been sworn, have you not?

18 **A** Yes, I have.

19 **Q** Would you please state your name and business
20 address?

21 **A** David P. Smeltzer, 762 Lancaster Avenue, Bryn Mawr,
22 Pennsylvania.

23 **Q** Did you prepare and cause to be filed prefiled
24 rebuttal testimony in this proceeding?

25 **A** Yes.

1 Q Do you have that rebuttal testimony before you today?

2 A Yes.

3 Q Do you have any corrections to that rebuttal
4 testimony?

5 A No, I do not.

6 Q If I were to ask you the questions that are contained
7 in your rebuttal testimony today, would your answers be the
8 same?

9 A Yes.

10 MR. MAY: Mr. Chairman, we would ask that the
11 rebuttal testimony of Mr. Smeltzer be inserted into the record
12 as though read.

13 CHAIRMAN CARTER: The prefiled testimony of the
14 witness will be entered into the record as though read.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

AQUA UTILITIES FLORIDA, INC.

REBUTTAL TESTIMONY OF DAVID P. SMELTZER

DOCKET NO. 080121-WS

1 **Q. What is your name and business address:**

2 A. My name is David P. Smeltzer. My business address is 762 W. Lancaster
3 Avenue, Bryn Mawr, Pennsylvania 19010.

4 **Q. Have you previously submitted testimony in this proceeding?**

5 A. Yes. I filed direct testimony as part of AUF's initial filing in this rate case.

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. The purpose of my rebuttal testimony is to address issues raised by Paul W.
8 Stallcup, who filed testimony on behalf of the Staff of the Florida Public
9 Service Commission. I also respond to a portion of the prefiled testimony of
10 Office of Public Counsel (OPC) witness Kimberly Dismukes.

11 **Q. Are you sponsoring any exhibits to your rebuttal testimony?**

12 A. No.

13 **Q. Have you reviewed the direct testimony of Mr. Stallcup in this docket?**

14 A. Yes. Mr. Stallcup addressed four issues in his rebuttal testimony: 1) the
15 appropriate repression methodology; 2) the appropriate inclining block rate
16 structure; 3) two potential drawbacks to a consolidated rate proposal; and 4)
17 AUF's proposal to consolidate rates and Mr. Stallcup's alternative rate
18 consolidation methodologies.

19 **Q. Do you have any concerns with respect to Mr. Stallcup's testimony?**

20 A. Yes. As discussed below, I have concerns over Mr. Stallcup's repression
21 recommendation and three-tiered conservation block rate proposal. I also

1 have serious concerns about Mr. Stallcup's rate structure proposals. I do not
2 believe his two alternative proposals take into consideration a unified cost of
3 service, which is essential to achieving key customer benefits and efficiencies
4 that the Company advocates in this proceeding. I will elaborate on this issue
5 in detail, as it is the crux of AUF's consolidated rate structure proposal.

6 REPRESSION

7 **Q. On page 3 of Mr. Stallcup's testimony, he states that AUF has proposed a**
8 **repression adjustment factor of -.2. Can you elaborate on this?**

9 A. Yes. AUF's proposal included a repression adjustment factor of -.2 that was
10 part and parcel of the two-tiered conservation rate structure that AUF
11 proposed.

12 **Q. Has AUF proposed a three tier conservation rate structure in this case?**

13 A. No. The Company has not proposed a three-tiered conservation rate
14 structure, and does not believe that a three-tiered structure is fair or
15 appropriate in this case. In fact, Mr. Stallcup stated in his deposition that his
16 three-tiered proposal contains an "aggressive" rate factor of 3.0 and he was
17 not able to identify any other utility in Florida where this aggressive factor
18 has been applied.

19 **Q. If the Commission ultimately adopts a three-tiered conservation**
20 **structure, does this warrant a change to the repression factor?**

21 A. Yes. Because the third tier would create greater volatility in a customer's
22 water bill based on changing use patterns, I would recommend moving the
23 repression factor from -.2 to -.4 to address this change. Mr. Stallcup
24 acknowledges on pages 2 and 3 of his testimony that "using a price elasticity
25 of demand of -.4 would provide a better estimate of how AUF's customers

1 will react to an increase in rates.” Further, witness Yingling sites a price
2 elasticity factor range from -.23 to -.81, suggesting that the -.4 factor is a
3 better match than the Company’s -.2 initial recommendation.

4 **RATE STRUCTURE**

5 **Q. Do you agree with Mr. Stallcup’s proposal of a three-tiered conservation**
6 **rate structure?**

7 A. No. I believe that AUF’s proposal provides the proper balance to achieve
8 price induced conservation. If, however, the Commission agrees with Staff’s
9 recommendation, I believe that the appropriate repression adjustment should
10 be increased accordingly.

11 **Q. Has Mr. Stallcup addressed the most important concern for AUF filing a**
12 **consolidated rate structure proposal?**

13 A. No.

14 **Q. Why Not?**

15 A. The Company's proposal for a consolidated rate structure in Florida involves
16 two separate, but related concepts – a uniform tariff price (or a plan to achieve
17 such over time) and a single cost of service. I believe Mr. Stallcup has
18 focused exclusively on tariff design without addressing how his tariff design
19 proposals would effect AUF’s proposal for a single cost of service.

20 **Q. Can you please expand on what you mean by a single cost of service?**

21 A. A single cost of service refers to treating AUF’s Commission-regulated
22 operations as one entity, instead of 82 separate systems, for purposes of
23 establishing the Company's overall revenue requirement. In effect, this would
24 mean that the Company’s costs and expenses would then be tracked by water
25 and wastewater functions, and not by each of the individual systems.

1 However, utility plant and related accounts would continue to be tracked and
2 reported by individual system. As long as the Company receives its full
3 revenue requirement and is accounting for its operations for each utility
4 business, tariff design can then be analyzed to address the affordability and
5 fairness issues that Mr. Stallcup mentions in this testimony.

6 **Q. What do you mean by each utility business?**

7 A. AUF would maintain its accounting of operations for the Commission
8 regulated jurisdictional systems separate from its operations in non-
9 jurisdictional counties, e.g., Sarasota. Further, AUF would also continue to
10 separate water from wastewater.

11 **Q. What would happen to rate base tracking, such as plant in service and**
12 **CIAC?**

13 A. Utility plant records would continue to be maintained and kept separate on a
14 system-by-system basis as has been done in the past.

15 **Q. Please provide an example.**

16 A. Currently, there are 57 AUF water systems and 25 wastewater systems. As it
17 stands now, a utility operator who works for AUF provides services for
18 multiple systems. On a daily basis, he needs to record his time per system as
19 he goes from plant to plant which is burdensome and time consuming. Then,
20 AUF accountants must track not only his time per system per day, but also
21 gas expenses, lease payments, maintenance expense, benefits, vehicle time,
22 insurance coverage, administrative in-state overheads, etc., by accounting unit
23 – and there are 82 different accounting units. In other words, AUF is
24 accounting for 82 systems as if they were each individual businesses. This
25 fragmentation is one of the problems in the water and wastewater industry

1 today and operating like this is not a viable, long-term option. It is extremely
2 burdensome and we spend an unnecessary amount of time splitting invoices
3 and timesheets. AUF is seeking to streamline this accounting methodology
4 by having one cost of service per utility service. For example, this would
5 mean that instead of different accounting units for transportation expense for
6 each of the 82 systems, there would only be one accounting unit for water and
7 one accounting unit for wastewater for this expense. In this example, to
8 ensure that there is a process in place to review expenses for reasonableness,
9 all invoices would still be maintained and tracked for later audits or review by
10 parties.

11 **Q. Jumping ahead briefly for a moment to Mr. Stallcup's two alternative**
12 **proposals, does he address how the Company's proposal for a single cost**
13 **of service would work with his proposals?**

14 A. No, and that is my greatest concern surrounding his proposal. As I stated
15 earlier, I believe he is focused on rate design only, and has not considered its
16 ramifications on the in-state accounting practices of AUF. During his
17 deposition on November 12, 2008, Mr. Stallcup indicated that he did not
18 know who was addressing the Company's proposal regarding a single cost of
19 service. He also indicated that he may be proposing 7 or 8 bands of rates. If
20 that is his proposal, a rate design of 7 or 8 bands would likely be in conflict
21 with moving toward one cost of service, unless such bands included a long-
22 term plan for unification supported by one company-wide cost of service.
23 Furthermore, in my opinion, a rate design with 7 or 8 bands would deprive
24 customers of the efficiencies and cost-savings that flow from a single cost of
25 service approach. I can find no testimony or evidence offered by any party in

1 this case which addresses or rebuts AUF's single cost of service proposal.

2 **Q. Would AUF be opposed to a rate design that was comprised of two or**
3 **three different tariffed rates?**

4 A. Not as long as there was a single cost of service in place. As I explained, one
5 of the most important goals for the Company in this proceeding is achieving a
6 consolidated cost of service for accounting purposes. While I believe it is
7 very important to also streamline the rate design of AUF for the purposes
8 described in my direct testimony, the Company would not be opposed to a
9 rate equalization plan with a rate design comprised of two or three tariffs to
10 address affordability and fairness principles, provided that a single cost of
11 service was permitted for accounting purposes. This alternative has been
12 outlined by Mr. Franceski in Exhibit DTF-2 to his rebuttal testimony. That
13 alternative, which I will discuss later in my rebuttal testimony, could be an
14 option for the Commission to consider when it addresses rate structure.

15 **Q. Do you believe that Mr. Stallcup has addressed all of the goals**
16 **previously established by the Commission for evaluating a proposed rate**
17 **structure?**

18 A. No, I do not. As set forth in my direct testimony, the Commission has already
19 determined that it is appropriate to consider the following goals and objectives
20 in evaluating a proposed rate structure (or alternative rate structures): (1)
21 affordability of rates for all customers, (2) ease of administration, (3) customer
22 acceptance and understandability, (4) fairness (to the degree to which subsidies
23 occur), (5) rate continuity/stability for all customers, (6) conservation and
24 resource protection, (7) revenue stability and predictability for the utility, and
25 (8) impact of rate structure on future acquisitions. I do not believe that Mr.

1 Stallcup has taken an all-inclusive review of these eight goals when addressing
2 AUF's consolidated rate structure proposal. On page 10 of his testimony, Mr.
3 Stallcup recognizes that a most important benefit to be derived from AUF's
4 consolidated structure proposal is "that the cost of system upgrades can be
5 spread over a larger number of customers thereby mitigating the dramatic
6 increases in rates." However, he fails to look at the other factors that the
7 Commission had deemed important in evaluating rate structure.

8 **Q. Mr. Stallcup references only two potential drawbacks to AUF's rate**
9 **consolidation proposal. His first potential drawback concerns the ability**
10 **to target conservation initiatives. Can you address his concern?**

11 A. I agree with his conclusion that any potential drawback could be avoided by
12 including an acknowledgement in the rate consolidation order that the
13 Commission may impose a water conservation program which targets an
14 individual system. Further, in a previous order, the Commission determined
15 that uniform rates would not preclude the implementation of conservation
16 rates, either statewide or system-specific, in subsequent cases. (See Order
17 No. PSC-94-1123-FOF-WS).

18 **Q. Mr. Stallcup next references excessive cross-subsidies as a potential**
19 **drawback to AUF's rate consolidation proposal. Can you please address**
20 **his concern?**

21 A. Yes. This is an issue of fairness and AUF understands the Commission's
22 concerns and past precedent on this issue. However, I do not believe that
23 AUF's proposal is at all in conflict with the Commission's past precedent on
24 rate fairness issues. I believe that these issues can be addressed by simply
25 creating two or three different tariff rates within the overall rate design. As

1 long as a single cost of service is in place, AUF can support this type of rate
2 equalization plan with the goal of reaching one single tariff over time.

3 **Q. Please explain what you mean by a rate equalization plan?**

4 A. I'm referring to a rate equalization plan that would gradually move the
5 multiple rate schedules toward one rate schedule over time (typically done in
6 stages in concert with rate cases). Such movement would be done with key
7 rate design objectives in mind and would ultimately move all rates to one
8 tariff supported by the single cost of service.

9 **Q. You mentioned that, under AUF's consolidated rate structure proposal,**
10 **AUF could agree with multiple (2-3) tariffs as long as a one cost of service**
11 **was utilized. Would this address Mr. Stallcup's fairness concern?**

12 A. Yes. For example, in Mr. Franceski's Exhibit DTF-2, he has identified a few
13 systems that could be put into a separate tariff and billed at rates lower than
14 the main group of systems. This would address fairness issues and mitigate
15 the effects of subsidization on these few systems, while raising the rates for
16 the main group slightly to recover the revenue shortfall.

17 **Q. On page 15 of Mr. Stallcup's testimony, he states that there is no single**
18 **right or wrong answer for determining the appropriate values for**
19 **limiting cross-subsidies or for defining what is affordable. Do you agree?**

20 A. Yes. I agree that the subsidization levels that Mr. Stallcup references in past
21 Commission orders are somewhat arbitrary and that the focus should really be
22 on fairness, not a specific dollar amount. I also agree that a utility's rate
23 design can be divided up in a myriad of different ways to address many
24 different issues.

RATE CONSOLIDATION METHODOLOGIES

1
2 **Q. Mr. Stallcup proposes two different rate methodologies: 1) a capband**
3 **structure, or 2) a portfolio approach. Do you agree with these two**
4 **proposals?**

5 A. Mr. Stallcup has not described either of these methodologies in sufficient
6 detail to permit an accurate analysis of the pros or cons of either of these
7 proposals. He essentially has proposed concepts without examples, making it
8 impossible for AUF to evaluate these approaches properly.

9 **Q. Noting that Mr. Stallcup has not put forth any support or actual**
10 **proposal in his testimony, can you comment on the two rate-structure**
11 **concepts that he has referenced in his testimony?**

12 A. Mr. Stallcup first refers to the capband structure used in the Southern States
13 rate case. In that case, the Commission was critical of a modified stand-alone
14 rate structure for that utility's multiple systems in Florida:

15 . . . this rate structure is complicated, difficult to understand and
16 explain to customers, and cumbersome in that even though bills are
17 capped at the benchmark, there remain separate rates for each service
18 area While the modified stand-alone rate structure has been a
19 viable structure in the short run for this utility, we do not believe it to
20 be the answer in this proceeding. The structure lacks direction: there
21 is no clear "next step" to reach the goal of uniform rates for this
22 utility. [PSC-96-1320-FOF-WS]

23
24 Those exact same criticisms can now be levied against the capband rate
25 structure. Indeed, the capband rate structure has been in effect for many of
26 AUF's systems for well over 12 years, and has proven cumbersome and
27 expensive to administer. In addition, it is very complicated and difficult to
28 explain to customers, and provides no clear next step towards the ultimate
29 goal of uniform rates for the majority of these systems. I would add that if
30 Mr. Stallcup's proposal contained two or three different tariff rates along with

1 a single cost of service, that would ultimately be consistent with AUF's
2 proposal. However, during his deposition, Mr. Stallcup suggested that
3 perhaps 7 or 8 different tariffs would be appropriate. Although it is
4 impossible to evaluate the "7 or 8" tariff proposals without examples, I
5 believe that the key rate design objectives in this case are achievable with far
6 fewer tariffs.

7 **Q. Mr. Stallcup next makes reference to a "portfolio approach" as a**
8 **possible rate-structure. Do you agree with this approach?**

9 A. Again, Mr. Stallcup has not put an actual recommendation into his testimony
10 and has made it impossible for AUF to understand, let alone comment on an
11 actual recommendation. I cannot adequately review, critique or comment on
12 it. He describes it on page 18 as similar to a "financial portfolio management
13 in which securities with high risk are combined with securities with low risk
14 to yield a moderate level of risk for the portfolio." I do not think that this is
15 consistent with the goals of a single tariff pricing. Although not addressed
16 specifically by Mr. Stallcup, I assume he may be under the impression that
17 the cost centers, or revenue requirements of these bands, would remain in
18 place in order to replicate the same rate structure in future cases. If this is the
19 case, then the benefits afforded under a single cost of service are lost. In
20 addition, subsidy comparisons on a prospective basis serve no useful purpose
21 since various subsidy levels have already been merged.

22 **Q. Do you have other concerns with respect to Mr. Stallcup's testimony?**

23 A. Yes. I believe that Mr. Stallcup's analysis of subsidies fails to take into
24 account the true cost of service for many of AUF's systems. I agree with Mr.
25 Stallcup that, in the past, subsidies have been analyzed by comparing the

1 stand alone rates to another resulting rate, either uniform or some form of
2 uniform, I do not believe this simple analysis portrays the complete picture
3 for AUF. As indicated in Mr. Szczygiel's testimony, 26 water AUF systems
4 and 12 AUF wastewater systems are being charged below the true cost of
5 service established in Order No. PSC-1320-FOF-WS. These 38 systems, or
6 46% of the systems represented in this filing, were previously being
7 subsidized by other larger systems throughout Florida. When Florida Water
8 Services sold the larger systems to the Florida Governmental Utility
9 Authority, the subsidies disappeared for the remaining systems that AUF
10 acquired. Therefore, the remaining 26 water and 12 wastewater systems that
11 AUF acquired were not paying their true cost of service at acquisition and
12 were receiving subsidies under the capband structure. The point is – their
13 tariffed rates are lower than what they should be if they were truly covering
14 their cost of service. Mr. Stallcup fails to take this important fact into
15 account.

16 **Q. Do you have other concerns about Mr. Stallcup's analysis of potential**
17 **cross subsidies?**

18 A. Yes. Mr. Stallcup overlooks subsidy principles and the actual subsidy caps
19 that the Commission has used in other cases involving consolidated rates.
20 Subsidies or cross subsidies change throughout time depending on numerous
21 factors, including capitalization needs. I believe many of these concerns were
22 extensively analyzed by the Commission in its investigation of the uniform
23 rate structure in Order No. PSC-94-1123-FOF-WS. I believe that the
24 Commission has thoroughly extolled the benefits of a uniform rate structure.
25 Further, when the Commission first analyzed subsidies in as part of the

1 Southern States rate case in Order No. PSC-96-1320-FOF-WS, it stated, “Of
2 the customers who pay a subsidy, only five percent of those customers pay a
3 subsidy greater than \$2.00, with the maximum of \$3.64 per month.” Thus, in
4 approving the current capband rate structure, the Commission itself
5 recognized that a subsidy of \$3.64 per month in 1996 was not unduly
6 discriminatory. To be consistent, if the Commission wanted to evaluate
7 subsidies and discrimination now, it should do so by taking \$3.64 and
8 increasing by inflation from 1996 up through 2008. Mr. Stallcup fails to take
9 this subsidy cap into effect.

10 **Q. Should subsidies be a factor in the Commission's consideration of an**
11 **appropriate rate structure?**

12 A. Yes. However, I believe that the subsidy issue is merely one consideration
13 that should be analyzed. As stated in past Commission orders, there are
14 numerous benefits to uniform rates that cannot be overlooked or ignored. The
15 Commission has previously indicated that uniform rates offer the best answer
16 to affordability concerns because they average the costs of all service areas
17 and spread those costs over all customers. (PSC-96-1320-FOF-WS.) Mr.
18 Stallcup confirmed this in his deposition when he testified that (1)
19 affordability was a key issue for him in evaluating AUF's consolidated rate
20 proposal, and (2) the greatest benefit of AUF's consolidated rate proposal is
21 that it insulated customers from rate shock. Again, AUF is very aware that
22 we are in tough economic times, and thus affordability has been a driving
23 force behind its proposal for a consolidated rate structure.

24 **Q. Can you elaborate on how AUF's consolidate rate proposal addresses**
25 **affordability?**

1 A. As stated in my direct testimony, the Environmental Protection Agency
2 (“EPA”), recommends over \$277 billion in infrastructure improvements over
3 the next 20 years for water and wastewater utilities across the nation. As Mr.
4 Stallcup recognized, AUF's consolidated rate proposal will allow cost to be
5 levelized over a larger customer base. This will allow a multi-utility system
6 utility like AUF to minimize future rate increases, while addressing
7 affordability. Finally, as previously recognized by the Commission, a uniform
8 rate structure facilitates small system viability throughout the state and
9 encourages future acquisitions of smaller troubled systems. This assures
10 customers of those smaller utilities of affordable and reliable utility services,
11 and is important for the future of the water supply business in the state of
12 Florida.

13 I believe the Commission should consider long-term goals in
14 determining the appropriate rate structure, and should not concentrate on short-
15 term results. As stated in Mr. Franklin's rebuttal testimony, AUF is committed
16 to Florida, and intends to remain in the state, addressing the capital needs of the
17 water and wastewater industry and continuing to acquire small, less viable
18 utilities.

19 **Q. In light of Mr. Stallcup's testimony, do you still believe that a statewide**
20 **uniform rate is the appropriate rate structure for AUF?**

21 A. Yes. As indicated in my direct testimony, as well as the direct testimony of
22 Mr. Franceski, AUF carefully analyzed the subsidy and affordability issues
23 previously identified by Mr. Stallcup in his testimony filed in Docket No.
24 060368-WS. However, as I have discussed, AUF acknowledges that there
25 may be other alternatives that bring it closer to a consolidated rate structure as

1 long as a single cost of service is permitted going forward.

2 **Q. Moving to another subject matter, on page 49 of Ms. Dismukes'**
3 **testimony she references an internal audit that that was recently**
4 **completed. Can you elaborate on this internal audit?**

5 A. Yes. The internal audit is dated August 3, 2007. The document that Ms.
6 Dismukes describes was shared with the Commission Staff and Office of
7 Public Counsel in a meeting held at the Commission on August 8, 2007.
8 Company representatives shared the document to make Staff and the OPC
9 aware that the Company was proactively monitoring the post conversion
10 progress to its new billing system. The parties have had a draft of this
11 document for well over a year.

12 **Q. Have you reviewed the internal audit of AUF's revenue and billing cycle?**

13 A. Yes. I have reviewed the report.

14 **Q. Why was the report initiated?**

15 A. AUF had undergone a major computer system conversion. The Company
16 wanted to ensure that the conversion to Aqua's new billing system in Florida
17 was working properly.

18 **Q. Do you believe that the conversion has an impact on AUF's billing**
19 **determinants?**

20 A. No. Mr. Prettyman has analyzed AUF's billing determinants in detail and
21 supports AUF's billing analysis. In addition, I note that the 2007 test year
22 data contained in AUF's rate filing contained actual billing information which
23 has been adjusted through the new billing system.

24 **Q. Does this conclude your rebuttal testimony at this time?**

25 A. Yes.

1 BY MR. MAY:

2 Q Mr. Smeltzer, do you have any exhibits to your
3 testimony?

4 A No.

5 Q Do you have a very brief summary of your rebuttal
6 testimony?

7 A Yes.

8 Q Could you please provide that at this time.

9 A Yes. Good afternoon, Mr. Chairman and Commissioners.
10 My name is David Smeltzer, CFO of Aqua America.

11 In my rebuttal testimony, I addressed issues raised
12 by Mr. Stallcup who filed testimony on behalf of the Staff of
13 the Florida PSC. I also respond to a portion of the prefiled
14 testimony of Office of Public Counsel Witness Kimberly
15 Dismukes.

16 My rebuttal testimony addresses several issues
17 discussed in Mr. Stallcup's testimony regarding Aqua's
18 alternative rate consolidation methodologies. My rebuttal
19 testimony again emphasizes the importance of the unified cost
20 of service, which is essential to achieving key customer
21 benefits and efficiencies that the company advocates in this
22 proceeding.

23 I believe that Aqua's proposal is consistent with the
24 Commission's past precedent on rate fairness issues and that
25 these issues can be addressed simply by creating two or three

1 different rate tariffs within the overall rate design. As long
2 as a single cost of service is in place, Aqua can support this
3 type of rate equalization plan with a goal of reaching one
4 single tariff over time. That concludes my summary.

5 Thank you.

6 **MR. MAY:** Thank you, Mr. Smeltzer. We would tender
7 Mr. Smeltzer for cross.

8 **CHAIRMAN CARTER:** Mr. Beck.

9 **MR. BECK:** No questions.

10 **CHAIRMAN CARTER:** Ms. Bradley.

11 **MS. BRADLEY:** No questions.

12 **CHAIRMAN CARTER:** Staff, you're recognized.

13 **MS. FLEMING:** Thank you.

14 CROSS EXAMINATION

15 BY MS. FLEMING:

16 Q Mr. Smeltzer, please turn to Page 3 of your rebuttal
17 testimony.

18 Is it your testimony that Aqua doesn't believe a
19 three-tiered inclining block rate structure is either fair or
20 appropriate in this case?

21 A Well, it's my testimony that it's not necessary. We
22 would prefer to proceed with a two-block structure and evaluate
23 over time the benefits of that two-block structure as it
24 relates to the desire to curb some usage and be more
25 environmentally friendly.

1 I think the three-block structure is much more
2 aggressive, will create more volatility in customer usage, and
3 isn't necessary until we have a chance to better measure the
4 impacts of the two-block structure that's proposed.

5 Q Do you recall during your deposition being asked what
6 your basic understanding of a water resource caution area is?

7 A Yes.

8 Q Could you give me your basic understanding of that,
9 please?

10 A A region where the water resources aren't sufficient
11 for the demand that could be placed upon it.

12 Q So, Mr. Smeltzer, under the utility's proposed
13 two-tiered inclining block rate structure, all consumption that
14 is greater than 5 k/gals, or 5,000 gallons a month, would be
15 charged the same rate, is that correct?

16 A That's correct.

17 Q And this would be true regardless of the difference
18 in consumption levels above 5,000 gallons between one customer
19 and another, is that correct?

20 A That's correct.

21 Q And regardless of whether a particular area was
22 suffering from a drought or other water resource concern, it
23 would still be the same, is that correct?

24 A That's certainly the proposal. Although, you know,
25 this Commission has recognized before, and it's certainly the

1 case today, that it's possible within a unified rate to add
2 differentiation as it relates to the environmental needs in
3 those rates. And we would certainly be willing to do that, but
4 like I said before, we would prefer to have an opportunity to
5 evaluate the impacts of the two-block structure before making
6 further refinements.

7 Q Would you agree, subject to check, that over
8 40 percent of Aqua's systems in this case are located within
9 some sort of a water resource caution area?

10 A Yes.

11 Q And I'm still on Page 3 just a little further on
12 down. Mr. Smeltzer, is it your testimony that you believe
13 adopting a three-tiered rate structure would create greater
14 volatility in customer water bills?

15 A Yes.

16 Q And is it your testimony that the greater volatility
17 justifies moving the repression factor from negative .2 to
18 negative .4?

19 A Yes.

20 Q During your deposition you testified that moving the
21 repression factor from negative .2 to negative .4 would
22 technically increase the rates, but not the customer's bill, is
23 that correct?

24 A Yes.

25 Q Mr. Smeltzer, have you ever personally measured a

1 customer or customer's consumption charges in response to price
2 changes?

3 **A** No. I've been involved with these kinds of matters
4 for over 20 years in various stages. I have not personally
5 measured customer's usage as it relates to price change, but I
6 have utilized that kind of data in other assessments.

7 **MS. FLEMING:** We have no further questions. Thank
8 you.

9 **CHAIRMAN CARTER:** Questions from the bench.
10 Mr. May.

11 Did I check you guys for cross already?

12 **MR. MAY:** No further questions, Mr. Chair.

13 **CHAIRMAN CARTER:** Sleep deprivation. Okay. Let's
14 see, do we have any exhibits for the rebuttal for Mr. Smeltzer?

15 **MR. MAY:** No, sir.

16 **CHAIRMAN CARTER:** Okay. Anything further for this
17 witness? You may be excused. Thank you.

18 **THE WITNESS:** Thank you.

19 **CHAIRMAN CARTER:** Call your next witness.

20 **MR. MAY:** Aqua calls its Rebuttal Witness Robert
21 Griffin. I apologize. I got ahead of myself.

22 **CHAIRMAN CARTER:** You didn't listen to your wife
23 yesterday, now you are getting ahead of us today. What's up
24 with that?

25 **MR. MAY:** I think Ms. Fleming has a preliminary

1 matter we may want to discuss with respect to the next witness.
2 I apologize.

3 **CHAIRMAN CARTER:** Ms. Fleming, you're recognized.

4 **MS. FLEMING:** With respect to Rebuttal Witness
5 Franceski, it's my understanding that OPC and the AG's Office
6 do not have questions for this witness, nor do staff, but if
7 the Commissioners have questions for this witness we could have
8 him appear.

9 **CHAIRMAN CARTER:** Commissioners, anything further?

10 **MS. FLEMING:** And I think with that, if there are no
11 questions, I would defer to Aqua as far as dealing with the
12 testimony and any exhibits.

13 **CHAIRMAN CARTER:** Okay. Based upon the stipulation
14 of the parties, the testimony, rebuttal testimony and any
15 exhibits, if there are any for Witness Franceski, are approved.

16 **MR. MAY:** And for the record, Mr. Chairman, those
17 exhibits would be Numbers 135 and 136 in Staff's Comprehensive
18 Exhibit List.

19 **CHAIRMAN CARTER:** Without objection, show it done.

20 (Exhibit Numbers 135 and 136 are admitted into the
21 record.)

22

23

24

25

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

AQUA UTILITIES FLORIDA, INC.

REBUTTAL TESTIMONY OF DANIEL T. FRANCESKI

DOCKET No. 08121-WS

1 **Q. What is your name and business address?**

2 A. My name is Daniel T. Franceski. My business address is 30 Glenn Circle,
3 Erdenheim, PA 19038.

4 **Q. Have you previously submitted testimony in this proceeding?**

5 A. Yes. I filed direct testimony as part of AUF's initial filing in this rate case and
6 sponsored Exhibit DTF-1.

7 **Q. What is the purpose of your rebuttal testimony?**

8 A. The purpose of my rebuttal testimony is to address issues raised by Paul W.
9 Stallcup, who filed testimony on behalf of the Staff of the Florida Public Service
10 Commission. In response to Mr. Stallcup's concerns, I have provided an exhibit
11 that demonstrates how AUF's proposal addresses his overall fairness concerns
12 while taking a major step toward achieving uniform pricing.

13 **Q. Are you sponsoring any exhibits to your testimony?**

14 A. Yes, I am sponsoring Exhibits DTF-2 and DTF-3.

15 **RATE CONSOLIDATION METHODOLOGIES**

16 **Q. Have you reviewed Mr. Stallcup's conceptual recommendation and**
17 **supporting workpapers?**

18 A. I have reviewed his conceptual recommendation. Mr. Stallcup's workpapers,
19 however, did not contain proposed rate structures for water and wastewater.
20 While Mr. Stallcup calculated in his workpapers AUF's subsidy thresholds, he

1 stopped short of making any groupings or recommendation that could be
2 analyzed. When asked during his deposition of November 12, 2008 whether he
3 had a proposal in place, he stated that he had not done the analyses yet.

4 **Q. Did you find differences between your previous rate design calculation**
5 **methodology for water systems and that of Mr. Stallcup?**

6 A. Yes. Primarily, I had performed calculations for repression after I had capped
7 various systems at the subsidy threshold, whereas Mr. Stallcup calculated
8 repression first and then subsidies. Also, I had calculated repression and resulting
9 rates in a two-tiered rate block structure with the second tier of usage greater than
10 5,000 gallons being charged a rate 1.25 times the first tier, whereas Mr. Stallcup
11 proposed a three-tiered structure with the second tier at the same 1.25 factor, but
12 the third tier, for usage greater than 10,000 gallons, charged at a 3.00 factor.
13 Also, I had calculated subsidies at a hypothetical average usage of 5,000 gallons,
14 whereas Mr. Stallcup used the overall pre-repression average usage of the
15 consolidated water systems.

16 **Q. What did you find upon review of Mr. Stallcup's workpapers?**

17 A. Mr. Stallcup provided workpapers that simulated the consolidated rate structure
18 that AUF proposed. I found the following apparent errors in his formulas on
19 worksheets in the file "Subsidy Analysis - Water.xls":

20 1. To calculate the Post-Repression Usage Rates for Commercial
21 customers, Mr. Stallcup divided the Post-Repression Revenue Requirement by
22 the Pre-Repression Usage in Row 188 of tabs "Calc Stand-Alone Rates" and
23 "Calc Consolidated Rates". Correcting that inconsistency and dividing Post-
24 Repression Revenue Requirement by Post-Repression Usage yields a usage rate
25 approximately \$1.00 higher than his formula does. Using his result would result

1 in the Company under earning by approximately \$50,000.

2 2. To calculate Stand-Alone and Consolidated bills (in Rows 220 & 230
3 of the same tabs) at System Average Usage and at Overall Average Usage, Mr.
4 Stallcup multiplied Pre-Repression average usage volumes (in Rows 214-219 &
5 224-229) with Post-Repression Block Rates. This resulted in a determination that
6 more water systems would pay subsidies above the threshold at Overall Average
7 Usage, whereas using Post-Repression volumes would result in fewer systems
8 above the threshold.

9 3. Mr. Stallcup created tables of billing analysis data (numbers of bills
10 and usage at 1,000 gallon steps) by manually entering numbers from the MFR
11 Schedule E-14 and, as a result, there were some transcription errors, such as
12 entering data on wrong rows, failing to add data from meter sizes greater than 5/8
13 inch, and misreading a few individual numerals. While these data errors did not
14 have a significant effect on the rate structure calculations, they should be noted
15 and corrected by Staff.

16 **Q. Have you recalculated subsidies and proposed rates for water systems using**
17 **Mr. Stallcup's methodology?**

18 A. Yes. Using Mr. Stallcup's formulas, corrected for the apparent errors mentioned
19 above, and using his 3-tiered inclining rate structure, I have calculated proposed
20 rates that are shown in my Exhibit DTF-2. As discussed by Company Witness
21 David Smeltzer, I have used Mr. Stallcup's originally recommended repression
22 sensitivity factor of negative 0.4 in these calculations.

23 **Q. Do you have any concerns with respect to Mr. Stallcup's testimony?**

24 A. Yes. As discussed below, I have concerns.

25 **Q. In what ways does Mr. Stallcup not agree with AUF's proposed water rate**

1 **structure?**

2 A. Mr. Stallcup's apparently did not agree with AUF's proposed single combined
3 rate structure because not all systems' bills would satisfy the subsidy threshold.
4 His main concern seems to be the cross subsidy or fairness issue. I think there
5 are better ways to address this issue than the way he addressed it in his two
6 alternative concepts. Mr. Stallcup proposes two alternative methods of banding
7 or grouping systems into a relatively large number of groups. Mr. Stallcup
8 suggested 7 to 8 rate groups in his deposition of November 12, 2008. After that
9 date, he provided AUF with preliminary workpapers in which he had done most
10 of the calculations for his proposed grouping "alternative 2," which is also
11 referred to as the "portfolio" option. He has not yet provided calculations for his
12 "alternative 1," the "capband" option, so I can not comment on it specifically.

13 **Q. What is your opinion of Mr. Stallcup's alternative 2?**

14 A. Mr. Stallcup's preliminary workpapers file requires a large amount of
15 calculations to come up with an admittedly arbitrary grouping of low and high
16 cost systems in an effort to ensure that no system exceeds the subsidy threshold.
17 I have included one summary worksheet from that file as my Exhibit DTF-3.
18 While Mr. Stallcup has not finished his grouping successfully (there are still
19 some ungrouped systems, and the maximum subsidy in group 8 is almost twice
20 the threshold), a review of his summary shows how many groups would be
21 created and how wide the range of the proposed grouped bills would be. Eight or
22 9 groups will be required, and the group bills at 7Kgals range from \$25 to \$69.
23 Remembering that the objectives of a consolidated rate design included reducing
24 costs for the customers by simplifying the tariff structure and associated
25 accounting requirements, as well as keeping customers' bills in an affordable

1 range, Mr. Stallcup's alternative 2 creates more calculations and higher bills than
2 the simpler structure that I have come up with.

3 **Q. You mentioned that under AUF's consolidated water rate structure**
4 **proposal, you could come up with different rates. Would this address Mr.**
5 **Stallcup's fairness concern?**

6 A. Yes. I believe the same concerns can be addressed with 2, or at most 3, tariff rate
7 groups if some flexibility is granted to exceed the subsidy threshold now by
8 reasonable amounts in a few cases. For example, I have identified a few systems
9 that could be put into a separate tariff and billed at rates lower than the main
10 group of systems.

11 **Q. Can you elaborate on the make-up of those rate groups?**

12 A. Yes. Please note that this analysis of a possible rate grouping scenario is based
13 on the assumption that all of the Company's revenue requirements will be
14 allowed as-filed. In this rate design, 47 of the 57 water systems (the "main
15 group") would have a consolidated uniform rate without exceeding the \$5.90
16 subsidy threshold put forth by Mr. Stallcup. Knowing this, another grouping can
17 be created with the 10 out of 57 water systems that would incur a greater subsidy.
18 Those 10 systems can be treated in two additional sub-groups as follows:

19 Of those 10, one system, Carlton Village is already paying a rate higher
20 than the proposed uniform rate; therefore, I propose that it be included in the
21 main group. The remaining 9 "capped" systems can be put into two rate groups
22 with each group assigned a tariff rate that is the weighted average of the
23 individual systems' capped rates. Compared to the bill for the main group, the
24 bills in these groups would be approximately 90% (the mid group) and 70% (the
25 low group).

1 Four systems would be in the mid group, and 3 of them would pay a
2 subsidy of only 2 to 41 cents above the threshold level. (This is an example of the
3 flexibility I referred to earlier.) The remaining 5 systems would be in the lowest
4 price group; and only two of them, Silver Lake Estates and Kings Cove, would
5 pay approximately \$5.00 above the subsidy threshold. However, these two
6 systems have: 1) the highest average consumption and 2) the second and third
7 lowest current bills of the 57 systems. Therefore, if these two systems were
8 migrated to a consolidated AUF rate in one step, there would be a larger rate
9 shock than if they are grouped now.

10 **Q. Please explain how these results are displayed in your Exhibit DTF-2.**

11 A. Page 1 of Exhibit DTF-2 contains a table of all the water systems, divided into
12 the main group and two additional subgroups, as discussed above. Displayed in
13 columns are the monthly bills at the overall average usage amount at the
14 following rates: 1) Test Year actual rates, 2) calculated Stand-Alone rates, 3) the
15 calculated Consolidated rate for all systems grouped without considering
16 thresholds, 4) the Consolidated rates Adjusted for Subsidy Caps, and 5) the rates
17 Proposed in the 3-group alternative. Within each grouping the systems are sorted
18 in descending order by the Consolidated rates Adjusted for Subsidy Caps column.
19 For the few systems mentioned above where the bill would exceed the subsidy
20 threshold, the amount above the threshold is displayed in the last column.

21 Page 2 of Exhibit DTF-2 is a chart which displays the data from Page 1.
22 The bills at Test Year rates are the upward pointing triangles along the bottom.
23 The open circles are the bills at Stand-Alone rates. The consolidated bills without
24 caps, with caps, and after grouping are shown by the bars, diamonds, and dark
25 circles, respectively. On the chart it is easy to see how the many stand-alone rate

1 bills (ranging from approximately \$20 to \$230, with most far above the
2 affordability threshold) have been consolidated into a very small range of
3 affordable, grouped bills. No multi-group alternative (e.g., capband or portfolio
4 alternative) will produce such an effective result in moving toward achieving a
5 fair and uniform rate.

6 **Q. Have you done a sensitivity analysis to adjust for different revenue**
7 **requirements?**

8 A. Following Mr. Stallcup's example in his testimony of August 21, 2007, in Docket
9 No. 06038-WS, I have calculated rates and subsidies assuming that 75% of our
10 requested revenue requirements are allowed. This would result in only 5 systems
11 breaking the subsidy threshold. Two of them, Jasmine Lakes and Picciola Island,
12 have current rates that are higher than the consolidated main group rate, so I
13 would propose adding them to the main group. The remaining three systems can
14 be put into one group with a rate below the main group of 54 systems. Silver
15 Lake Estates and Kings Cove, again, would pay a modest subsidy premium (of
16 approximately \$5.00), which will ease them in migrating to rate uniformity in the
17 future.

18 I made further sensitivity analyses by calculating rates and subsidies using
19 Mr. Stallcup's assumptions of a repression elasticity factor of -.2 and subsidies
20 based on Pre-Repression Overall Average Usage. In these cases, I came up with
21 more systems that fell above the subsidy threshold, but I was still able to handle
22 them as I did in my examples above — by moving a few that have current bills
23 higher than the proposed main group consolidated rate into the main group, and
24 by grouping the remainder into two small subgroups below the main group.

25 **Q. Why is this a better proposal than the concepts that Mr. Stallcup puts forth?**

1 A. My method is conceptually aligned with Mr. Stallcup's grouping method;
2 however, it is significantly simpler and results in much fewer rate bands and a
3 much tighter range of prices. Assuming a single cost of service, I believe it is
4 better because its focus is fairness, it greatly simplifies the process, and it is a
5 positive step towards a consolidated rate structure. Mr. Stallcup's two alternative
6 rate grouping proposals would result in more complexity, a wider range of rates,
7 and a more difficult transition to a single consolidated rate in the future.

8 **Q. What was Mr. Stallcup's proposal for a rate design for wastewater systems?**

9 A. Mr. Stallcup did not propose a rate design for wastewater systems. In his
10 testimony he noted that the affordability threshold that he has calculated in his
11 Exhibit PWS-3 is very close to AUF's consolidated revenue requirement per
12 customer. As I stated in my previous testimony, I was not able to apply Mr.
13 Stallcup's subsidy caps to the wastewater systems, because the resulting shortfall
14 could not be spread over the remaining systems within the affordability threshold,
15 and therefore AUF would not be able to recover its revenue requirement. That
16 conclusion still stands.

17 **Q. Does this conclude your rebuttal testimony?**

18 A. Yes it does.

1 **CHAIRMAN CARTER:** Mr. May, you're recognized.

2 **MR. MAY:** Now Aqua would call its next rebuttal
3 witness, Mr. Robert Griffin.

4 **CHAIRMAN CARTER:** Mr. Griffin.

5 ROBERT GRIFFIN

6 was called as a rebuttal witness on behalf of Aqua Utilities
7 Florida, and having been duly sworn, testified as follows:

8 DIRECT EXAMINATION

9 BY MR. MAY:

10 **Q** Good morning, Mr. Griffin.

11 **A** Good morning.

12 **Q** Could you please state your name and business address
13 for the record?

14 **A** Yes. My name is Robert M. Griffin, business address
15 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania.

16 **Q** Mr. Griffin, have you been previously sworn in this
17 proceeding?

18 **A** Yes, I have.

19 **Q** Have you prepared and caused to be filed 33 pages of
20 rebuttal testimony in this proceeding?

21 **A** Yes.

22 **Q** Do you have that rebuttal testimony before you?

23 **A** I do.

24 **Q** Do you have any corrections or revisions to the
25 rebuttal testimony?

1 **A** No.

2 **Q** If I were to ask you the questions that are contained
3 in your rebuttal testimony today, would your answers be the
4 same?

5 **A** Yes, they would.

6 **MR. MAY:** Mr. Chairman, we would ask that the
7 rebuttal testimony of Mr. Griffin be inserted into the record
8 as though read.

9 **CHAIRMAN CARTER:** The prefiled testimony of the
10 witness will be entered into the record as though read.

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AQUA UTILITIES FLORIDA, INC.

REBUTTAL TESTIMONY OF ROBERT M. GRIFFIN

DOCKET NO. 080121-WS

1 **Q. Please state your name and business address.**

2 A. My name is Robert M. Griffin. My business address is 762 W. Lancaster
3 Avenue, Bryn Mawr, Pennsylvania 19010.

4 **Q. Have you previously submitted testimony in this proceeding?**

5 A. Yes, I submitted prefiled direct testimony and have sponsored or co-sponsored
6 the following MFR pages: A-1, A-2, A-3, A-4, A-5, A-6, A-8, A-9, A-10, A-11,
7 A-12, A-13, A-14, A-15, A-16, A-17, B-13, B-14, G-2, and G-3.

8 **Q. What is the purpose of your rebuttal testimony?**

9 A. The purpose of my testimony is three-fold. First, I address the Commission
10 Staff Audit Findings. In so doing, I respond to the direct testimony of
11 Commission Witness Dobiac and identify areas where AUF agrees with certain
12 Audit Findings or portions thereof. Second, I address and respond to the
13 testimony of OPC Witness Kimberly Dismukes concerning AUF's pro forma
14 plant and test year pro forma plant adjustments. In so doing, I provide an update
15 to the actual capital additions, based upon a review of AUF's September 30,
16 2008 capital budget to actual report. Third, I address and respond to portions
17 of the direct testimony presented by OPC Witness Tricia Merchant.

18 **Q. Are you sponsoring any exhibits to your rebuttal testimony?**

19 A. Yes, I'm sponsoring the following exhibits: **RMG-6** consisting of AUF's
20 October 14, 2008 Response to Staff Audit Report dated September 18, 2008;

1 **RMG-7** depicting Order No. PSC-97-0540-FOF-WS; **RMG-8** consisting of
 2 copies of the AUF RF meter contract and bid; **RMG-9** consisting of a copy of
 3 the Jasmine Lakes treatment plant contracts; and **RMG-10** providing the
 4 schedule on updated capital additions.

5 **Q. Mr. Griffin do you agree with the rate base adjustments contained in the**
 6 **Florida Public Service Commission, Division of Regulatory Compliance,**
 7 **Auditor's Report, dated September 18, 2008, sponsored by Commission**
 8 **Witnesses Terkawi, Vedula, Dobiac and Brown?**

9 A. No I do not. On October 14, 2008 and October 17, 2008, AUF filed its
 10 responses to the Audit Findings, which I have attached as **Exhibit RMG-6**.
 11 Certain of those responses indicated that there should be a change made to one
 12 or more rate base items. Based on those responses to the Audit Findings, set
 13 forth below is a schedule of the rate base adjustments that AUF believes should
 14 be made to the instant rate filing at this time.

Audit Finding No.	System Name	Rate Base Elements			
		UPIS	A/D	CIAC	Amort. CIAC
1	Lake Suzy Water	(190,351)	36,122	189,596	(14,595)
2	Lake Suzy WW	(504,909)	46,122	733,536	(52,113)
4	Lake Josephine Water	203	17,395	(1,801)	-
4	Sebring Lakes Water	(13,892)	4,005	-	-
4	Lake Osbourne Water	(3,289)	941	-	-
4	Arrendondo Water	-	16,992	-	-
4	Jasmine Lakes Water	-	35,249	-	-
5	Ocala Oaks Water	-	-	-	(11,418)
5	Tangerine Water	-	-	-	2,830
18	Lake Suzy WW	(171,677)	-	-	-

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18 **REBUTTAL OF COMMISSION AUDITOR TESTIMONY**

19 **Q. Please outline those areas of the Commission Auditors' testimony that you**
 20 **wish to address?**

1 A. My primary concern is with the Audit Findings sponsored by Commission
 2 Witness Dobiac. The schedule of Audit Findings related to rate base is shown
 3 below. I will respond to Audit Findings 1, 2 and 18.

Audit Finding No.	System Name	As Drafted			
		Rate Base Elements			
		UPIS	A/D	CIAC	Amort. CIAC
1	Lake Suzy Water	(534,219)	108,901	137,077	(8,891)
2	Lake Suzy WW	(1,119,520)	359,506	-	-
3	Rosalie Oaks & Village	(151,075)	-	-	-
4	Lake Josephine Water	-	17,395	-	-
4	Sebring Lakes Water	(20,122)	4,005	-	-
4	Lake Osborne Water	(3,289)	941	-	-
4	Arredondo Water	-	16,992	-	-
4	Jasmine Lakes Water	-	35,249	-	-
5	Ocala Oaks Water	-	-	-	(11,418)
5	Tangerine Water	-	-	-	2,830
11		1,247	-	-	-
18	Lake Suzy WW	(229,259)			-

5
6
7 **Q. Please explain the basis for rate base eliminations in Audit Finding Nos. 1**
8 **and 2.**

9 A. Ms. Dobiac recommends that a total of \$1,653,739 be removed from UPIS for
10 the Lake Suzy water and wastewater systems. As a basis for this finding, Ms.
11 Dobiac claims that she requested supporting documentation for a sample of
12 plant additions and that AUF did not provide the requested supporting
13 documentation.

14 **Q. Do you have concerns over these findings?**

15 A. Yes. Prior to AUF acquiring the Lake Suzy system, the Commission by Order
16 No. PSC-97-0540-FOF-WS approved water and wastewater plant for Lake
17 Suzy in the amount of \$1,239,799. I've included that order in **Exhibit RMG-7**.
18 From 1997 through 2003, AUF's predecessor had accounted for most of the
19 Commission-approved plant for Lake Suzy under one identifying work order

1 (W0049). As part of her audit, Ms. Dobiac had requested supporting
2 documentation for Lake Suzy land in the amount of \$1,150 in her audit sample.
3 The Company had erred in indicating in its response that it had no support for
4 this audit sample. In fact, the \$1,150 Lake Suzy Water land is included in the
5 FPSC 1997 Order that has been provided as **Exhibit RMG-7**. None of the
6 remaining \$1,652,589 Lake Suzy Water and Wastewater plant was included in
7 the audit sample. Thus, the Company was not asked during the discovery
8 period for supporting documentation for the assets that comprise the
9 \$1,652,589. Ms. Dobiac had eliminated those dollars based on the fact that
10 they had the same work order number (W0049) in common with the audit
11 sample of \$1,150.

12 **Q. Mr. Griffin, what is your recommendation with regard to Audit Finding**
13 **No. 1?**

14 A. At the very least, the Lake Suzy plant which the Commission has approved in
15 Order No. PSC-97-0540-FOF-WS, which amounts to \$1,239,799 should not be
16 removed from AUF rate base. I believe that the auditor did not realize that this
17 amount was included in the W0049 balance. Next, the remaining \$413,940 of
18 plant eliminations from Audit Finding Nos. 1 and 2 should be denied for two
19 reasons. First, the Company never was asked to provide supporting
20 documentation for these assets. The first time that the Company was aware of
21 the Findings was in mid-September 2008 after they were filed. My staff and I
22 have been in contact with the auditor's supervisor ever since then, but have not
23 made progress toward the auditor's recapitulation of all or part of her Finding
24 Nos. 1 and 2. Second, the great majority of the Lake Suzy Water and
25 Wastewater plant additions are developer dedicated or contributed property,

1 where there is a rate base counter-weight in the CIAC that has been booked.
2 For example, 80% of the Lake Suzy Water plant shown on page A-1 of the
3 MFR and 77% of the Lake Suzy Wastewater plant shown on page A-2 of the
4 MFR is contributed property. In making her adjustments in Finding No. 2, Ms.
5 Dobiac only looked at the plant side of rate base and failed to balance her
6 recommendation with a total rate base outlook. For these reasons, I believe that
7 the Audit Finding Nos. 1 and 2 should be denied in their entirety.

8 **Q. What is the basis for Audit Finding No. 18?**

9 A. The Audit Staff removed (\$229,259) of Lake Suzy Wastewater land, which is
10 the difference between the FPSC-approved land value in 1997 and the \$442,800
11 land value reflected on the AUF books.

12 **Q. Does the Company agree with this finding?**

13 A. The Company agrees in principle with Audit Finding No. 18. However, the
14 Company believes that the land value to eliminate from the Lake Suzy
15 Wastewater MFR is (\$171,677). This is the thirteen month average of land
16 value based on the December 31, 2007 land sale. In Finding No. 18 under the
17 heading "Land Value", the Staff had improperly adjusted the thirteen month
18 average calculation by reducing land as though the sale occurred in December
19 2006.

20 **REBUTTAL OF OPC DIRECT TESTIMONY**

21 **Q. Please outline the areas of the direct testimony of Ms. Dismukes that you**
22 **will address.**

23 A. I will respond to rate base adjustments which Ms. Dismukes has proposed in
24 the following areas:

- 1 • Rate Base – Ms. Dismukes’ Cost Savings Recommendation regarding
2 the switch to RF Metering
- 3 • Rate Base – Ms. Dismukes’ Schedule 18, Budget vs. Actual
4 Expenditures
- 5 • Rate Base – Ms. Dismukes’ Reliance on AUF’s 2006 and 2007 Capital
6 Budget Shortfalls to Predict Whether the Company’s Pro-Forma
7 Additions Will Be Closed to Plant by Year-End 2008
- 8 • Rate Base – Ms. Dismukes’ use of the “constant rate methodology” in
9 her Schedule 18
- 10 • Rate Base – Ms. Dismukes’ use of 13 month average methodology on
11 pro-forma additions
- 12 • Rate Base – Ms. Dismukes’ suggestion to eliminate \$1.7 million of rate
13 base based upon the July 2008 capital budget report
- 14 • Rate Base – Ms. Dismukes’ recommendation to include a negative
15 acquisition adjustment in rate base
- 16 • Rate Base – Ms. Dismukes’ capture of Audit Findings relating to rate
17 base in Schedule 27
- 18 • Rate Base – Errors found in Ms. Dismukes’ Schedules 27 and 28

19 **RATE BASE – MS. DISMUKES’ RECOMMENDATION**

20 **REGARDING AUF’S CONVERSION TO RF METERING**

21 **Q. Ms. Dismukes questions AUF’s decision to purchase and install RF meters**
22 **throughout Florida. Do you agree?**

23 A. No, I do not. It comes as a surprise that the OPC’s witness is now questioning
24 the replacement of meters throughout Florida. At the service hearings held in
25 AUF’s last rate case, there were numerous customers who expressed concerns

1 over the accuracy of the meters, the accuracy of the meter readings, and
2 whether the meters were being read. Throughout these service hearings, the
3 Commissioners, Commission staff, and the OPC also expressed concerns over
4 these meters. In response to these concerns, AUF made a decision to
5 aggressively replace all of these aging meters with new RF meters. This
6 decision was made not only to address its customers' concerns, but to ensure
7 efficient and accurate meter readings. There was also concern over the length
8 of time in the meter readings. With the installation of RF meters throughout the
9 jurisdictional counties in Florida, AUF has addressed these concerns. We have
10 made adjustments to eliminate the contracted meter reading expenses, to
11 recognize these services will no longer be necessary after the replacements.
12 The OPC propounded extensive discovery on the meter replacement program.
13 In response to Interrogatories Nos. 137 and 392, AUF responded that it
14 currently had 7 meter readers throughout the state. With the RF meter
15 conversion, the number of meter readers will be reduced to 2. The other 5
16 employees will be able to spend more time performing maintenance work,
17 answering customer service calls, and responding to daily calls. This will make
18 it possible to address any maintenance issues that may not have been previously
19 addressed. It will further reduce operating costs since these issues will now be
20 able to be performed by AUF employees instead of by outside contractors.
21 Additional savings cannot be quantified at this time, since they will be
22 prospective savings related to avoided costs, not replaced costs. Thus, the
23 intent to convert from conventional meter reading to RF meters was based on
24 achieving resource efficiencies and addressing customer concerns.

25 **Q. Were the OPC and Commission staff informed about the RF meter**

1 **conversion program?**

2 A. Yes. The issue of meter replacements was thoroughly discussed in each of the
3 six monthly conference call meetings held as a condition of AUF's withdrawal
4 of the last rate case. The customers and Commissioners were also briefed at
5 each service hearing in the utility's opening remarks.

6 **RATE BASE – MS. DISMUKES' SCHEDULE 18 –**

7 **BUDGET VS. ACTUAL EXPENDITURES**

8 **Q. Have you reviewed Schedule 18 which OPC Witness Dismukes has**
9 **prepared and attached her testimony?**

10 A. Yes. I have several serious concerns with respect to that schedule. First, Ms.
11 Dismukes claims on page 80 of her testimony that her Schedule 18 duplicates
12 the 2008 pro-forma budget provided by the Company. That simply is not true.
13 The following systems were included by the Company as pro-forma additions
14 but were not included in Schedule 18: 48 Estates Water; E Lake Harris Water;
15 Fern Terrace Water; Friendly Center Water; Grand Terrace Water; Haines
16 Creek Water; Hermits Cove Water; Hobby Hills Water; Imperial Terrace
17 Water; Kings Cove Water; Lake Josephine Water; Lake Osborne Water;
18 Morningview Water; Palm Port Water; Skycrest Water; St. Johns Highlands
19 Water; Stone Mountain Water; Summit Chase Water; Tangerine Water; The
20 Woods Water; Valencia Terrace Water; Venetian Village Water; Wooten
21 Water.

22 **Q. Do you have any other concerns with Schedule 18?**

23 A. Yes. Upon review of files supporting Schedule 18, the Company has
24 discovered numerous calculation errors:

- 1 • 'Total Florida Systems' row for columns '7 Months Expenditures'
- 2 contains a calculation error in the amount of (\$437,500).
- 3 • 'Remaining Budget' contain a calculation error in the amount of (\$40,146).
- 4 • '7 Mos. Expenditures' contains a calculation error of (\$7,503).
- 5 • 'Remaining Budget' contains a calculation error of \$11,368.
- 6 • 'Adjusted Pro-Forma Additions' contain a calculation error of (\$28,778).
- 7 • 'Adjustment to Pro-Forma' contains a calculation error of (\$28,778).

8 In addition, it should be noted that Ms. Dismukes' Schedule 18
9 contained only those systems that had negative differences between her
10 constant rate of expenditure and the 7 month actuals. She failed to recognize
11 the systems, which I listed in response to the previous question where the 7
12 month actual spending exceeded her constant rate of expenditure.

13 **Q. Have you been able to reconcile Schedule 18 with Ms. Dismukes' direct**
14 **testimony?**

15 A. Not entirely. On page 86 of Ms. Dismukes' testimony she states that her
16 recommended adjustments from Schedule 18 reduce the Company's pro-forma
17 rate base adjustments by \$1,727,488. The adjustment total from Schedule 18 is
18 \$1,703,747. I cannot reconcile this difference.

19 **Q. What is your recommendation with regard to Schedule 18?**

20 A. The Commission should reject Schedule 18 and the recommended rate base
21 reductions associated therewith. As I explain below the schedule is
22 fundamentally flawed because Ms. Dismukes improperly relies on a constant
23 rate methodology to project whether pro-forma additions will close as
24 projected.

25

1 **RATE BASE - MS. DISMUKES' RELIANCE ON**
2 **AUF'S 2006 AND 2007 CAPITAL BUDGET SHORTFALLS TO PREDICT**
3 **WHETHER THE COMPANY'S PRO-FORMA ADDITIONS WILL BE CLOSED**
4 **TO PLANT BY YEAR-END 2008**

5 **Q. Beginning with the 2006 AUF capital budget, do you agree with the**
6 **budgeted, actual spent, shortage, and shortage percentages set forth in Ms.**
7 **Dismukes' testimony on page 85?**

8 A. No. The 2006 AUF capital budget report was provided to the OPC in response
9 to OPC Request for Production of Documents No. 5 Attachment 7 of 12 as an
10 excel file, with all formulas and links intact. The AUF original approved 2006
11 capital budget was \$10.4 million. During 2006, the Aqua America, Inc. board
12 approved a supplemental amount of \$7.2 million, which increased the revised
13 AUF 2006 capital budget to \$17.6 million. AUF spent \$15.1 million of capital
14 during 2006, net of CIAC. The capital budget to actual shortfall was \$2.5
15 million or 14.2%, not 24% as claimed by Ms. Dismukes.

16 **Q. Why was there a \$2.5 million (14.2%) shortfall in the AUF 2006 capital**
17 **budget?**

18 A. There were two capital jobs that were budgeted for 2006 and not completed
19 until 2007. Those jobs were the Lake Josephine water treatment plant
20 (\$393,837 shortfall) and the Chuluota wastewater plant expansion (\$350,164
21 shortfall). The 2006 shortfall on those two jobs were caused by contractual
22 reasons and were carried over into future year capital budgets. The remaining
23 shortfall is due to the Company not spending \$1.8 million of the \$7.2 million
24 supplemental budget. This \$1.8 million shortfall was not carried over into
25 future years' capital budgets.

1 **Q. Continuing with the 2007 AUF capital budget, do you agree with the**
2 **budgeted, actual spent, shortage, and shortage percentages as set forth in**
3 **Ms. Dismukes' testimony on page 85?**

4 A. No. The 2007 AUF capital budget report was provided to the OPC in response
5 to OPC's Request for Production No. 5, Attachment 8 of 12 as an excel file,
6 with all formulas and links intact. The approved AUF 2007 capital budget was
7 \$7.0 million. AUF spent \$7.0 million, net of CIAC. There is no variance,
8 rounded to millions of dollars. Without rounding, the shortage was 0.6%.
9 Simply stated, Ms. Dismukes' statements on page 85, lines 11 through 14 are
10 incorrect.

11 **Q. Do you know of specific information that would clearly show that AUF will**
12 **be close to target with the 2008 capital spending on pro-forma additions?**

13 A. Yes. First, in the fourth quarter 2008, as a result of recent meter installations,
14 AUF will close approximately \$500,000 of meter installations from CWIP to
15 UPIS and will transfer another \$200,000 of meter installations that resided in
16 the meter inventory account to CWIP. The Company still believes that it will
17 achieve the level of meter installation spending and closing in 2008 that is
18 reflected in the pro-forma additions. I have attached the RF meter contract and
19 awarded bid as **Exhibit RMG-8**.

20 Second, the Jasmine Lakes Wastewater treatment plant contracts, which
21 are signed and ready for construction, are attached as **Exhibit RMG-9**.

22 Third, the Village Water Wastewater land appraisal and fencing of the
23 effluent disposal site has been completed and will be closed from CWIP to
24 UPIS in the amount of \$180,000 before year-end.

25

1 **RATE BASE – MS. DISMUKES’ USE OF THE “CONSTANT RATE**

2 **METHODOLOGY” IN HER SCHEDULE 18**

3 **Q. Does the 2006 and 2007 budget vs. actual variances that were inaccurately**
4 **reflected in Ms. Dismukes’ testimony to make any difference in her**
5 **Schedule 18?**

6 A. Yes. Ms. Dismukes utilized her “constant rate methodology”, which she
7 describes as taking the remaining budget and multiplying it by five twelfths to
8 estimate the amount that will be expended by year-end 2008, to bifurcate her
9 allowable rate base from her (\$1,703,747) disallowable rate base. Although it
10 is not clearly stated, Ms. Dismukes’ testimony implies that this approach is
11 needed based on the faulty premise that the Company won’t spend and close
12 the amount of plant in the rate filing due to past capital budget shortfalls. As
13 I’ve shown above, that simply is not the case.

14 **Q. What is your recommendation with respect to Ms. Dismukes’ Schedule 18?**

15 A. It is important to note that in this testimony, I’ve provided contracts and
16 updates to the pro-forma additions that will close on time. Many of these
17 projects that will close on time have been cut dramatically in Ms. Dismukes’
18 Schedule 18. I recommend that Schedule 18 and her recommended rate base
19 eliminations be denied in their entirety.

20 **RATE BASE – MS. DISMUKES’ USE OF 13 MONTH AVERAGE**

21 **ON PRO-FORMA ADDITIONS**

22 **Q. In Ms. Dismukes testimony, she recommends that an adjustment be made**
23 **to pro forma plant in order to make an averaging adjustment, do you**
24 **agree?**

25

1 A. No. Ms. Dismukes' recommendation conveniently ignores standard practice
 2 and a long line of Commission cases. The Commission's practice is to include
 3 pro-forma items at the full amount and not apply an average to the requested
 4 amount. Over the recent past, the Commission has issued the following orders
 5 approving the inclusion of various utilities' requested pro forma plant items, at
 6 full cost with no averaging adjustment.

7

<u>Order No.</u>	<u>Issued Date</u>	<u>Docket No.</u>
PSC-07-0609-PAA-WS	July 30, 2007	060246-WS
PSC-07-0082-PAA-SU	January 29, 2007	060246-WS
PSC-07-0505-SC-WS	June 13, 2007	060253-WS
PSC-07-0134-PAA-SU	February 16, 2007	060254-SU
PSC-07-0130-SC-SU	February 15, 2007	060256-SU
PSC-07-0205-PAA-WS	March 6, 2007	060258-WS
PSC-07-0287-PAA-WS	April 3, 2007	060260-WS
PSC-03-0699-PM-SU	June 9, 2003	020331-SU

8

9 In each of the rate cases cited above, the OPC was involved and did not oppose
 10 the inclusion of the pro forma plant at full value. Disallowing pro forma plant
 11 at the actual cost would be contrary to past Commission practice and would
 12 also place AUF at an unfair disadvantage in the water and wastewater industry
 13 compared to other regulated utilities which have been afforded recovery
 14 through rates. The Commission practice is straight forward and fairly
 15 recognizes that the pro forma plant will be in service at the time the prospective
 16 rates are placed into effect. Disallowance of the full amount of the plant would
 17 not afford an opportunity for utilities to recover the prudent cost of the plant
 18 and would likely result in the utility filing for a subsequent rate increase sooner
 19 than would be required under the current Commission practice.

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21

RATE BASE – MS. DISMUKES’ SUGGESTION

TO ELIMINATE \$1.7 MILLION OF RATE BASE

BASED UPON THE JULY 2008 CAPITAL BUDGET REPORT

1
2
3
4 **Q. Mr. Griffin, what is your recommendation with regard to the elimination**
5 **of \$1.7 million of rate base from the Company’s claims?**

6 A. I recommend that the Commission deny Ms. Dismukes \$1.7 million rate base
7 reduction in its entirety because it is based on the faulty assumption that AUF
8 will not spend and close CWIP to UPIS the amount proposed in the instant rate
9 filings.

10 **Q. Have you provided an update on AUF’s actual capital additions in 2008 to**
11 **address Ms. Dismukes’ recommendations?**

12 A. Yes. I’ve attached to my testimony **Exhibit RMG-10**, which is a schedule on
13 updated capital additions based on a review of AUF’s September 30, 2008
14 capital budget to actual report.

15 **Q. Mr. Griffin, in response to Ms. Dismukes’ testimony have you evaluated**
16 **AUF’s pro forma plant for the test year and made adjustments based on**
17 **updated information?**

18 A. Yes. I have thoroughly analyzed AUF’s pro-forma additions and have reduced
19 or eliminated those projects where there is a question concerning their timely
20 completion. In summary, AUF agrees that the following plant will not be
21 placed into service by year-end 2008: Customer service renovations; Chuluota
22 WW effluent disposal project; South Seas WW effluent disposal project; and
23 Valencia Terrace SCADA project. In addition, there are two pro-forma
24 additions where the actual amount spent differs from the amount included in the
25 MFRS. They are: Village Water WW effluent disposal site project; and, Lake

1 Josephine new water treatment plant.

2 **Q. Have you prepared a schedule depicting those adjustments to pro forma**
3 **plant?**

4 A. Yes. That schedule is attached as **Exhibit RMG-10**. Updates to the pro-forma
5 plant are shown in the last column of that exhibit.

6 **Q. What updated adjustments are proposed to the customer service**
7 **renovations that were estimated at \$12,862?**

8 A. The \$12,862 customer service renovation will not be finalized in time for this
9 rate case. There were no retirements planned with this pro forma item. The
10 impact on the Company's rate base is (\$8,470), as 65.85% of the
11 Administrative pro forma capital additions are allocated to all AUF water and
12 wastewater systems.

13 **Q. What updated adjustments were made to the Chuluota WW and South**
14 **Seas WW effluent disposal projects?**

15 A. Both projects, which were included at \$50,000 each, won't be finalized in time
16 for this rate case. There were no retirements planned with these projects. The
17 impact on the Chuluota WW and South Seas WW rate base would result in a
18 reduction of (\$50,000) in this case for each of the systems.

19 **Q. What updated adjustments are proposed to the Valencia Terrace Water**
20 **SCADA project?**

21 A. The Valencia Terrace SCADA project, which was estimated at \$25,000, won't
22 be finalized in time for this rate case. There were no retirements planned with
23 this project. The impact on the Valencia Terrace Water rate base would result
24 in a reduction in rate base of (\$25,000).

25 **Q. What updated adjustment are proposed to the Village Water WW effluent**

1 **disposal site project in the amount of \$350,000?**

2 A. AUF is bifurcating this project into a land survey and fence installation project
3 in the amount of \$180,000 that will be spent and closed to UPIS before
4 December 31, 2008 and the remaining \$170,000 of the effluent disposal project
5 will be deferred at a future time and amortized over the life of the permit.
6 There were no retirements planned with this project.

7 **Q. What updated adjustments are proposed to the Lake Josephine new water**
8 **treatment plant?**

9 A. AUF has revised the cost of the Lake Josephine water treatment plant from
10 \$350,000 to \$694,000, based on the initial engineering estimate and dollars
11 spent in 2007 and 2008 on the project. The water plant consists of the package
12 water plant \$172,000 and construction and engineering \$522,000. On Tuesday,
13 November 18, 2008, the Company will file its response to Staff's Request for
14 Production No. 23, which includes copies of invoices supporting the entire
15 2007 and 2008 cost of this project. All of the Company's engineering plans and
16 bids for both the package plant and the construction work are available upon
17 request.

18 **RATE BASE – MS. DISMUKES' RECOMMENDATION TO INCLUDE A**

19 **NEGATIVE ACQUISITION ADJUSTMENT IN RATE BASE**

20 **Q. On page 94, lines 1-2, of Ms. Dismukes' prefiled direct testimony, she**
21 **recommends that the Commission make a negative acquisition adjustment**
22 **to AUF's rate base. Do you agree?**

23 A. No, I do not. Ms. Dismukes claims that AUF's rate base should be reduced
24 because AUF purchased utility facilities from Florida Water in 2004 at a price
25 that was below the book value of those facilities. Ms. Dismukes' claim

1 conveniently overlooks the fact that the Commission expressly considered
 2 whether a negative acquisition adjustment was appropriate when AUF sought
 3 Commission approval of its proposed acquisition of the Florida Water systems
 4 in Docket Nos. 040951-WS & 040952-WS. In addition, Ms. Dismukes has
 5 chosen to ignore the facts that (1) the Commission unanimously determined it
 6 was not appropriate to impose a negative acquisition adjustment, and (2) AUF
 7 relied on the Commission's decision when it acquired the facilities from Florida
 8 Water.

9 The ordering paragraphs of the Commission's decisions approving the
 10 transfer of the Florida Water systems to AUF, specifically state that an
 11 "acquisition adjustment shall not be included in rate base." See Orders Nos.
 12 PSC-05-1242-PAA-WS and PSC-05-1242A-PAA-WS. Having elected to
 13 ignore this clear finding by the Commission, Ms. Dismukes then presents a
 14 glaring factual inaccuracy that "the Commission f[ou]nd in the transfer docket
 15 that a negative acquisition adjustment was necessary." This erroneous
 16 conclusion forms the foundation for her recommendation regarding the negative
 17 acquisition adjustment, and in my opinion invalidates that testimony.

18 **Q. Did the OPC participate in the above transfer docket?**

19 A. Yes, it did. Ms. Dismukes' testimony on page 90, lines 1 thru 3, is misleading
 20 on this point. Her testimony states: "Apparently, because it was a transfer case
 21 no other party presented evidence about the need for a negative acquisition
 22 adjustment." However, the public record shows that the OPC was an active
 23 participant in the transfer docket and that the OPC presented positions on a
 24 number of contentious issues.

25 **Q. Was an acquisition adjustment a specific issue in the docket involving the**

1 **transfer of the Florida Water facilities to AUF?**

2 A. Yes. The following issue was squarely before the Commission when it
3 considered the transfer: “Issue 8: Should an acquisition adjustment be
4 included in the calculation of rate base?” As I previously stated, the
5 Commission ultimately concluded in its final order that an “acquisition
6 adjustment shall not be included in rate base.” See Order No. PSC-05-1242-
7 PAA-WS.

8 **Q. Did the OPC challenge the Commission’s order approving the transfer**
9 **without a negative acquisition adjustment?**

10 A. No, although it had ample opportunity to do so. For example, after the order in
11 the transfer docket was issued, Aqua filed a protest and the OPC filed a Notice
12 of Intervention. The Consummating Order in Docket No. 040951-WS reflects:
13 “On February 17, 2006, Aqua filed a Notice of Withdrawal of its Amended
14 Protest. Staff counsel has confirmed the OPC agrees that its intervention in this
15 matter may likewise be deemed moot.” As a result, Order No. PSC-05-1242-
16 PAA-WS became effective and final, and the docket was closed.

17 **Q. Did OPC seek reconsideration or appeal of the Commission’s final order in**
18 **the transfer docket?**

19 A. No, it did not. The final order in the transfer docket was neither challenged nor
20 appealed. Absent timely challenge, the order became final and no longer
21 subject to review. Thus, the final order in the transfer docket should stand as
22 written, with an acquisition adjustment of zero.

23 **Q. Has the OPC previously challenged other commission orders approving a**
24 **transfer of utility facilities without a negative acquisition adjustment?**

25 A. Yes, it has. Two examples demonstrate the OPC’s acute awareness of the need

1 to file timely petitions to protest Commission orders in which no acquisition
2 adjustments are included in rate base include: Docket No. 971220-WS, in
3 which the OPC filed a timely petition on August 10, 1998 to Order No. PSC-
4 98-0993-FOF-WS (Order Approving Transfer); and Docket No. 960235-WS, in
5 which the OPC filed a timely petition on October 28, 1996 to Order No. PSC-
6 96-1241-FOF-WS (Order Approving Transfer).

7 **Q. Did AUF rely on the Commission's decision to include a negative**
8 **acquisition adjustment in rate base when it acquired the facilities from**
9 **Florida Water?**

10 A. Yes. In fact, AUF would not have acquired those facilities if the Commission
11 had made a negative acquisition to rate base.

12 **Q. Ms. Dismukes asserts that the Commission has imposed a negative**
13 **acquisition adjustment in a case similar to this involving Jasmine Lakes**
14 **Utility. Do you agree?**

15 A. No, I do not. Ms. Dismukes cites a case involving Jasmine Lakes Utility in
16 Docket No. 920148-WS as support for her recommendation of a \$2,702,963.00
17 negative acquisition adjustment to AUF's rate base. See Order No. PSC-93-
18 1675-FOF-WS. In that order, the Commission recognized a \$17,753 negative
19 acquisition adjustment based on a series of extraordinary circumstances that do
20 not exist in this case.

21 In *Jasmine Lakes*, the Commission noted that at the time the utility was
22 transferred (1) the utility had not been maintained in 7 years; (2) the previous
23 owner had "neglected the utility for a long time"; and (3) the utility had earned
24 a return on water plant components for 2 years when, in fact, it was purchasing
25 "80% of its water" from another governmental utility. Furthermore, in *Jasmine*

1 *Lakes* there was little dispute regarding the need for major repairs to the system
2 as a result of the prior owner's negligence, or that the purchase of the utility for
3 less than book value was directly tied to the prior owner's negligence. As OPC
4 argued in that case, the adjustment was necessary to "insulate the ratepayers
5 from failures or negligence by the prior utility management."

6 Those facts simply are not present in AUF's case, nor are any cited in
7 Ms. Dismukes' testimony. Unlike in *Jasmine Lakes*, Aqua America purchased
8 a total of 58 water and wastewater systems from Florida Water, not one
9 negligently run-down system. The fact that some of those systems Aqua
10 purchased were older and needed some repair does not demonstrate that the
11 prior owner had neglected the utility systems for years and had been negligent
12 in the operation of those utilities. The vintage and repair schedules for the
13 systems that Aqua acquired from Florida Water were not extraordinary; instead
14 they reflect operational issues encountered in operating any water and
15 wastewater utility. Ms. Dismukes attempts to correlate the factors in *Jasmine*
16 *Lakes* to the facts of this rate case are simply unfounded and are insufficient to
17 justify a \$2,702,963.00 negative acquisition adjustment.

18 I would also point out that OPC did not participate in the earlier
19 proceeding involving the transfer of Jasmine Lakes Utility. This is in marked
20 contrast to this case where OPC actively participated in the docket involving
21 the transfer of Florida Water facilities to Aqua, and had ample opportunity to
22 challenge the Commission's decision not to make negative acquisition, but
23 chose not to do so.

24 Finally, it is important to note that the Commission's decision in
25 *Jasmine Lakes* was rendered in 1993, and the Commission's acquisition

1 adjustment rules have changed since then. Rule 25-30.0371, Florida
2 Administrative Code, was adopted in August of 2002, replacing the
3 Commission's former case-by-case acquisition adjustment policy. The current
4 rules must be applied in this proceeding, not the policy applicable to the 1993
5 Jasmine Lakes case. It is noteworthy that Ms. Dismukes fails to cite one post-
6 2002 case in which the Commission found a negative acquisition adjustment to
7 be appropriate in conditions truly similar to these.

8 In my opinion, the after-the-fact claims and insinuations set forth in Ms.
9 Dismukes' testimony do not provide "proof of extraordinary circumstances"
10 that would warrant a \$2,702,963 negative acquisition adjustment to AUF's rate
11 base.

12 RATE BASE – MS. DISMUKES' CAPTURE OF

13 AUDIT FINDINGS RELATING TO RATE BASE IN SCHEDULE 27

14 **Q. Has the Company filed responses to the Commission Staff's Audit**
15 **Findings?**

16 A. Yes. In addition, I have taken issue with Audit Finding Nos. 1, 2 & 18 earlier
17 in my rebuttal testimony.

18 **Q. Are there any rate base differences between the Audit Findings and the**
19 **Company responses?**

20 A. Yes, there are major differences with respect to Findings 1, 2, 3, & 18. The
21 impact on rate base from the Company's responses to the Audit Findings and
22 the Audit Findings are presented in two schedules on page two and three of my
23 rebuttal testimony.

24 **Q. Because Ms. Dismukes accepted the Audit Findings in her own testimony**
25 **and schedules, can you explain what the differences are between the Audit**

1 **Findings and the Company's responses and the reasons why the Company**
2 **believes that some of the Audit Findings are excessive?**

3 A. Yes. I have attached the Company's reply to the draft Audit Findings, which
4 enumerate the differences between the Company's and Audit Bureau's
5 positions as **Exhibit RMG-6**. It should be noted that Ms. Dismukes has
6 recorded the plant eliminations from the Audit Findings in her Schedules 27
7 and 28.

8 **Q. What is your recommendation with regard to the Audit Findings related to**
9 **rate base as they appear in Ms. Dismukes' Schedule 28?**

10 A. I believe that the majority of Audit Finding Nos. 1, 2, & 18 should be denied
11 consistent with my rebuttal testimony of Commission Witness Dobiac.

12 **RATE BASE – ERRORS FOUND IN MS. DISMUKES' SCHEDULES 27 AND 28**

13 **Q. Please describe the errors that you found in Schedules 27 from Ms.**
14 **Dismukes' testimony.**

15 A. The calculation errors are shown below:

- 16 • Schedule 27 erroneously excluded the rate base from the Tomoka/Twin
17 Rivers Water System. This error caused every number on Schedule 27,
18 page 1 of 3, 2 of 3 and 3 of 3, to be understated in terms of rate base
19 recovery. The Tomoka/Twin Rivers rate base is \$141,944.
- 20 • Schedule 27 erroneously excludes the revenue, expenses, and rate base
21 from South Seas WW and Village Water WW. As a result, Ms.
22 Dismukes' recommendation understates rate base by (\$2,388,943) and her
23 recommendation understates revenue requirement by (\$661,013). This
24 can be quite easily seen in the comparison of the "As Filed" column from
25 her Schedule 1 and Schedule 27.

- 1 • The rate of return calculated on Schedule 27, page 1 of 3, shows 12.35%
2 which I believe is an incorrect calculation. While this error doesn't
3 impact actual recovery, it gives the mistaken appearance of an
4 inordinately high rate of return being earned.
- 5 • There is an unexplained \$209,000 difference in Schedule 27, page 1 of 3,
6 on line number 7 'Operating Expenses'. The Company cannot determine
7 the impact of this error on rate of return.
- 8 • There is an unexplained \$609,000 difference in Schedule 27, page 1 of 3,
9 on line number 8 'Net Operating Income'. The Company cannot
10 determine the impact of this error on rate of return.
- 11 • There is an unexplained \$11,000 difference in Schedule 27, page 2 of 3,
12 on line 7 'Operating Expenses'. The Company cannot determine the
13 impact of this error on rate of return.
- 14 • There is an unexplained \$198,000 difference in Schedule 27, page 3 of 3,
15 on line 7 'Operating Expenses'. The Company cannot determine the
16 impact of this error on rate of return.
- 17 • There is an unexplained \$609,000 difference in Schedule 27, page 3 of 3,
18 on line 8 'Net Operating Income'. The Company cannot determine the
19 impact of this error on rate of return.

20 **Q. Ms. Dismukes' Schedule 27, page 3 of 3, contains a note that "the revenue**
21 **requirement excludes Tomoka/Twin Rivers due to a link failure in Aqua's**
22 **MFR model." Do you agree with that statement?**

23 A. No. The Company provided the MFR model to the OPC, including a detailed
24 set of instructions. In addition, the Company took the time to demonstrate the
25 model to the OPC. At that time, the Company informed the OPC that the MFR

1 process was necessarily complex since it contained logic to effectively produce
2 timely and accurate MFR statements for all 82 systems in this filing. The
3 Company has determined that the MFR model provided to the OPC runs
4 properly, with no link failures. I don't believe that the note contained in Ms.
5 Dismukes' Schedule 27 on page 3 of 3 absolves the OPC from their own
6 operator failures in utilizing the Company's model to support their flawed
7 claim.

8 **Q. Please describe the errors that you found in Schedules 28 from Ms.**
9 **Dismukes' testimony.**

10 **A.** The calculation errors are shown below:

- 11 • The entire amount of the Chuluota Wastewater alternative effluent
12 disposal project (\$20,833) was removed in error from Schedule 28, page
13 9. The impact of this error overstates the adjustment to reduce pro-forma
14 rate base.
- 15 • There is a \$8,051 working capital adjustment in the water column of
16 Schedule 28, page 16, since FL Central Commerce Park is a wastewater
17 system. The Company can't determine the impact of this
18 misclassification between water and wastewater systems.
- 19 • There is a \$18 non-used and useful positive adjustment in Schedule 28,
20 page 49. All other non-used and useful adjustments are negative.
- 21 • The (\$1,119,520) Lake Suzy Wastewater plant elimination from Audit
22 Finding No. 2 is shown on Schedule 28, Page 53, under Leisure Lakes by
23 mistake.

24

25

- 1 • There appears to be a calculation error in the Accumulated Depreciation
2 in Schedule 28 on page 91 in the amount of \$422. The Company cannot
3 determine the impact of this error.
- 4 • The \$9,900 adjustment to replace water pump and motor for Well#5 in
5 Schedule 28 on page 99 does not agree with the pro-forma adjustment
6 shown in Schedule 18 of Ms. Dismukes' testimony. The impact of this
7 error overstates the adjustment to reduce pro-forma rate base.

8 **Q. Mr. Griffin, what is your recommendation with regard to the OPC's**
9 **Schedules 27 and 28?**

10 A. I believe that the schedules are replete with errors and thus should be rejected.
11 At the very least, to have any use, Schedules 27 and 28 need to be corrected in
12 terms of bad linkages and erroneous calculations.

13 **Q. Please outline the areas of the direct testimony of OPC Witness Merchant**
14 **that you will address.**

15 A. I will respond to rate base adjustments which Ms. Merchant has proposed in the
16 following areas:

- 17 • Rate Base – Ms. Merchant's & Dismukes' Deferred Debit
18 Recommendations
- 19 • Rate Base – Ms. Merchant's amortization of CIAC adjustments
- 20 • Rate Base – Ms. Merchant's Cash Working Capital allowance

21 **RATE BASE – DEFERRED DEBIT RECOMMENDATIONS**

22 **Q. What does Ms. Merchant say regarding the allocation of deferred debits to**
23 **AUF systems?**

24 A. Ms. Merchant advocates the allocation of the AUF deferred maintenance
25 balance in the overall working capital to the entire Company instead of tracking

1 the items system by system.

2 **Q. Is Ms. Merchant's proposed adjustment to change the allocation method of**
3 **other deferred debits appropriate?**

4 A. No, it is not. The Company's system specific method is far superior because
5 there are underlying schedules to support it. The Company's accounting
6 method consistently and properly identifies payments to each individual system
7 and then records the deferred debit and offsetting expense amortization to the
8 individual system's accounting unit.

9 The recommended change in how the Company should be able to
10 collect the balance of other deferred debits as part of the working capital
11 allowance is described on pages 14 and 15 of Ms. Merchant's testimony. I
12 believe this recommendation is ill advised because it attempts to replace a
13 rational and supportable process with one that is flawed. Since the deferred
14 debit balances are maintained by individual system, it is inappropriate to create
15 another allocation to "spread to the total company." In addition, the
16 Company's direct method is in conformance with Ms. Merchant's testimony
17 shown on page 14, lines 14 through 17, which states, "These deferred debits
18 relate to maintenance projects which were performed on a plant specific basis
19 and the amortization, where appropriate, should be specifically assigned to each
20 individual system." The Company agrees that the deferred debits should be
21 specifically assigned to each individual system. Therefore, I believe that the
22 Company's direct method is proper, supportable, efficient, and effective.

23 **Q. Are there other problems with the rationale underlying Ms. Merchant's**
24 **recommended allocation to deferred debits?**

25 A. Yes. The rationale for her second recommended adjustment to deferred debits

1 appears to be contradictory. Ms. Merchant states, "I believe that it is improper
2 to specifically add these deferred debits to each system's previously allocated
3 working capital allowance." Yet, in the very next sentence, her testimony
4 states, "These deferred debits relate to maintenance projects were performed on
5 a plant specific basis and the amortization, where appropriate, should be
6 specifically assigned to each individual system." I agree with the latter
7 statement. The testimony of Ms. Merchant goes on to state, "However, once
8 the project is deferred, the deferral is recorded on a total company balance sheet
9 where the asset is used by the company as a whole. This is no different than
10 how net income or debt is recorded on the total company balance sheet and
11 allocated to individual systems." Ms. Merchant's testimony fails to recognize
12 the significant difference in the way that deferred debits, net income and debt
13 are recorded. Deferred debits are recorded to system specific accounting units,
14 while net income and debt are recorded to the total company balance sheet.
15 That difference, which is omitted from Ms. Merchant's testimony, is the
16 underlying reason why the deferred debit component of working capital is
17 directly assigned to individual systems.

18 **Q. Can you summarize the adjustments for deferred maintenance**
19 **amortizations shown on Ms. Dismukes' Schedule 24?**

20 A. Yes. The \$22,978 adjustment reflected on Schedule 24 can be broken out into
21 three categories as follows: (1) \$13,215 for six systems for which a five year
22 amortization period was recommended, instead of the three year period utilized
23 by the Company in the MFRs; (2) \$8,525 for fourteen systems proposing the
24 removal of balances that are fully amortized in 2008; and (3) \$1,239 for three
25 systems where the Company began the amortization late.

1 **Q. Do you agree with the first category of adjustment?**

2 A. No, I do not. The Company practice has consistently deferred and amortized
3 larger recurring maintenance and repair projects over three years. The
4 adjustment proposed by Ms. Dismukes is a recommendation to change the
5 Company's accounting practice on a prospective basis. Further, as testified by
6 Staff Witness Charleston Winston on page 7 of his testimony, AUF has justified
7 a shorter amortization period. Mr. Winston refers to his Audit Finding No. 6,
8 where he addresses the amortization of deferred debits. I believe that the
9 Company's method of deferring and amortizing types of maintenance and
10 repair projects over a maximum of three years is appropriate.

11 **Q. Do you agree with Ms. Dismukes' adjustment proposing the removal of**
12 **fully amortized balances from the MFRs?**

13 A. No. On Schedule 24 in Exhibit KHD-1, Ms. Dismukes identifies deferral of
14 expense related to tank inspections for 48 Estates Water; Grand Terrace Water;
15 Jasmine Lakes Water; King Cove Water; Ravenswood Water; and Rosalie Oaks
16 Water. Although these particular inspection costs may be fully amortized in
17 2008 for these specific systems, there are numerous other tank inspections that
18 are required at other systems throughout the state. Attached to Mr. Szczygiel's
19 testimony is a listing of the systems and specific tanks that either have been or
20 will be inspected during 2008. AUF did not make specific pro forma expense
21 adjustments for these required inspections. The reason is simple, some
22 expenses may be fully amortized in any particular year, but they will be
23 replaced by like expenses that will also be amortized. These may or may not
24 occur in the same system, but overall there will be like expenses incurred for
25 AUF in subsequent years. In addition, the same amount of tank inspections as

1 the attached schedule will occur during 2009.

2 **Q. Do you agree with Ms. Dismukes' third adjustment proposing changes**
3 **where AUF began the amortization period late?**

4 A. No. On Schedule 24 in Exhibit KHD-1, Ms. Dismukes identifies deferral of
5 expense related to permit renewals for Rosalie Oaks Wastewater and Summit
6 Chase Wastewater. The practice is to amortize these costs over the life of the
7 permit, based on the issuance date. Although these expenses may have been
8 incurred several months prior to permit issuance, they are not amortized until
9 the permit is actually issued. The initial costs may include up-front costs,
10 however, during the review of the permit application from DEP, there may be
11 additional requests for information (RAI) which may require additional costs.
12 It is not until the final issuance of the permit by DEP that the full cost of the
13 permit is not realized and thus can begin amortization. Additionally, it is not
14 until the permit is issued by DEP that the correct amortization period can be
15 determined.

16 **RATE BASE – MS. MERCHANT'S AMORTIZATION OF CIAC ADJUSTMENTS**

17 **Q. What adjustments to CIAC amortization does Ms. Merchant recommend?**

18 A. There are two recommendations starting on page 5 of her direct testimony. The
19 first recommendation reflects the corrections of errors in the MFRs related to
20 amortization of CIAC and the accumulated amortization of CIAC that the
21 Company filed in response to OPC's Interrogatory No. 116. The second
22 recommendation removes any non used and useful amortization of CIAC set
23 forth in the MFRs in Schedule B-3 (See Exhibit PWM-2, Schedule 2, Page 1 of
24 1).

25 **Q. Regarding the first recommendation, do you agree with Ms. Merchant?**

1 A. Yes. The schedule provided in response to OPC's Interrogatory No. 116 (also
2 reflected as Exhibit PWM-2, Schedule 1, Page 1 of 1) clearly shows that the
3 amortization of CIAC and accumulated amortization of CIAC should be
4 increased by (\$176,454) and \$95,580, respectively, in the instant rate filings.

5 **Q. Has Ms. Dismukes adjusted the Amortization of CIAC (p&l) and the**
6 **Accumulated Amortization of CIAC (rate base) from Ms. Merchant's first**
7 **recommendation?**

8 A. No. Ms. Dismukes has reduced the amortization expense in her Schedule 29,
9 but failed to include the accumulated amortization of CIAC in her Schedule 27.
10 This oversight should be remedied.

11 **Q. Regarding the second recommendation, do you agree with Ms. Merchant?**

12 A. Yes, I do. The amortization of CIAC should be increased by (\$12,368) and
13 (\$126) for water and wastewater systems, respectively, due to the Company
14 inadvertently reducing the amortization by the used and useful percentages in
15 the systems shown in the aforementioned schedule. However, I would like to
16 comment on the allegation of a "cloaked adjustment" on page 5. AUF
17 disagrees that this was an intentional act to not disclose any adjustment as
18 further alleged on page 8. This was a simple inadvertent error that AUF admits
19 and agrees to. Although in error, this inadvertent adjustment is very evident on
20 the specific Schedule B-13 and B-14 that Ms. Merchant references on page 8.

21 **RATE BASE – MS. MERCHANT'S CASH WORKING CAPITAL ALLOWANCE**

22 **Q. Have you reviewed Ms. Merchant's recommendations concerning cash**
23 **working capital?**

24 A. Yes, and I take issue with two of those recommendations. The first item relates
25 to Deferred Taxes. In his rebuttal testimony, Mr. Anzaldo disagrees with the

1 Deferred Tax recommendation on pages 24 and 25 of her testimony based on
2 the fact that (1) Ms. Merchant failed to allocate only 65.85% of the deferred tax
3 on IT equipment, (2) Ms. Merchant failed to utilize a thirteen month average in
4 calculating her Deferred Tax recommendation, and (3) Ms. Merchant's
5 recommended adjustment for Corporate IT and Corporate Capital Structures
6 and Improvements is duplicative. As a result, the \$852,382 figure should be
7 \$395,098.

8 **Q. Does Ms. Merchant's Deferred Tax capitalization recommendation have**
9 **an impact on the cash working capital claim?**

10 A. Yes. This increase in deferred taxes payable will be offset by a decrease in
11 current taxes payable. Because current taxes payable are a component of cash
12 working capital, change to the cash working capital value is required. Ms.
13 Merchant failed to recognize this in her testimony.

14 **Q. What is the second cash working capital recommendation presented by**
15 **Ms. Merchant that you disagree with?**

16 A. On pages 16 through 20 of her testimony, Ms. Merchant recommends an
17 Accrued Taxes adjustment of \$1,812,682 to recognize that the Company will be
18 given a fully compensatory income tax expense through its revenue
19 requirement. However, her \$1,812,682 adjustment is a full year affect, but is
20 applied dollar for dollar against the Company's average accrued tax balance of
21 (\$1,155,342), which is based on a thirteen month methodology. Had Ms.
22 Merchant's recommended adjustment been based on a thirteen month method,
23 approximately one half of the adjustment, or \$906,341 would be applied against
24 the Company's average accrued tax balance.

25 **Q. Does this conclude your rebuttal testimony at this time?**

1 A. Yes.

1 BY MR. MAY:

2 Q Mr. Griffin, have you attached five exhibits, RMG-6
3 through RMG-10 to your rebuttal testimony?

4 A Yes, I have.

5 Q Do you have any corrections or revisions to those
6 exhibits?

7 A No, I do not.

8 Q Have you prepared a brief summary of your rebuttal
9 testimony?

10 A Yes, I have.

11 Q Would you please provide that to the Commission and
12 to the parties now.

13 A Yes.

14 Good afternoon, Mr. Chairman and Commissioners. My
15 name is Robert Griffin. I am the company's rate base witness
16 in this case.

17 There are several components to my rebuttal
18 testimony. I have provided an update to the status of spending
19 on the pro forma additions, and I have also provided comments
20 on OPC Witness Dismukes' direct testimony and supporting
21 schedules that were filed on October 13th, 2008.

22 Regarding the updates to the pro forma plant, I have
23 reduced or eliminated five pro forma capital projects that,
24 based on the September 2008 budget to actual report, won't be
25 finished by year-end 2008. In addition, my rebuttal testimony

1 contains Attachment RMG-10, which is the budget-to-actual
2 report through September 2008. I have subsequently provided a
3 more recent October 2008 budget-to-actual report as Late-filed
4 Exhibit 7 to my deposition, which I understand is part of the
5 Staff's Composite Exhibit.

6 Moving to the OPC direct testimony, I disagree with
7 Witness Dismukes' statement that the RF meter decision made by
8 the company was questionable, and her statement that it does
9 not appear that meters and other capital additions are being
10 completed on time. I also disagree with Witness Dismukes' use
11 of a constant rate methodology to predict the budget shortfall
12 for the company's pro forma additions. I believe that Ms.
13 Dismukes' elimination of 1.6 million of pro forma additions in
14 her Schedule 18 cannot be supported by my most recent
15 budget-to-actual report. I also believe that the remaining
16 pro forma additions left to spend and close will be
17 accomplished by year-end 2008.

18 I disagree with Witness Dismukes' testimony stating
19 that a 13-month average methodology should be used when the
20 pro forma additions -- and also her testimony regarding reasons
21 for the inclusion of the Florida Water Service negative
22 acquisition adjustment rate base.

23 That concludes my testimony. Thank you. I'm sorry,
24 my summary.

25 **MR. MAY:** Thank you, Mr. Griffin. We tender

1 Mr. Griffin for cross.

2 CHAIRMAN CARTER: Mr. Beck.

3 MR. BECK: Thank you, Mr. Chairman.

4 CROSS EXAMINATION

5 BY MR. BECK:

6 Q Good afternoon, Mr. Griffin.

7 A Good afternoon.

8 Q Could you turn to your Exhibit RMG-10 that you
9 referred to in your summary?

10 A Yes.

11 Q And if you would, when you get there I'd like to ask
12 you to turn to the last page, which is Page 4 of 4.

13 A Yes, I have it.

14 Q Could you just briefly describe what the exhibit is,
15 RMG-10?

16 A Yes. RMG-10 is an update for the budget-to-actual
17 report for the pro forma additions requested in this case
18 through September 2008.

19 Q And if we look at the last page, and there's a column
20 called actual September 2008 for the additions. Do you see
21 that?

22 A I do.

23 Q And the grand total Florida pro forma listed there is
24 \$2,250,260, is that right?

25 A Yes, it is.

1 Q And then if we look at the several columns to the
2 right, it has remaining budget to close by December 31st, and
3 that figure for Florida is \$2,443,622, is that right?

4 A Yes, it is.

5 Q Okay. So through the first nine months of 2008, the
6 amount spent is less than you were projecting for the last
7 three months of 2008, is that right?

8 A That's correct.

9 Q Would you agree that with the current financial
10 climate that many companies are cutting back significantly on
11 expenses?

12 A Yes, I would.

13 Q And there has been rather unprecedented layoffs by
14 companies that we are seeing now in this financial turmoil, is
15 that right?

16 A Yes.

17 Q And would you agree many companies are cutting back
18 significantly on capital expenditures? Would you agree with
19 that?

20 A Yes, I would.

21 Q Okay. And that would include many utility companies,
22 would it not, that are cutting back on capital expenditures?

23 A Yes.

24 Q Is that not so for Aqua?

25 A Well, to answer that question I think that I have to

1 refer to my most up-to-date budget-to-actual report through
2 October, because that report shows that the remaining budget to
3 spend is 1.4 million. So a lot of money was spent in the month
4 of October.

5 Second, the company's meter replacement program that
6 was recently concluded at the end of November 2008, covered 18
7 months in its entirety. Now, that it is finished, the meters
8 and the URTs (phonetic), which are the transmission devices, in
9 the month of November will be transferred from meter inventory
10 to CWIP. Up until now, they have not shown up on any of the
11 budget-to-actual reports.

12 So I guess what I'm saying is that the pro forma
13 additions that the company has proposed are either meter
14 replacements or they are a handful of compliance jobs. It's
15 not the entirety of the 2008 capital budget.

16 Q I appreciate that answer, but let me try to get back.
17 We see companies all over the country cutting back
18 substantially in expenses, and employee numbers, and capital
19 expenditures. My question to you is is Aqua Utilities cutting
20 back similarly to the way we see other companies doing it?

21 A In its 2008 capital budget?

22 Q Yes.

23 A Are you referring to the part that's included in the
24 rate case or the overall budget?

25 Q Well, you've described what you have done through

1 October 2008. I'm trying to look at it a little more broadly.
2 And is the company taking steps to cut back on expenses, and
3 expenditures, and capital expenditures like other companies are
4 in this economy?

5 A Well, yes. First of all, on expenses the company is
6 in a cost-cutting mode. On capital, in my rebuttal testimony I
7 refer to five projects that were not going to be completed by
8 the company that total about \$338,000. And those dollars will
9 not be part of this rate case anymore, and they will not be
10 spent in 2008.

11 So, you know, I'm not an engineer, and I'm not the
12 person that puts together the entire capital budget for the
13 company. I'm an accountant. I am responsible for the
14 financial reporting and the accounting of financial assets. So
15 I may not be able to give you, you know, the entire answer that
16 you're looking for, but I do believe that as far as the capital
17 additions that are in this rate case, they are either the meter
18 replacement program which has already concluded, or a handful
19 of compliance jobs which are also just about finished. So
20 there's not a lot of room for elimination in those projects.

21 Q You mentioned in your summary, and, again, you have
22 just now mentioned about the meters, and on Page 7 of your
23 testimony toward the bottom --

24 A Yes.

25 Q -- it says it comes as a surprise that OPC's witness

1 is now questioning the replacement of meters throughout
2 Florida. Do you see that?

3 A Yes.

4 Q And you mentioned that in your summary, too, is that
5 right?

6 A I did.

7 Q Is Ms. Dismukes eliminating your pro formas for meter
8 replacements? Has she made an adjustment to eliminate meter
9 replacements in this case?

10 A Yes, I believe she has on her Schedule 18, based on
11 her constant rate methodology. I believe that she has reduced
12 some meter replacements in this case.

13 Q That's based upon the pace at which meters are being
14 replaced, is that right?

15 A That's the answer to your question, sir.

16 Q Right. And it is correct that that is based on the
17 pace of the meter replacements, is that right?

18 A Through July.

19 Q Now, the thrust of her testimony, though, her
20 testimony is about the company not recognizing all of the cost
21 savings that the company will experience because of the meter
22 replacements, is it not?

23 A Yes, it is.

24 Q With regard, just generally, to your pro forma
25 additions, Mr. Griffin, I would like to discuss a little bit

1 about the test year and test year rate base. 2007 is the test
2 year in this case, is it not?

3 A Yes.

4 Q And for a test year the Commission uses what's called
5 a 13-month average for rate base, is that right?

6 A That's correct.

7 Q Would you describe what that process is of
8 determining the 13-month rate base?

9 A Yes. The company in this rate case in its MFRs has
10 taken a look at the 2007 capital additions, retirements, and
11 adjustments, and for the month of January has given 12/12ths of
12 those additions, retirements, and adjustments in the average
13 rate base in this case. February, 11/12ths all the way through
14 December, which would be 1/12. We have done that for our 2007
15 capital additions retirements.

16 Q So by using the 13-month average rate base, you are
17 getting an average of the rate base throughout the whole year,
18 do you not?

19 A Yes, you do.

20 Q So that if you add an asset, say a \$100 asset in
21 January of 2007, that whole amount is included in the average
22 rate base.

23 A Correct.

24 Q What if you had added an asset on July 1st of the
25 test year, how much of that is included in the average rate

1 base?

2 A Approximately half.

3 Q And if you added an asset on December 31st of 2007,
4 say a \$100 asset, how much of that asset is included in average
5 rate base?

6 A I believe 1/12th.

7 Q So for a \$100 asset it would be less than \$10, is
8 that right?

9 A Yes.

10 Q Now, let's say you, instead of adding that asset on
11 December 31st you add it on January 1st of 2008 and make a
12 pro forma adjustment for that. How much of that asset -- using
13 your methodology for pro forma adjustments, how much of that
14 asset would be added to rate base?

15 A In this case, the company has requested 100 percent
16 without a 13-month methodology for its pro forma additions.

17 Q So if an asset were added on December 31st, 2007,
18 less than \$10 of a \$100 asset would be included, is that right?

19 A Yes.

20 Q But if you added it on January 1st, 2008, all \$100
21 would be included in rate base, is that right?

22 A If that asset in January 1st, 2008, were a meter
23 replacement or a compliance project. If the asset were any
24 other budget addition within 2008, it's not even included in
25 the company's filing.

1 Q But for your pro forma additions, the entire amount
2 of the asset would be included?

3 A Correct.

4 Q Mr. Griffin, on Page 11 of your testimony --

5 A Yes.

6 Q -- you criticize Ms. Dismukes for saying that the
7 capital budget to actual shortfall was \$2.5 million, or
8 14.2 percent, not 24 percent as a claimed by Ms. Dismukes?

9 A Yes, I do.

10 Q Okay. The capital budget to which you are referring
11 for 24 percent, are you referring to the capital budget of the
12 systems that are regulated by the Public Service Commission?

13 A No. I'm referring to the AUF overall capital budget
14 report that was requested in discovery of this case.

15 Q So your capital budget shortfall you're referring to
16 includes systems that are not regulated by the Public Service
17 Commission, does it not?

18 A Yes.

19 Q What if you were just to include the systems that are
20 regulated by the PSC, do you know what the capital budget
21 shortfall would have been?

22 A I do not.

23 **MR. BECK:** Mr. Chairman, I'd like to have an exhibit
24 identified.

25 **CHAIRMAN CARTER:** That would be Number 212.

1 MR. BECK: Capital Budget Shortfall Workpaper.

2 CHAIRMAN CARTER: Capital -- give me that one more
3 time, Mr. Beck.

4 MR. BECK: Capital Budget Shortfall Workpaper. It
5 doesn't roll off the tongue, does it?

6 CHAIRMAN CARTER: Capital Budget Shortfall Workpaper.
7 Am I close?

8 MR. BECK: Yes.

9 CHAIRMAN CARTER: Oh. See the cover page. You may
10 proceed.

11 (Exhibit Number 212 marked for identification.)

12 BY MR. BECK:

13 Q Mr. Griffin, do you have that workpaper in front of
14 you?

15 A I do.

16 Q And does this reflect the budget shortfall that you
17 referred to of 24.39 percent?

18 A Yes, it does.

19 Q Okay. Included in the budget amounts we have
20 Sarasota Sewer and Water, do you see them?

21 A Yes.

22 Q And the budget shortfall for Sarasota Sewer is a
23 negative amount, a little bit in excess of \$1 million, is that
24 right?

25 A Yes.

1 Q So that's not a shortfall, is it, for Sarasota?

2 A No, it is not.

3 Q That excess would be included in your budget
4 shortfall number that you've provided, is that right?

5 A Yes.

6 Q If you take out the non-PSC jurisdictional systems,
7 would you accept that the budget shortfall is 14.10 percent?

8 A Yes.

9 MR. BECK: Thank you, Mr. Griffin. That's all I
10 have.

11 CHAIRMAN CARTER: Thank you.

12 Ms. Bradley.

13 MS. BRADLEY: No questions.

14 CHAIRMAN CARTER: Staff.

15 MS. KLANCKE: I just have a very brief line of
16 questions.

17 CHAIRMAN CARTER: You may proceed.

18 CROSS EXAMINATION

19 BY MS. KLANCKE:

20 Q Mr. Griffin, good afternoon.

21 A Good afternoon.

22 Q During Mr. Beck's questions and your answers to those
23 questions, you specified that Aqua's meter replacement program
24 has been completed, is that correct?

25 A That's correct.

1 Q When was that meter replacement program completed?

2 A It was completed in late November 2008.

3 MS. KLANCKE: That's all the questions that I have
4 for this witness.

5 CHAIRMAN CARTER: Thank you.

6 Anything from the bench? Okay.

7 Mr. May.

8 MR. MAY: No questions. We would, however, move into
9 evidence Exhibit Numbers 140 through 144.

10 CHAIRMAN CARTER: Any objections? Without objection,
11 show it done. From Staff's Composite Exhibit List --

12 MR. MAY: Yes, Your Honor.

13 CHAIRMAN CARTER: -- Exhibits Number 140 through 144.

14 (Exhibit Numbers 140 through 144 admitted into the
15 record.)

16 CHAIRMAN CARTER: Also, Mr. Beck moves Exhibit
17 Number 212. Any objections?

18 MR. MAY: No, sir.

19 CHAIRMAN CARTER: Without objection, show it done.

20 Thank you.

21 (Exhibit Number 212 admitted into the record.)

22 CHAIRMAN CARTER: Call your next witness.

23 MR. MAY: Mr. Chairman, Aqua would call its next and
24 last rebuttal witness, Mr. Stan Szczygiel.

25 CHAIRMAN CARTER: Mr. Szczygiel.

1 STAN F. SZCZYGIEL

2 was called as a rebuttal witness on behalf of Aqua Utilities
3 Florida, and having been duly sworn, testified as follows:

4 DIRECT EXAMINATION

5 BY MR. MAY:

6 Q Mr. Szczygiel, have you been previously sworn in this
7 proceeding?

8 A Yes, I have.

9 Q Would you please state your name and business address
10 again for the record?

11 A My name is Stan Szczygiel. My business address is
12 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania.

13 Q Did you prepare and cause to be filed 49 pages of
14 rebuttal testimony in this proceeding?

15 A Yes, I did.

16 Q Do you have that rebuttal testimony before you today?

17 A Yes, I do.

18 Q Any corrections or revisions to that testimony?

19 A Yes. I would like to make four corrections to my
20 rebuttal testimony. The first one is on Page 17, Line 10.
21 After the word "other" could you please add the word
22 "regulators."

23 My second adjustment is on Page 23, Line 18. Where
24 it reads "Exhibit 14," it should be "Exhibit 16." That is
25 SS-14 should be SS-16.

1 My third adjustment is on Page 24, Line 4. Again, it
2 is an exhibit change. Where it reads "Exhibit SS-15," that
3 should be "Exhibit SS-17."

4 And the final correction that I wish to make is on
5 Page 47, Line 10. I request that we delete the bracketed
6 portion that reads, "Did you include our breakout of fees
7 related to discovery." That is all.

8 **Q** With those corrections noted, if I were to ask you
9 the questions that are contained in your rebuttal testimony
10 today, would your answers be the same, Mr. Szczygiel?

11 **A** Yes, they would.

12 **MR. MAY:** Mr. Chairman, we would ask that the
13 rebuttal testimony of Mr. Szczygiel be inserted into the record
14 as though read.

15 **CHAIRMAN CARTER:** The prefiled testimony of the
16 witness will be entered into the record as though read.

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AQUA UTILITIES FLORIDA, INC.

REBUTTAL TESTIMONY OF STAN SZCZYGIEL

DOCKET NO. 080121-WS

1 **Q. What is your name and business address:**

2 A. My name is Stan Szczygiel. My business address is 762 W. Lancaster Avenue, Bryn
3 Mawr, Pennsylvania 19010.

4 **Q. Have you previously submitted testimony in this proceeding?**

5 A. Yes. I filed direct testimony as part of AUF's initial filing in this rate case and
6 sponsored Exhibit SS-1, consisting of Exhibits SS-1, SS-2, SS-3 and SS-4.

7 **Q. What is the purpose of your rebuttal testimony?**

8 A. The purpose of my rebuttal testimony is to address issues raised by Kimberly
9 Dismukes who filed testimony on behalf of the Office of Public Counsel (OPC). I
10 address Staff Witness Paul Stallcup's silent repression adjustment related to fuel. I
11 also respond to a portion of the prefiled testimony of OPC witness Patricia Merchant.
12 Finally I offer rebuttal testimony related to Commission staff errors related to the
13 interim rate increase.

14 **Q. Are you sponsoring any exhibits with your rebuttal testimony?**

15 A. Yes. I am sponsoring Exhibits SS-5 through SS-16.

16 **Q. Have you reviewed the direct testimony of Ms. Dismukes in this docket?**

17 A. Yes.

18 **Q. Do you have any concerns with respect to Ms. Dismukes testimony?**

19 A. Yes. These concerns are addressed below by heading.
20
21

1 **Revenues**

2 **Street Lighting and Garbage Collection**

3 **Q. Ms. Dismukes recommends that a total of \$222,145 in non-utility revenues**
4 **associated with the collection of street lighting and garbage collection be moved**
5 **above the line for ratemaking purposes. Do you agree with this**
6 **recommendation?**

7 A. No. These non-utility revenues are street lighting and garbage collection charges that
8 AUF collects on behalf of and subsequently remits to the provider of street light and
9 garbage services. The collection of street lighting and garbage collection charges is
10 limited to the residents in Pasco County, specifically those residents that live in the
11 Lake Jasmine and Palm Terrace service area. For the street lights in Pasco County,
12 these payments are collected for, and remitted to Progress Energy and Withlacoochee
13 Electric Co-Op. For the garbage services these payments are collected for, and
14 remitted to Waste Services of Florida. AUF simply collects the charges and passes
15 them to the provider of these services. As such, they should be, and are
16 appropriately, accounted for below the line.

17 **Q. If the Commission ultimately agrees that the collected charges should be moved**
18 **above the line, what else should happen?**

19 A. If the Commission agrees that the collected charges should be moved above the line,
20 then a corresponding adjustment is required to also move the expenses charged to
21 AUF above the line.

22 **Q. Can you please elaborate?**

23 A. In 2007, AUF was charged \$38,360 by Progress Energy, \$34,530 by Withlacoochee
24 for the street lights, and \$183,824 by Waste Services of Florida for garbage. These
25 non utility expenses were recorded below the line, along with the revenues. I have

1 attached a composite Exhibit SS-5, which reflects the monthly invoices for the test
2 year 2007. These expenses were not included in the utility related expenses contained
3 in the MFRs. Had those expenses been included the net effect would be a net loss of
4 \$34,569. AUF was charged more for these services than what was collected.
5 Therefore, these expenses must also be considered if the revenues are considered.

6 **Home Services – Non Utility Revenues**

7 **Q. Ms. Dismukes recommends on page 55 that non utility related revenues**
8 **associated with Home Services be included above the line. Do you agree?**

9 A. No. Ms. Dismukes' recommendation is based on an erroneous understanding of the
10 marketing agreement that Aqua America has entered into with Home Services USA
11 Corporation. As AUF explained to OPC during the discovery process, Home
12 Services is in the business of providing service agreements for the emergency repair
13 of domestic water and sewage system to a base of customers "within a defined
14 geographic area." Ms. Dismukes fails to understand that Homes Services is only
15 providing service to Pennsylvania customers. In addition, Ms. Dismukes' logic is
16 flawed. There are no benefits derived from using any of AUF's customer lists in
17 Florida because Florida customer lists are not given to Home Services. Therefore,
18 any perceived "benefits" that Aqua America may or may not derive should not be
19 allocated to AUF's operations in Florida.

20 **Expenses**

21 **Company Normalization Adjustments**

22 **Q. Ms. Dismukes has recommended normalization adjustment for Lake Suzy that**
23 **differs from the normalization adjustment proposal by AUF. Do you agree with**
24 **the adjustment?**

25 A. Not in its entirety. Ms. Dismukes' testimony and schedule are mismatched. The

1 normalization adjustment recommended by Dismukes on page 96 of her testimony is
2 \$26,890. However, her schedule Exhibit KHD-1, Schedule 29 states a Lake Suzy
3 Expense Adjustment of \$27,056. A review of workpapers submitted by Ms.
4 Dismukes in support of her testimony and exhibits failed to provide any clarity
5 regarding the discrepancy. To be clear, the Company's general ledger for 2007
6 contained \$36,898. Then, the Company performed normalization adjustments of
7 \$22,615. The Company submitted in its MFRs a total of \$14,283 and the Company
8 agrees that an additional adjustment of \$4,283 is appropriate. This will leave the
9 Company with ongoing lease expense of \$10,000 annually. See AUF's response to
10 Staff's Audit page 10 -- Effect of Adjustment on Filings, Rental of Building/Real
11 Property as well as the attached schedule (Exhibit SS-6) that shows the Lake Suzy
12 Wastewater Lease Activity.

13 **Q. On page 96 of her testimony, Ms. Dismukes also recommends three other**
14 **normalization adjustments based on what she claims is inadequate support.**
15 **These recommended relate to : 1) allocated payroll taxes from the administrative**
16 **department; 2) normalized service company's headcount; and 3) normalize**
17 **ACO costs. Do you agree?**

18 A. No. First, I disagree with Ms. Dismukes' claim that AUF did not provide support for
19 these adjustments. In fact, AUF supplied OPC with workpapers for all of the
20 normalization and pro forma adjustments. In the event documents were
21 inadvertently omitted in any of the discovery, AUF has the support and will
22 supplement the appropriate discovery responses. I have attached Exhibit SS-7, which
23 outlines AUF's normalization adjustments and the supporting workpapers. This
24 exhibit also explains when and how the supporting workpapers were provided. In
25 addition, all adjustments were provided to OPC in the Florida O&M expense Excel

1 spreadsheets which AUF produced in response to OPC's Request for Production of
2 Documents (POD) No. 2.

3 **Q. On page 96, Ms. Dismukes recommends removal of the normalization**
4 **adjustment to recognize allocated payroll taxes from the administration**
5 **department. Do you agree with Ms. Dismukes' recommendation?**

6 A. No. While preparing the MFRs in the current rate case, it was discovered that during
7 the test year, payroll taxes from the administration department were not allocated by
8 the accounting department to various systems throughout the state of Florida.
9 Although they were recorded in an account that should have been allocated, these
10 expenses were inadvertently not allocated. Thus, although they were recorded on the
11 books of AUF, they were not included in the financial statements or MFRs for the
12 systems. An adjustment was necessary to show the appropriate intrastate allocation
13 of these payroll taxes, which are an ongoing business expense requirement. To do
14 otherwise would not allow AUF to recover the legitimate payroll taxes of its
15 administration department. These charges include the FICA, federal unemployment
16 taxes, and state unemployment taxes associated with the direct payroll paid in Florida
17 and submitted to the various governmental agencies. Again, these taxes were actually
18 incurred and paid during the test year 2007. The supporting workpapers were
19 supplied to OPC in AUF's response to OPC POD No. 3. It is unclear why Ms.
20 Dismukes references OPC Document Request 147, Attachment 2 when addressing
21 the ACO costs. It is confusing since this response is the worksheet for the allocated
22 payroll taxes, and not the ACO costs. It is also interesting to note that she references
23 the workpaper for allocated payroll taxes, then continues by stating that AUF didn't
24 supply workpapers. I have attached a printout of this workpaper as Exhibit SS-8.

25 **Q. Ms. Dismukes recommends that AUF's normalization adjustment to recognize**

1 **an increase in service company headcount be disallowed due to no support**
2 **workpapers. Do you agree?**

3 A. No. To be clear, Ms. Dismukes does not challenge the prudence of the adjustment,
4 but recommends an adjustment due to the fact she erroneously believes that there
5 were no supporting workpapers. This adjustment is necessary to recognize the
6 change in the service Company's headcount that occurred during the test year 2007.
7 This adjustment recognizes any additions and/or terminations that may have occurred
8 during the test year. I have attached a printout of this workpaper as Exhibit SS-9.

9 **Q. Ms. Dismukes also recommends that AUF's adjustment to normalize the Aqua**
10 **Customer Operations (ACO) costs for 2007 be disallowed. Do you agree?**

11 A. No. This is a legitimate adjustment needed in order to recognize the ACO costs
12 incurred in 2007 to a normal level. This adjustment is accomplished by taking the
13 fourth quarter ACO charges and normalizing them for the test year 2007. This would
14 recognize any changes in not only the headcount, but the actual services billed. I have
15 attached a printout of the supporting workpaper as Exhibit SS-10.

16 Salary Adjustments

17 Annual increase

18 **Q. Ms. Dismukes believes that AUF did not properly calculate its normalization of**
19 **its 2007 wage increase. Do you agree?**

20 A. I do to a certain extent. My agreement is limited to Ms. Dismukes' methodology for
21 the 2007 normalization adjustment for the wage increase because her methodology
22 provides more precision. Please see attached Exhibit SS-11, which illustrates the
23 correct calculation.

24 **Q. Ms. Dismukes further believes this improper calculation was carried over**
25 **through the pro forma 2008 wage increase. Do you agree?**

1 A. No. While we agree with the 2007 “excess” normalization adjustment, she applies
2 only 9/12 of the salary these employees actually received effective April 1, 2008.
3 This adjustment is not for the purpose of restating the actual salary amounts for 2008,
4 but is a pro forma adjustment to reflect these salaries on a prospective basis to
5 coincide with when the actual rates are placed into effect. To do otherwise would
6 under-state AUF’s true ongoing salary expense and cause an under-recovery.

7 **Market Base Increase**

8 **Q. On page 100, Ms. Dismukes recommends the standard merit increase of 4% for**
9 **AUF’s operational staff instead of AUF’s recommended 10% percent increase.**
10 **Do you agree with Ms. Dismukes’ recommendation?**

11 A. No. Ms. Dismukes is simply recommending the status quo and her recommendation
12 will do nothing to address the fact that AUF is paying below market rates for these
13 key positions. This is further addressed in the rebuttal testimony of John M.
14 Lihvarcik.

15 **Q. Does Ms. Dismukes provide any support for her recommendation?**

16 A. No. Ms. Dismukes has provided no evidence that would refute AUF's position that it
17 paying below market rates for key employee positions. Moreover, Ms. Dismukes
18 ignores the legitimate business objective of AUF to attract and retain well-trained and
19 effective employees. The Company hired Saje Consulting Group, Inc. to perform a
20 detailed market base study. This firm compared our current workforce to AWWA
21 recommendations and general industry salaries. Salary recommendations were then
22 made based on the workforce evaluation and also geographical/region of the
23 employee work place. I have attached a copy Saje Consulting Group, Inc’s report as
24 Exhibit SS-12 I note that the study actually recommends an increase of \$200,000. In
25 fact, AUF has only requested an increase of \$95,166 in the MFRs. I also believe that

1 AUF's efforts to ensure the competitiveness of its employee compensation structure is
2 consistent with past Commission decisions concerning market based wage increases.
3 In fact, in Order No. PSC-08-0327-FOF-EI, the Commission affirmed actions
4 virtually identified to those taken by AUF and stated: "We find that the Company has
5 taken appropriate action to assure that its employee salaries are on the same level as
6 other utility employees so that the Company will be competitive in hiring and
7 retaining well trained and effective employees." See also Order No. PSC-02-0787-
8 FOF-EI.

9 **Controller**

10 **Q. In her testimony on page 103, Ms. Dismukes recommends a disallowance for**
11 **AUF's controller position. Do you agree?**

12 A. No. I do not think this is a credible recommendation. Contrary to Ms. Dismukes'
13 testimony, a controller was hired on March 31, 2008. Previously, AUF had a vacant
14 controller position during the test year.

15 **Q. Do you agree with Ms. Dismukes statement on page 103 that AUF provided no**
16 **testimony on this subject?**

17 A. That is simply incorrect. On page 9 of my prefiled direct testimony, I indicate that
18 AUF made pro forma adjustments to recognize the allocation of new hires that
19 occurred during the first quarter of 2008, as well as anticipated new hires which will
20 take place in the near future. In response to discovery, AUF has provided the names,
21 salaries, hire dates, and position descriptions of all new employees hired from January
22 1, 2007 through August, 2008. Further, these adjustments were clearly included and
23 identifiable in AUF's workpapers provided in response to discovery propounded
24 during this rate case. This adjustment and the potential candidate was clearly
25 indicated on one of the numerous worksheets and schedules provided in response to

1 OPC's Production of Documents. Further, the support was also included in AUFs
2 responses to the Commission Staff's Production of Document Request No. 14 and
3 Interrogatory No. 11.

4 **Q. What is the practical effect of Ms. Dismukes' recommendation to disallow the**
5 **Company's controller position?**

6 A. Ms. Dismukes is essentially arguing that the Company should eliminate the Florida
7 controller position. That recommendation is illogical and would have the effect of
8 hurting, not helping, ratepayers. The Controller, like other controller positions in
9 regulated public utilities, has many critical functions. To name just a few, the
10 Controller oversees all accounting functions for AUF operations including the
11 provision of timely financial reports to regulators and internal and external
12 compliance controls. The controller is further responsible for providing accurate and
13 timely budget information and assists in planning for future capital investment in
14 Florida. The Controller position is clearly needed in order for AUF to effectively and
15 efficiency function as a regulated utility in Florida and therefore is beneficial to
16 ratepayers.

17 Rates Manager

18 **Q. On pages 102-103, Ms. Dismukes discusses AUF's Rates Manager position and**
19 **recommends that the Commission remove the requested pro forma adjustment**
20 **for the salary of that position. Do you agree that recommendation?**

21 A. No, Ms. Dismukes' recommendation is not credible. Ms. Dismukes is essentially
22 advocating that the Rates Manager position be eliminated. This position is without
23 any merit whatsoever and, in fact, is inconsistent with the Commission's treatment of
24 similar positions of other regulated public utilities in Florida. In addition, her
25 recommendation ignores the critical need for this position in order for AUF to

1 efficiently and effectively operate in the State. The primary role of the position is to
2 ensure regulatory compliance with the Florida Public Service Commission rules and
3 regulations. This person has been designated as the primary contact for AUF with the
4 Commission's Clerk's office, is involved in customer inquiries received by the
5 Commission, responsible for the index and pass through filings which are required by
6 the Commission (see Order No. PSC-96-1320-FOF-WS), and has provided assistance
7 in the current rate case. This position is also involved in certification matters,
8 accounting requirements of the utility, and assists with the annual budgeting process.
9 The regulated industry is highly specialized and it would be imprudent for AUF or
10 any other regulated utility to not have a position similar to this one. Moreover, I
11 believe that having a Rates Manager in place will provide definitive benefits to
12 ratepayers by ensuring efficient utility regulatory operations and facilitating
13 consistent and more timely rate cases that will prevent rate shock and encourage
14 prudent investment to the benefit of AUF's customers.

15 **Q. Can you comment on Ms. Dismukes' references to the current Rates Manager's**
16 **past employment with the Commission?**

17 A. I don't know what this has to do with the prudence or appropriateness of having a
18 Rates Manager position. However, I would point out that Ms. Dismukes fails to note
19 that the Florida Ethics Commission has specifically ruled that there is nothing
20 inappropriate with AUF's current Rates Manager participating in this rate case.

21 **Q. Ms. Dismukes refers to AUF's response to OPC's Interrogatory No. 165, in**
22 **which AUF indicated that the Rates Manager's salary was originally proposed to**
23 **be recorded to deferred rate case expense. Could you explain that response?**

24 A. Yes. Simply put, the accounting for this position was not fully developed when the
25 budget was prepared. Also, it is my understanding that if an employee of a utility, as

1 part of his duties and responsibilities, works on a rate case, then it is recovered
2 through the salary expense and not through rate case expense. See Order No. PSC-
3 07-0609-PAA-WS, issued on July 30, 2007 in Docket No. 060246-WS, (“It is our
4 practice to disallow salaries and wages from rate case expense as these amounts are
5 already included in O&M expenses.”)

6 **Q. Do you agree with Ms. Dismukes disallowance on the related lease associated**
7 **with the Rates Manager position?**

8 A. No. This position requires that it be near the Florida Public Service Commission
9 which is located in Tallahassee. I am assuming Ms. Dismukes knows that AUF did
10 not have an office near Tallahassee. Also, I am assuming she is not challenging the
11 need for an employee workplace.

12 **Corporate Development**

13 **Q. On page 111, Ms. Dismukes asserts that the Commission should disallow salaries**
14 **and wages associated with acquisitions. Do you agree?**

15 A. No. Ms. Dismukes claims that the functions performed by the AUF Corporate
16 Development position and Aqua Services Corporate Development position are “not
17 normal functions, but instead are associated with acquisition efforts which should be
18 considered nonutility.” Ms. Dismukes' reasoning is flawed and overlooks the
19 customer benefits to be derived from acquisitions.

20 **Q. Please explain how the acquisition of other water and wastewater systems by**
21 **AUF and its subsidiaries are beneficial to AUF's customers?**

22 A. As Ms. Dismukes recognizes on page 119 of her testimony, acquisitions allow utility
23 costs to be spread over a greater customer base. In fact she advocates the addition of
24 newly acquired customers to AUF's customer count that should be accounted for in
25 AUF's next rate case. I find it interesting that she tries to utilize the benefit of

1 acquiring these customers, but at the same time wants to disallow the salaries of the
2 people who facilitated the acquisition of these new systems. The same rationale and
3 logic applies to the acquisition efforts at the Service Company level as well as for
4 AUF. I'd add that many of the systems that the Corporate Development position is in
5 contact with are small system owners that have trouble keeping up with DEP
6 regulations and can be considered troubled.

7 **Q. Is the Corporate Development position responsible for other areas besides**
8 **acquisitions and corporate development?**

9 A. Yes. In addition to the duties I've previously described, this position is actively
10 involved with other non-acquisition related dockets at the FPSC. The Corporate
11 Development position works with the Commission staff on customer complaints
12 throughout the year, and has worked with the Bureau Chief of rate cases, as well as
13 the supervisor of certification. This position also works with city and county officials
14 in reference of possible interconnects for water and/or wastewater supplies.

15 **Q. Can you comment on Corporate Development position's current workload for**
16 **the test year?**

17 A. A review of Mr. Smith's timesheets for the test year ended 2007, indicates that
18 approximately 76% of his work hours were spent on matters other than acquisitions
19 and corporate development. I have attached copies of his timesheets for 2007 as
20 Exhibit SS-13

21 **Affiliated Transactions**

22 **Q. Do you have comments on Ms. Dismukes' testimony regarding affiliated**
23 **transactions?**

24 A. Yes. Ms. Dismukes presents two alternative recommendations for reducing the
25 Company's test year expenses based on affiliated transactions. First, she recommends

1 that the Commission make a "blanket" adjustment to test year expenses for water and
2 wastewater operations based on her hollow claim that AUF's relationship with its
3 parent and affiliates is not efficient. Second, as a fall back in case the Commission
4 does not agree with her "blanket" adjustment recommendation, Ms. Dismukes
5 recommends that the Commission reduce test year expenses by \$6,703 by taking into
6 account what she claims to be services provided by Aqua America to non-regulated
7 companies at no charge. Both of her recommendations are seriously flawed and
8 should be rejected. I will address both of her recommendations in the order presented
9 in her testimony.

10 **Q. Do you agree with Ms. Dismukes' recommendation to reduce test year expenses**
11 **by \$6703.**

12 A. No. I have no way of knowing the basis for the data points that she uses in her
13 methodology, and thus cannot endorse her specific recommendation. However,
14 based on my preliminary analysis and taking into account services that Aqua America
15 provides to non-regulated affiliates, my calculations show that the reduction in
16 allocated costs to AUF for the service company charges in 2007 would be
17 approximately \$4,757.

18 **Q. Please generally describe the corporate structure of Aqua America and its**
19 **subsidiaries.**

20 A. Similar to many other electric, gas, telephone and water companies, Aqua America is
21 a holding company that has a number of operating subsidiaries across its footprint of
22 operation. Like other regulated utilities in Florida and across the country, Aqua
23 America has a Service Company which provides necessary and important services to
24 its subsidiaries, most of which are regulated. Those services provided by the the
25 Service Company include but are not limited to accounting, engineering, human

1 resources, information systems, water quality, legal and fleet services.

2 **Q. Does Aqua have a policy in place regarding the allocation of Service Company**
3 **costs to its operating affiliates?**

4 A. Yes, as stated by Ms. Dismukes on page 65, that policy is clearly articulated in the
5 Corporate Charges Allocations Manual, which was supplied to OPC during discovery.

6 **Q. Does Ms. Dismukes' support Aqua America's allocation methodology?**

7 A. On page 61 of her testimony, she states that the AUF's allocation methodology is
8 generally acceptable. Ms. Dismukes does not offer an alternative allocation
9 methodology in her testimony. Moreover, Ms. Dismukes does not identify any
10 instances where the Company was not adhering to its allocation policy.

11 **Q. Didn't Ms. Dismukes express concern about the allocation of overhead costs to**
12 **unregulated companies?**

13 A. Yes. She erroneously suggests that Aqua America had failed to allocate common cost
14 to an unregulated affiliate—Aqua Wastewater Management. However, as explained in
15 AUF's discovery responses to OPC, allocations of common costs to Aqua Wastewater
16 Management began January 1, 2008.

17 **Q. On page 69 of Ms. Dismukes' testimony she refers to two Schedules (9&10)**
18 **which she claims show that contract systems that Aqua America does not own**
19 **receive a number of services from AUF affiliates. Does Ms. Dismukes' reference**
20 **to Schedules 9 and 10 accurately reflect the information that AUF provided to**
21 **her in discovery?**

22 A. No. As stated in the discovery responses that AUF provided to OPC, the references
23 on Schedule 9 to “description of services provided” refer to the services that the local
24 affiliate is providing as a contract operator – not services received from the Service
25 Company. In addition, Ms. Dismukes seems to suggest that the contract operations

1 listed on Schedule 10 do not receive an allocation from the Service Company. This is
2 not accurate. These are billing contracts that do include services from the Service
3 Company. These billing contracts are allocated a percentage of the Customer Service
4 Costs associated with the utilization of the Customer Information Services (CIS)
5 software and other related costs.

6 **Q. Has AUF made available to Staff and OPC all documentation of costs and charges**
7 **allocated by the Service Company to AUF?**

8 A. Yes, AUF has made all such documentation available to OPC and Staff as part of the
9 discovery and audit phases of this rate case. I would point out that Staff Auditors have
10 extensively audited that and other information, and nothing in the Staff Audit Report
11 remotely suggests that those allocated costs were not reasonable or necessary.

12 **Q. Can you please describe the degree and amount of discovery that OPC served on**
13 **the Company in regard to affiliated interest agreements and the allocation of**
14 **Service Company costs?**

15 A. Yes. I participated in the discovery phase and can attest that AUF answered 1,561
16 interrogatories and provided 625 production of document requests served by OPC. The
17 amount of discovery was extremely comprehensive in regard to allocation of Service
18 Company charges. Information that was provided to OPC included organizational
19 charts on employees and positions for Aqua Services, compensation, benefits, wage
20 increases, types of services for allocations and time assignments. Providing this
21 information took an enormous amount of time to assemble and produce.

22 Also during the discovery process, the Company provided OPC with a detailed
23 analysis (including invoices) of the direct and allocated costs for AUF. AUF also
24 provided a listing of all Service Company employees who allocate time to AUF and
25 their position was provided to the OPC. In addition, the Company provided salary and

1 benefit information for this group, and explained in detail the components of the service
2 and sundry charges as those components relate to allocations.

3 It took several days to print these invoices, bates stamp and provide them to the
4 OPC.

5 **Q. In your opinion, are the costs allocated by the Service Company to AUF**
6 **reasonable and necessary?**

7 A. Yes. I believe these costs are reasonable and necessary. These costs elements of the
8 service company are generally described as rent, benefits, compensation, and services
9 and sundry charges. The rent charge is approximately \$24 per square foot. This rent
10 has been reviewed and found fair and reasonable by other. In my opinion this is a fair
11 and reasonably priced rent.

12 With respect to benefits, our Human Resources Department along with our
13 Broker of Record goes out to the market annually for our medical, prescription, vision
14 and dental products. By marketing our plans annually, Aqua can ensure that it is
15 receiving fair and equitable rates from our service providers. Changes are made
16 annually if appropriate, including changes of vendors, insurance companies, and plan
17 designs are reviewed and modified to control costs. Our plan designs are selected to
18 encourage a mentality of consumerism from our employees and incent them to use
19 cost control measures that have been incorporated into our plan designs. Aqua
20 requires a contribution toward premiums from employees that is based on the national
21 average. Our Broker of Record annually provides us with statistical data on plan
22 utilization, areas of concern, and recommendations for additional cost control
23 measures and provides us with benchmarks for our data. This information is all used
24 to monitor our selection of designs, our costs and our areas for improvement. Aqua
25 has successfully kept our premium increases significantly below the national average

1 for the past 3 years while continuing to offer quality programs that are competitive in
2 that market place.

3 For non-executive compensation, each year the Human Resources Department
4 compiles data related to general industry averages for merit salary increases and grade
5 structure increases. The data is taken from several large national surveys, including
6 World at Work, William Mercer, Hewitt Associates, ERI and Watson Wyatt. Based
7 on the average of the compiled data, Aqua determines the future years target amount
8 for merit increases and determines the percentage for grade structure moves.

9 In 2004, the Human Resources Department researched and implemented a
10 new grading process for positions. This project was a year long study and included
11 the creation of a new set of salary grades, benchmarking over 75% of the positions
12 and graded 100% of company positions for internal and external benchmarks. Both
13 general industry and water utility studies were used to develop a fair and competitive
14 structure. When new positions are created or a change to a current position is made,
15 the Human Resources department reviews the position for internal equity and
16 performs a benchmark study if needed to insure that compensation program is fair,
17 equitable, and in line with industry and water utility standards. .

18 **Q. Please comment on how Aqua's executive compensation structure to other utility**
19 **industries.**

20 A. Aqua has had an outside consultant review its executive compensation package. This
21 review encompasses the overall competitive benchmarking of the salaries, total cash
22 compensation (salaries and bonuses) and total direct compensation (salaries, bonuses
23 and long-term incentives) for our senior officers. As shown in Confidential Exhibit
24 SS-14, Aqua is at or below the benchmarks.

25 **Q. The final cost element included in Service Company charges is service and**

1 **sundry. Do you think these costs are just, reasonable and necessary?**

2 A. Yes. These charges include all necessary non-employee expenses to perform the
3 service to the subsidiary supported by the Service Company. These costs range from
4 outside lawyer fees, business traveling expenses, and other miscellaneous expenses to
5 perform regular duties. Regarding business traveling expenses, the Company has
6 issued a policy that addresses appropriate spending per day and these expenses are
7 reviewed by management. For outside consultant fees, Aqua Services will bid out for
8 these services, where appropriate. Other expenses are included in the sundry category
9 to support and allow the employees to conduct business as efficiently and effectively
10 as possible. In addition, the Company provided the staff and OPC detailed
11 transactional listings of every invoice of service and sundry. Both parties performed
12 sampling of those invoices. Neither party challenged these invoices as being
13 excessive, imprudent or above market prices.

14 **Q. Did the Company perform an analysis of the reasonableness of the costs allocated**
15 **to AUF from the Service Company?**

16 A. Yes. Based on our analysis which is set forth in Exhibit SS-15, if AUF did not receive
17 any services from the Service Company, we estimate that AUF would need to spend
18 approximately \$1,025,000. More specifically, this schedule shows our estimate of the
19 costs that AUF would have to incur if it did not receive the benefits provided by the
20 Service Company. This amount does not include some services like fleet services,
21 purchasing, water quality, risk management, and engineering.

22 **Q. Has Ms. Dismukes challenged any specific allocated costs and charges as**
23 **unreasonable or unnecessary?**

24 A. No. She claims only that the Company was not allocating Service Company costs to
25 unregulated affiliates. This claim forms the basis for her recommended \$6,703

1 adjustment in her fall back position. Other than that, Ms Dismukes did not challenge
2 any specific costs as unreasonable or unnecessary, nor did she propose any specific
3 adjustments.

4 **Q. If Ms. Dismukes is not challenging specific allocated costs as unreasonable or**
5 **unnecessary, then what is Ms. Dismukes recommending?**

6 A. Instead of recommending an adjustment based on a challenge to specific allocated
7 costs, she proposes what I call a "blanket" cost adjustment" of \$970,802 for the salaries,
8 benefits, and management fees that are being allocated by the Service Company to
9 AUF.

10 **Q. Is the blanket adjustment she is recommending based on any showing that a**
11 **specific charge is unreasonable?**

12 A. No. Instead of basing the recommended adjustment on a specific allocated charge, she
13 argues for a blanket reduction to lower AUF's test year expenses to a cost level that she
14 claims is "consistent" with some other water and wastewater systems.

15 **Q. Is it appropriate to use Ms. Dismukes' comparative analysis to address whether**
16 **reduce AUF's test year expenses in this rate case?**

17 A. Absolutely not. It would be irresponsible and unlawful to reduce test year expenses
18 bases on the weak analysis put forth by Ms. Dismukes. Setting rates based on the
19 purported cost structures of other business entities, while ignoring the actual costs of
20 the utility, violates fundamental principles of cost-of-service regulation and could easily
21 result in confiscatory rates. Essentially what Ms. Dismukes is proposing is for the
22 Commission to set AUF's rates based on her bald assertion of what the costs are for a
23 group of other utilities that are not related to AUF. There is no showing that the cost
24 structures or the operational characteristics of Ms. Dismukes' "peer group" are the
25 same as AUF's nor can there be. The fact is that different utility companies have

1 different costs, and those cost differences are typically attributable to their geographic
2 location, the geographic scope of their service territories, fuel costs, usage patterns,
3 types of customers, water quality and a whole slew of other variables. Moreover,
4 each utility unique costs are directly impacted by the relative age of the given system,
5 the level of ongoing maintenance,, number of customers, treatment type, corporate
6 structure, capital structure, debt cost, etc.

7 **Q. In addition to the foregoing, do you have other specific concerns regarding how**
8 **Ms. Dismukes' performed her comparative review?**

9 A. Yes. First and foremost, there is no realistic way to verify in this proceeding that the
10 comparison group used by Ms. Dismukes in her testimony is an accurate and
11 appropriate test group for purposes of setting AUF's rates. Second, it is immediately
12 apparent that the operations of the companies on the list are very different from the
13 operations of AUF and its relationship with Aqua America, Inc. For example, only
14 five companies in her compare group have the benefit of a service company. Based
15 on their 2007 annual reports obtained from the Commission website, North Sumter
16 Utility Company receives management fees from its parent Villages of Lake Sumter.
17 However, this company has no employees and is operated by contractors. It is
18 unclear to me how the company is operating. In addition, it appears that the
19 management fees of the Utilities Inc. companies are not listed on the "Contractual
20 Services-Mgt Fees" lines of their annual reports and those charges are not being
21 included on Schedule 17 of Ms. Dismukes' supporting schedules.

22 **Q. Have you identified anything else that would skew Ms. Dismukes' comparison?**

23 A. Yes. On Ms. Dismukes' Schedule 12, as referenced on page 74, Ferncrest Utilities
24 expenses were not included on any schedule and listed as unavailable, yet the 2007
25 annual report was on the FPSC's website. Including them would reduce the

1 difference between AUF and comparison group. In addition, Ms. Dismukes does not
2 pull the ERC amounts from a consistent location on the annual reports for the
3 comparison group which calls her comparison into question. Another significant
4 problem is Schedule 13, which compares a total of all the comparison group to AUF
5 on a line by line O&M expense listing. In that schedule, Ms. Dismukes takes the total
6 O&M expense from all companies and divides by the total ERCs for all companies,
7 yet not all of the companies have all the same expense types. If one is going to do a
8 line by line analysis of expenses, ERCs should also be excluded for the utilities where
9 no expense was recorded on that line. This has the effect of understating the expenses
10 of the comparison group. I would also point out that by updating and correcting just
11 some of Ms. Dismukes' mistakes, different results occur. I do not find this credible
12 evidence to support her global adjustment. For example, if I changed the ERCs, add
13 Ferncrest Utilities Inc, and remove North Sumter Utilities Co. the water revenue total
14 for water per ERC of the Comparison Group increases by 21% and the water O&M
15 per ERC of the Comparison Group increases by 26%.

16 **Q. On page 77, Ms. Dismukes claims that when comparing AUF to the individual**
17 **companies, AUF's costs are significantly higher than the other companies. Do**
18 **you agree?**

19 A. No. It's clear that Ms. Dismukes is determined to argue that AUF's costs are higher
20 than the sampling of companies she includes in her review. However, by correcting
21 the ERC amounts, Ms. Dismukes' review fails to persuade. She states for example
22 that Salaries and Wages – Employees of Lake Utility Services, Inc. are 56.82 per
23 ERC compared to Salaries and Wages – Employees of Aqua which are 63.33 per
24 ERC. When the ERC's are corrected, Salaries and Wages – Employees of Lake
25 Utility, changes Lake Utility to 69.23 per ERC, which is 9.3% higher than Aqua.

1 **Q. Ms. Dismukes is recommending an adjustment to affiliated transactions based**
2 **on a ratio of expense to revenues. Do you agree with this methodology, and if**
3 **not, why not?**

4 A. No. As stated on page 61 of her testimony, Ms. Dismukes does not take issue with
5 the allocation methodology. However, while she finds no fault with the
6 methodology, she proposed a different approach in order to calculate an adjustment.
7 Ms. Dismukes analyzed the level of operation and maintenance expense (O&M) to
8 revenues. This approach is seriously flawed, due to the fact that the systems owned
9 by AUF have not received rate increase for approximately 12 years. Since these
10 systems have not been receiving compensatory rates or revenues, an analysis of
11 today's costs compared to revenues established 12 years ago is not logical. There is
12 another important fact that has been overlooked by the OPC. As stated in the prefiled
13 direct testimony of David Smeltzer, the majority, (44 systems or 54%) of these
14 systems have not been under stand alone rates since 1993. Under the current rate
15 structure, the majority of these systems are not paying their true cost of service.

16 **Q. Could you explain?**

17 A. Yes. I have prepared a schedule that outlines the current rate structure as a
18 percentage of the stand alone rates. The data in the attached Exhibit SS-14 was taken
19 straight from Attachment F of Order No. PSC-96-1320-FOF-WS. This schedule
20 shows that 26 water systems and 12 wastewater systems are being charged below
21 their true cost of service. This is reflected by the percentage of the stand alone rates.
22 Thus, these 38 systems, or 46% of the systems were being subsidized by other
23 systems throughout Florida. When Florida Water Services sold the larger systems to
24 the Florida Governmental Utility Authority, these subsidies ceased to exist. Thus,
25 once the subsidizing systems were no longer regulated, the remaining systems were

1 immediately losing money. Not only have these systems not received rate increases
2 for 12 years, but they also have lost a significant portion of subsidies that made up
3 their approved revenue requirements from the Commission's last rate case. I have
4 attached Exhibit SS-15 which indicates this same type of comparison after the appeal
5 from the courts. I believe that making a comparison of the large percentage increase
6 requested, or a comparison of the O&M to revenues is not appropriate.

7 Q. Has AUF performed a comparative analysis that reviews the service company costs of
8 other utility companies.

9 A. Yes, but I would caution that this analysis may not be an apples to apples comparison
10 for the reason I have previously mentioned above. Although I continue to believe
11 that a comparative analysis should not be the basis for setting rates in a rate case,
12 AUF has performed comparative cost reviews to test its efficiency and cost
13 competitiveness with other large utility companies. A copy of that analysis is attached
14 as Exhibit SS-18.. As you can see it shows that a number of other utilities, several of
15 which have Florida operations, have service company charges that are much greater
16 than Aqua's service company charge of approximately \$25 per customer.. As
17 shown on Exhibit SS-18.

18 **Q. Please summarize your recommendations with respect to Ms. Dismukes'**
19 **proposed blanket adjustment?**

20 A. Her proposed blanket adjustment is fundamentally flawed and cannot legitimately
21 serve as a basis to establish AUF's rates.. Her shallow comparative analysis should be
22 rejected.

23 *Aqua Connects Customer meetings*

24 **Q. Ms. Dismukes recommends that the Commission disallow the costs of the Aqua**
25 **Connects customer meetings. Do you agree with this recommendation?**

1 A. No. These town hall meetings will continue on an annual basis; therefore, they are
2 not “non recurring” in nature. AUF has currently budgeted an amount of \$80,000 for
3 the upcoming year 2009. As further discussed in John M. Lihvarcik’s rebuttal
4 testimony, these meetings provide educational benefits to the residents in Florida on
5 water usage, water conservation, how to read meters, who to contact in case of
6 emergencies, and who to contact with billing questions. They also provide a forum
7 for complaint resolution with live billing employees.

8 **Fuel Expense**

9 **Q. On page 125, Ms. Dismukes recommends that adjustments be made to several**
10 **systems to amortize fuel purchases for generators. Do you agree with these**
11 **adjustments?**

12 A. No. Ms. Dismukes overlooks several important facts. First, the variance occurred for
13 the purchase of fuel due to the fact that these generators did not exist previously. As
14 indicated by Ms. Dismukes, AUF responded to discovery indicating that these
15 purchases were part of its hurricane preparedness program. As part of this program,
16 fuel also had to be purchased. What Ms. Dismukes fails to reveal is that in order to
17 test these generators, they must be started up and run. These tests are typically
18 performed as part of the inspections by the Department of Environmental Protection
19 and Department of Health. Also, these generators are used during emergency
20 situations, in the event of power failure.

21 **Q. Are there any Department of Environmental Protection rules in Florida that**
22 **address generators?**

23 A. Yes. Mr. John Lihvarcik provides an overview of the requirements for ongoing
24 testing of these generators in his rebuttal testimony. I believe Ms. Dismukes was

1 referring to the Commission's past practice of amortizing hurricane damage and
2 repairs over a four year period, which does not apply here.

3 **Q. In his workpapers, Mr. Stallcup is recommending an adjustment to expenses**
4 **related to his calculated repression adjustment. Do you agree?**

5 A. I do not agree that adjustments should be made to fuel for purchased power. As
6 stated above, this fuel is purchased for auxiliary generators. These generators are
7 used during emergency situations, in the event of power failure. Further, as required
8 by rule, these generators must be tested monthly. This has nothing to do with
9 consumption on the part of residential customers. Mr. Stallcup does not address this
10 specifically in his direct testimony, but these adjustments are reflected in his support
11 workpapers. This in no way is dependant on consumption, and I believe any
12 reduction will unnecessarily penalize AUF for complying with this rule. My
13 understanding is that this is inconsistent with past Commission practice. (see Order
14 Nos. PSC-06-1027-PAA-WU, and PSC-05-0624-PAA-WS no adjustment was made
15 to fuel for power purchased, even though there were fuel for power purchased
16 expenses recorded in test years).

17 *Severn Trent*

18 **Q. Ms. Dismukes recommends that the incurred expenses paid to Severn Trent be**
19 **removed as being duplicative. Do you agree with this statement?**

20 A. No. Theses expenses should not be removed because there is important information
21 on the old system that should be maintained.

22 **Q. Are there any rules which would prohibit discontinuing the services of Severn**
23 **Trent?**

24 A. Yes. It is my understanding that this is a requirement under Florida regulations.
25 Severn Trent provided the services for the previous billing system. This system was

1 in place until October, 2006. Pursuant to Rule 25-30.335(7), F.A.C., “The utility
2 shall maintain a record of each customer’s account for the most current 2 years so as
3 to permit reproduction of the customer’s bills during the time that the utility provided
4 service to that customer.” AUF is required to maintain records of customer accounts
5 for the past 24 months. Thus it is necessary to continue to incur this expense to
6 remain in compliance with Commission rules, at least through the end of 2008.
7 Although AUF does not believe this is a duplicative expense, if the Commission
8 believes an adjustment should be made, it should be to amortize this amount over 5
9 years as a non recurring expense and not to remove the entire amount.

10 **Directors and Officers Liability Insurance**

11 **Q. On pages 114 to 116, Ms. Dismukes recommends that the Commission disallow**
12 **the allocated portion of Directors and Officers Liability Insurance. Do you**
13 **agree?**

14 A. No. Ms. Dismukes’ conclusions regarding this business insurance expense are
15 misguided. She states that this required insurance is for the sole benefit of the
16 directors and officers. This simply is not true. The justification for having D&O
17 insurance is the same for companies carrying other types of insurance, such as general
18 liability, auto liability, property, etc. It is a well-recognized, prudent risk
19 management practice to purchase insurance to cover potential liabilities arising from
20 the operation of the business.

21 **Q. Could you explain the purpose of this expense?**

22 A. The Directors & Officers Liability Insurance (“D&O Policy”) covers not only the
23 directors and officers of Aqua America but also all of its subsidiaries, including AUF.
24 Specifically, the D&O Policy covers any Loss for which AUF grants indemnification
25 to the directors and officers as permitted by law and any Loss for which the directors

1 are not indemnified by AUF. Providing D&O insurance is standard among all public
2 companies and most private companies with independent board members and non
3 equity owning officers. This insurance coverage provides a fund from which to pay
4 claims covered under the Policy, rather than having claims paid out of the general
5 assets of the company. Thus if this insurance was not in place, there would be a
6 potential of loss of utility assets.

7 Not having insurance coverage, whether it is general liability, auto liability,
8 property or D&O insurance, could mean that a company would have to pay a liability
9 claim from its own resources, which depending on the size and nature of the claim,
10 could result in the financial impairment of the company and its inability to continue
11 its business. This could potentially come at the ultimate harm of the ratepayers.

12 **Q. Could you elaborate further?**

13 A. Yes. The D&O Policy covers claims against the directors and officers arising from
14 any covered wrongful act. Wrongful acts under the Policy means any error,
15 misstatement, misleading statement, act, omission, neglect or breach of duty by the
16 directors and officers in their insured capacity or in any manner claimed against them
17 solely by reason of their serving as a director or officer. Thus, the Policy provides
18 coverage for claims that may be made by various persons or entities, not just
19 shareholders, relating to the acts of the Company's directors and officers, or arising
20 from their service as a director or officer of the Company. It is not uncommon for
21 lawsuits that are brought against a company to also include claims against the
22 directors and officers of the company. If there was no protection for individuals who
23 serve as directors and officers of a company from such claims, it would be difficult or
24 impossible to get qualified people to serve in that capacity.

1 Deferred Maintenance Adjustments

2 **Q. On pages 116 – 119 of her testimony, Ms. Dismukes recommends several**
3 **adjustments related to deferred maintenance projects. Could you address these**
4 **recommendations, which are summarized in Schedule 24 of her testimony?**

5 A. Yes. First, deferral of maintenance projects are normally amortized to match the
6 expenses of projects over the period of the benefits. For example, permit renewals
7 are amortized over the life of the permit, or tank inspections that are required by DEP
8 rule every five years are amortized over five years. On Schedule 24 in Exhibit KHD-
9 1, Ms. Dismukes identifies deferral of expense related to tank inspections for 48
10 Estates Water; Grand Terrace Water; Jasmine Lakes Water; King Cove Water;
11 Ravenswood Water; and Rosalie Oaks Water. However, although these particular
12 inspection costs may be fully amortized in 2008 for these specific systems, there are
13 numerous other tank inspections that are required at other systems throughout the
14 state. Attached as Exhibit SS-19, is a listing of the systems and specific tanks that
15 either have been or will be inspected during 2008. AUF did not make specific pro
16 forma expense adjustments for these required inspections. The reason is simple,
17 some expenses may be fully amortized in any particular year, but they will be
18 replaced by like expenses that will also be amortized. These may or may not occur in
19 the same system, but overall there will be like expenses incurred for AUF in
20 subsequent years. In addition, the same amount of tank inspections as the attached
21 schedule will occur during 2009.

22 **Q. Ms. Dismukes claims that AUF has overstated test year expenses because did not**
23 **begin amortization of maintenance projects the month after the expense was**
24 **incurred. Could you elaborate on this?**

1 A. Yes. On Schedule 24 in Exhibit KHD-1, Ms. Dismukes identifies deferral of expense
2 related to permit renewals for Rosalie Oaks Wastewater and Summit Chase
3 Wastewater. The practice is to amortize these costs over the life of the permit, based
4 on the issuance date. Although these expenses may have been incurred several
5 months prior to issuance, they are not amortized until the permit is actually issued.
6 The initial costs may include upfront costs, however, during the review of the permit
7 application from DEP, there may be additional requests for information (RAI) which
8 may require additional costs. It is not until the final issuance of the permit by DEP
9 that the full cost of the permit is not realized and thus can begin amortization.
10 Additionally, it is not until the permit is issued by DEP that the correct amortization
11 period can be determined.

12 **Q. On Schedule 24, Ms. Dismukes recommends that the costs of O&M manuals be**
13 **removed since they will be fully amortized in 2008. Do you agree?**

14 A. No. Her suggestion of excluding multiple period expenses does not make practical
15 sense. On Schedule 24 in Exhibit KHD-1, Ms. Dismukes identifies the amortized
16 costs for operations manuals be removed for Jungle Den Wastewater, Rosalie Oaks
17 Wastewater, and Summit Chase Wastewater, due to the fact these will be fully
18 amortized in 2008. However, these operational manuals must be reviewed and
19 updated on an annual basis. These manuals are required by DEP, must be maintained
20 at the field plants, and be kept current. For the year 2009, AUF has budgeted \$1,000
21 in costs for the addition of revised manuals. Further, Kings Cove will be required to
22 purchase a new manual at an approximate cost of \$5,000. Although the costs of these
23 specific O&M manuals may be fully amortized in 2008, there will continually be
24 manual updates and purchases each year at various systems that will replace any
25 previously amortized amounts.

1 **Q. On page 118, Ms. Dismukes also recommends that the amortization period for**
2 **several of the items on Schedule 24 be changed from three years to five. Do you**
3 **agree?**

4 A. No. I do not. Ms. Dismukes indicates that no justification was given. However, this
5 is incorrect. AUF fully described its amortization of various deferrals. Further, later
6 in her testimony, on pages 128 through 131, Ms. Dismukes also recommends several
7 adjustments to normalize expenses over a 3 year period. This was a three year period
8 that she is recommending. Therefore, I believe that the amortization period of the
9 items identified n Schedule 24 should not be changed to five years. Ms. Dismukes'
10 testimony does not appear to be consistent in this regard.

11 Further, as testified by Staff Witness Charleston Winston on page 7 of his
12 testimony, AUF has justified a shorter amortization period. Mr. Winston refers to his
13 Audit Finding No. 6, where he addresses the amortization of deferred debits.

14 **Adjustment for Additional Customers in 2007**

15 **Q. On page 119, Ms. Dismukes recommends a fall back adjustment to reduce O&M**
16 **expenses by allocating such expenses to new customers added in 2007 by**
17 **acquisitions. Do you agree?**

18 A. No. AUF utilized a 2007 historic test year which does not include the referenced
19 customers, since these acquisitions had not received approval during the test year.

20 **Q. If the Commission agrees with Ms. Dismukes, what else should be considered?**

21 A. One would have to consider those systems' expenses, revenues, rate base,
22 depreciation, and rate of return.

23 **Q. When should the Commission consider these customers?**

24 A. I believe these newly acquired systems, the customers, and their expenses should be
25 considered in the next rate case. At that time, the "full picture" can be taken into

1 consideration, and not just one small portion. Also, it is inappropriate to modify the
2 historical test year by attempting to bring in other systems that have not been
3 approved for transfer. The rate bases for the majority of these acquisitions have not
4 been addressed. Only one of these transfers has formally been approved by the
5 Commission during 2008.

6 **Testing**

7 **Q. On page 127, Ms. Dismukes recommends adjustments to certain systems for**
8 **testing to normalize the amounts. Do you agree with the nature of her**
9 **adjustments?**

10 A. No. First, I do not know what she is adjusting – water or wastewater. Second, the
11 testing requirements of each individual system change based upon the standard test
12 results for each system. Her methodology does not allow the Company to recover
13 required expenses for compliance with DEP regulations.

14 **Q. Can you please provide an example?**

15 A. Yes. In relation to the adjustment concerning Jasmine Lakes water, as addressed by
16 DEP witness Jeff Greenwell, this system was cited for exceeding TTHM. Mr.
17 Greenwell, testifying on behalf of staff, indicates that increased flushing activities has
18 resulted in AUF coming into compliance with these requirements. Further, Mr.
19 Greenwell indicates that quarterly sampling was necessary. It would not make sense
20 to now reduce expenses of AUF for efforts to come into compliance with DEP
21 standards. To do so would penalize AUF for its efforts to address regulatory
22 compliance.

23 Another example would be for Jasmine Lakes wastewater. In that system,
24 there was an additional sampling of the WWTP effluent for primary and secondary
25 standards, as well as for sodium and chloride. Also, the permit issued in 2006

1 required primary and secondary sampling of the effluent on an annual basis. Although
2 this was a new cost starting in 2007, it will be required on an annual basis.

3 For Ponom Park and Zephyr Shores, new wells were placed in service and
4 AUF was required to test for these new wells. For Zephyr Shores, although Ms.
5 Dismukes recommends an adjustment, , a new well was added in April 2008 and
6 AUF actually experienced an increase in testing expenses in 2007 and 2008, due to
7 the required testing of this new well.

8 For Fern Terrace, there were outages due to electrical storms. Additional
9 testing was required due to these outages caused by the storms. Again, thunderstorms
10 are a normal occurrence throughout the year in Florida. In Fern Terrace, there was a
11 well sampling event pursuant to a DEP order. This is a 20 day sampling event, if
12 there are no failures.

13 As one can see, the testing requirements of each individual system change
14 based upon the standard test results for each system. Ms. Dismukes' methodology
15 does not allow recovery for the Company of required expenses for compliance with
16 DEP regulations.

17 **Flushing Adjustments**

18 **Q. On page 127, Ms. Dismukes also recommends adjustments related to what is**
19 **believed to be “excessive” flushing. Can you agree with these adjustments?**

20 A. No. Ms. Dismukes is not allowing an expense related to flushing. It would not make
21 sense to now reduce expenses of AUF for efforts to come into compliance with DEP
22 standards. With respect to Tomoka / Twin Rivers, as addressed by DEP witness
23 Patricia Carrico (pg 1 - 2), this system was cited for exceeding TTHM. Ms. Carrico,
24 testifying on behalf of staff, indicates that increased flushing activities has resulted in
25 AUF coming into compliance with these requirements. As I previously stated, Ms.

1 Dismukes' recommended adjustment would penalize AUF for its efforts to address
2 regulatory compliance.

3 **Bad Debt Expense**

4 **Q. What is Ms. Dismukes' recommended adjustment for bad debt expense?**

5 A. It is \$106,049.

6 **Q. Do you agree with how she reaches this recommended adjustment?**

7 A. No.

8 **Q. Can you please explain why you disagree?**

9 A. Yes. Ms. Dismukes recognizes on page 122 that for ratemaking purposes, the
10 Commission takes a four year average to test the reasonableness of the Company's
11 bad debt expense. She seems to allege that because AUF does not have four years of
12 data, typical Commission practice is not applicable to AUF.

13 **Q. Do you agree with her assertion that because the full four years of data is not
14 available, the Commission should stray from prior practice?**

15 A. No. First of all, AUF has applicable data for Florida Water and Aqua Source. If you
16 take the 3 year average, bad debt is 1.8 percent as a percentage of revenue. If one
17 takes the four year average, it is actually 2.6 percent bad debt as a percentage of
18 revenue. Ms. Dismukes indicates on page 123 that the bad debt expense in 2007 was
19 1.5 percent. Contrary to Ms. Dismukes' assertion, I believe there is more than
20 sufficient data to support AUF's bad debt expense in its MFRs.

21 **Q. Do you agree with her statement on page 122 that AUF has experienced
22 significant billing problems which render the historic data unreliable?**

23 A. No. She has provided no support for the allegations regarding the quality of the
24 billing data for 2004, 2005 and 2006. By making this general statement regarding

1 billing data from 2004, 2005 and 2006, she next assumes that the Commission should
2 not use an average to test the reasonableness of AUF's bad debt in the test year.

3 **Q. Instead of using Commission standard practice, what does Ms. Dismukes' do?**

4 A. She falls back on a comparative analysis of other Class A water utilities in Florida.

5 **Q. Do you agree that this is an appropriate comparison for testing the
6 reasonableness of a utility's bad debt expense?**

7 A. No.

8 **Q. Please elaborate on why it is not appropriate.**

9 A. AUF has an established business practice in place for how we terminate and shut off
10 customers for non payment and turn those accounts over to collection agencies. AUF
11 also has an accounting policy as to how we record and recognize bad debt expense
12 based upon write offs and aging of open accounts receivable. For example, AUF's
13 bad debt expense is the sum off all accounts written off in a year plus the change in
14 the open accounts receivable greater than 90 days multiplied by 70 percent.

15 **Q. Why is Ms. Dismukes' comparison fundamentally flawed?**

16 A. Instead of utilizing AUF's actual bad debt and experience, she again falls back to a
17 comparison of other utilities. This comparison supports her ultimate goal of making a
18 larger adjustment, but ironically, is contradicted by the facts. I don't believe there is
19 sufficient evidence in her testimony to support her adjustment.

20 **Q. Can you elaborate on why Ms. Dismukes' comparison should be disregarded?**

21 A. Mrs. Dismukes has not provided any analysis on the policies and business practices
22 for these Class A water companies. For example, when do they issue shut off
23 notices? When do they write off their bad debt? Also, she fails to consider the credit
24 worthiness of AUF's customers compared to other systems.

1 **Q. On page 120, Ms. Dismukes states that AUF's bad debt expense is unusually**
2 **high during the test year. Can you comment on her unfounded assumption?**

3 A. Ms. Dismukes seems to be relying on general statements made in the 2007 Aqua
4 America Annual Report. This statement says that "During certain periods in 2007,
5 we temporarily discontinued collection efforts in some of our divisions in connection
6 with the installation of a new billing system which resulted in increased amounts
7 written off and higher bad debt expense" Ms. Dismukes claimed that this change
8 would lead to higher bad debt expense and should not be included in expenses to set
9 rates.

10 **Q. Do you agree with her assumption that AUF's bad debt is high?**

11 A. No. Ms. Dismukes has incorrectly interpreted the statement in Aqua America's
12 annual report. The Annual Report comment referred to Aqua activities in states other
13 than Florida where conversions took place during 2007.

14 **Q. Why does this matter?**

15 A. The Florida conversion took place in November 2006. Collection activities in Florida
16 were suspended for approximately three months around the time of AUF's system
17 conversion which I believe was appropriate and prudent to do. Collection activities
18 slowed in the month prior to conversion (October 2006) and for two months
19 afterwards (November and December 2006). However, other states were on different
20 timelines and were suspended for longer periods of time. These longer suspended
21 collection activities were not experienced in Florida during the 2006 conversions. By
22 January 2007, Florida collections processes were back in place and customer late
23 notices and service terminations had resumed. See the following table for service
24 termination counts by month that demonstrates this point.

25

	<u>Year</u>	<u>Month</u>	<u>Service Terminations for Collections</u>	<u>Comment</u>
1	2006	October	Low or zero (old billing system)	Billing system conversion
2		November	0 (new billing system)	Billing system conversion
3		December	1	Billing system conversion
4	2007	January	106	Begin normal collection activity
5		February	123	
6		March	121	
7		April	321	
8		May	298	
9		June	641	
10		July	241	
11		August	260	
12		September	467	
13		October	92	Interim rate refund period
14		November	103	Interim rate refund period
15		December	35	Interim rate refund period
16	2008	January	238	
17		February	137	
18		March	468	
19		April	156	
20		May	256	
21		June	160	
22		July	337	
23		August	380	
24		September	310	
25		October	456	
26				
27				

28 **Q. What number for bad debt expense should the Commission utilize in this rate**
29 **case?**

30 A. AUF's bad debt as set forth in its MFRs is appropriate and reasonable. Our current
31 delinquency processes, final billing, and collection agency assignment of uncollected
32 accounts has been consistently applied since December 2006 to date. The statement
33 made in the Annual Report was geared to other states. Also, as demonstrated by the
34 above chart, AUF's bad debt expense realized during these periods are actual,
35 unaffected by the system conversion and are representative of the reasonably
36 expected bad debt expense in the future. I have attached Exhibit SS-20 to my
37 testimony that shows the details the bad debt expense amounts for these periods.

38 **Q. On page 109, Ms. Dismukes recommends an adjustment for advertising**
39 **expenses? Do you agree with \$1,050 adjustment?**

1 A. No. I will allow legal counsel to distinguish the cite that Ms. Dismukes' references in
2 her testimony in AUF's brief, but I can say that the amount is no where near the
3 advertising costs of \$848,000 asked for in the cited case. In addition, I believe that
4 Ms. Dismukes' misconstrues the purpose of the message. While I believe that
5 advertisement references AUF as an investor owned company, I think it is important
6 for AUF to distinguish itself from prior owners and educate AUF consumers of the
7 capital it is investing in the state. This is an important part of AUF's long term
8 success and within the range of a reasonable expenses considering its limited dollar
9 amount. This advertisement also references the importance protecting water as a
10 resource.

11 **Q. On page 109 to 11, Ms. Dismukes' makes an adjustment for lobbying services.**
12 **Do you agree with this adjustment?**

13 A. No. First, I will allow my counsel to address the case that Ms. Dismukes' cites in
14 AUF's brief. Second, I believe that the charges incurred are appropriate and are not
15 typical of lobbying expenses. The services described in Interrogatory 217 are
16 services that AUF contracted out as a need to effectively manage the Company. As it
17 states, Mr. Lane recommended outlets for AUF to place required regulation notices
18 and handled media situations. These are normal business operations. He further
19 helped facilitate the purchase of water and wastewater systems and would also
20 facilitate meetings if a community developer or builder required water or wastewater
21 utility service. I believe that acquiring water and wastewater facilities is beneficial for
22 AUF ratepayers and therefore, this expense is reasonable.

23 **Q. Could you elaborate on the lift station maintenance and cleaning adjustment**
24 **addressed by Ms. Dismukes on pg. 131?**

1 A. Yes. I do not agree that this expense should be amortized. The inspection,
 2 maintenance, and cleaning of lift stations occurs on an annual basis. As indicated
 3 previously, these type expenses may occur in a specific system in any particular year,
 4 and the following year they may occur in another system. These may or may not
 5 occur in the same system, but overall there will be like expenses incurred for AUF in
 6 subsequent years. The inspection maintenance, and cleaning of lift stations are
 7 budgeted annually by AUF at various systems.

8 **O&M Expense Adjustments to Which AUF Agrees**

9 **Q. Are there any adjustments to O&M that Ms. Dismukes is recommending that**
 10 **you agree to?**

11 A. Yes. I agree with the following recommended adjustments:

- 12 1. Fines and penalties - pgs. 113 – 114; However the appropriate amount is
 13 \$61,736 for water and \$23,127 for wastewater as indicated in Audit
 14 Finding No. 13 and as testified to by staff Witness Intasar Terkawi.
- 15 2. Relocation expense amortization - \$14,228 – pg. 114
- 16 3. Amortization of fuel due to tank repair for Ravenswood - \$355 – pgs. 130
- 17 4. Reclassification of legal expense from Village Water - \$25,712 – pg. 131
- 18 5. A five year amortization of the Jasmine Lakes legal expense - \$5,142 – pg.
 19 131

20 **Other Pro Forma Expense Adjustments:**

21 **Q. On page 107 of her testimony, Ms. Dismukes identifies four pro forma**
 22 **adjustments that she proposes, due to inadequate support. These adjustments**
 23 **relate to : 1) property taxes for net additions; 2) service company headcount; 3)**
 24 **service company benefits; and 4) Aqua Customer Operations employee benefits.**
 25 **Do you agree?**

1 A. First, I want to be clear that AUF did provide support for these adjustments. All of
2 the supporting workpapers for all of the normalization and pro forma adjustments
3 were supplied to the OPC. I have attached Exhibit SS-21, which outlines these pro
4 forma adjustments and the supporting workpapers. This exhibit outlines the
5 workpaper that was provided to OPC, as well as when and how they were provided.
6 In addition, all adjustments were provided in the Florida O&M expense excel
7 spreadsheet provided in response to Production of Document No. 2. As previously
8 stated, AUF answered 1,561 interrogatories and provided 625 production of document
9 requests.

10 **Q. Please address the pro forma adjustment related to property taxes.**

11 A. Ms. Dismukes is not challenging the reasonableness of this adjustment. She indicates
12 that OPC requested the electronic worksheets for these adjustments and could not
13 locate the responses. The support for this adjustment was provided in electronic
14 format in response to Request for Production of Document Nos. 2, 3, and 4.

15 **Q. Could you explain this adjustment?**

16 A. Yes. Property taxes for each current year is based on the previous years net
17 depreciated value. For example the property taxes paid in the test year 2007 were
18 based on the net depreciated utility plant as of end of year 2006. During the test year
19 2007, AUF made significant investment in capital items. These are reflected on the
20 books, which have been audited by the Commission's auditors. Thus, to recognize
21 that AUF would be responsible for the property taxes paid to the counties for these
22 net investments made during the test year, AUF made a pro forma adjustment to
23 property taxes. These pro forma adjustments were based on the counties millage rates
24 applied to the net plant investment of 2007. These are not related to the pro forma
25 property taxes for the pro forma plant. Further, in response to OPC Interrogatory No.

1 122, AUF stated, “the pro forma property tax was calculated using the property taxes
2 paid in 2007 as the base amount. Then the net additions to Plant less Accumulated
3 Depreciation in 2007 were multiplied by the current millage rate resulting in the pro
4 forma property taxes on Line 12 of Sch.B-15. All pro forma additions to plant less
5 accumulated depreciation projected in the rate base portion of the MFR were included
6 when projecting the adjusted pro forma property taxes on Line 13 of Sch.B-15.”

7 **Q. On page 107, Ms. Dismukes asserts that the Company did not provide support**
8 **for the pro forma adjustment to recognize the addition of the 2008 headcount.**
9 **Do you agree?**

10 A. No. This was provided in response to OPC Production of Document Request No. 3.
11 Ms. Dismukes is not challenging the reasonableness of this expense. This adjustment
12 for \$4,996 is to recognize the addition of a new Corporate Accounting Manager that
13 was hired at the service company. This adjustment recognizes the allocation based on
14 the same proportion of actual service company allocations from the test year 2007.
15 This was then applied to this position’s salary and benefits.

16 **Q. On page 107, Ms. Dismukes asserts that the Company did not provide support**
17 **for the pro forma adjustment of the 2008 benefits due to an increase in insurance**
18 **for the service company. Do you agree?**

19 A. No. This file was also produced as part of AUF’s response to OPC Production of
20 Documents No. 3. Ms. Dismukes is not challenging the reasonableness of this
21 expense. This adjustment recognizes that there was an increase in the medical and
22 dental costs per headcount for the service company from June 2007 to January 2008.
23 This adjustment compares the increase in medical and dental benefits of the service
24 company in January, 2008 and compares them to the same costs in June 2007. To
25 normalize this increase impact, it is then based on a cost per head comparison. This

1 percentage increase is then applied to the allocated costs of AUF to calculate this pro
2 forma adjustment.

3 **Q. Similarly, Ms. Dismukes recommends disallowance of the 2008 benefits due to**
4 **the increase in insurance expense for Aqua Customer Operations because the**
5 **Company did not provide support. Do you agree?**

6 A. No. This information was also produced as part of AUF's response to OPC
7 Production of Documents No. 3. Similar to the adjustment for the service company,
8 this adjustment recognizes that there was an increase in the medical and dental costs
9 per headcount for Aqua Customer Operations from June 2007 to January 2008. This
10 adjustment compares the increase in medical and dental benefits of Aqua Customer
11 Operations in January, 2008 and compares them to the same costs in June 2007. To
12 normalize this increase impact, it is then based on a cost per head comparison. This
13 percentage increase is then applied to the allocated costs of AUF to calculate this pro
14 forma adjustment.

15 Further, I have attached schedules that provide the calculation of the property
16 tax, and benefits for both the ACO and Service company to my testimony as Exhibit
17 SS-22. The headcount adjustment is contained in the support documentation
18 previously provided to OPC, and merely represents the allocation of the additional
19 Corporate Accounting Manager.

20 **Audit Adjustments**

21 **Q. Ms. Dismukes agrees with the adjustments in the Commission's staff audit. Can**
22 **you elaborate?**

23 A. Ms. Dismukes agrees with the audit report dated September 18, 2008. However, she
24 does not offer any testimony on the utility's responses to the audit report filed on
25 October 14, 2008 and October 17, 2008. I have attached AUF's responses to the

1 Commissions audit, which I believe are self explanatory. (Exhibit SS-23) I adopt
2 AUF's responses to the expense items by incorporation of the attachment.

3 **Q. Please comment on the audit's finding of shared services expenses.**

4 A. In regard to Audit Finding No. 12 - Shareholder Services Expenses, AUF agrees with
5 the amount of shareholder services expenses included in the audit finding only if the
6 ROE leverage formula recognizes these expenses.

7 **Q. Can you elaborate?**

8 A. AUF notes that in FPSC Order No. PSC-96-1320-FOF-WS, the Commission stated
9 that the ROE leverage formula recognizes an "additional 25 bases points to the
10 otherwise determined cost of equity to provide for these [shareholder services] costs."
11 Therefore, if there is a determination in this or any other proceedings regarding ROE
12 that does not include a 25 basis point allowance for shareholder services expenses,
13 AUF believes that these expenses must be included in the final approved revenue
14 requirement.

15 **Rate Case Expense**

16 **Q. On page 332 to 134 Ms. Dismukes is recommending removal of all rate case**
17 **expense for the following four reasons: 1) rate case expense related to correcting**
18 **deficiencies; 2) "all excessive costs associated with bringing Aqua persons from**
19 **the service hearing"; 3) removal of Witness Prettyman's expenses and 4) the cost**
20 **of producing unnecessary copy of hard copies of documents that are allowable**
21 **electronically. Do you agree with these adjustments?**

22 A. No.

23 **Q. Do you agree with Ms. Dismukes wholesale disallowance of rate case expense?**

24 A. No. I have attached a detailed updated schedule for AUF's rate case expense
25 composite Exhibit SS-24, as well has the support documentation.

1 This includes all actual costs to date (\$1,382,788), as well as projected costs
2 through the conclusion of this rate case. This requested rate case expense computes
3 to an average of \$22,883 per system. I have also attached all support documentation
4 in composite Exhibit SS-24.

5 **Q. Do you agree with Ms. Dismukes removal of rate case expense related to**
6 **correcting deficiencies?**

7 A. No. I would argue that some of the alleged deficiencies are not actually MFR
8 deficiencies. The following alleged deficiencies were determined to actually not be
9 deficiencies in the MFRs or satisfaction of the requirements..

- 10 • Deficiency No.22
- 11 • Deficiency No. 23C
- 12 • Deficiency No. 27
- 13 • Deficiency No. 29
- 14 • Deficiency No. 33

15 As stated in its response dated July 21, 2008, AUF pointed out these error, and
16 stated they in fact were not deficiencies. Further, AUF incurred significant expense
17 revising maps at the request of staff. The staff did not like a particular color used on
18 the maps. Although not a deficiency, AUF acquiesced and provided the revised maps
19 using another color at the request of staff. While the Company did not formally
20 object on procedural grounds, it is unfair to penalize us in rate case expense
21 concerning these issues.

22 **Q. Ms. Dismukes is also recommending that the costs of bringing AUF employees to**
23 **the Commission service hearings should be disallowed. Do you agree?**

24 A. No. I believe that is important for employees to attend service hearings. AUF does
25 not control the number of service hearing that are required per the Florida regulations.

1 **Q. Ms. Dismukes recommends that rate case expense should be shared 50/50**
2 **between the shareholders and the ratepayers, do you agree?**

3 A. No, I do not. Based on my understanding of past Commission precedent, rate case
4 expense is not shared 50/50 between the shareholders and the ratepayers. To accept
5 Ms. Dismukes' recommendation would not only be contrary to past Commission
6 practice, but would also place AUF at an unfair advantage in the utility industry
7 compared to other regulated utilities which have been afforded recovery through
8 rates.

9 **Q. Ms. Dismukes references New Jersey precedent on rate case expense for the**
10 **50/50 share between shareholders and the ratepayers. How do utilities typically**
11 **address this?**

12 A. My understanding is that there is long standing regulatory practice in place to address
13 rate case expense. Based on this long standing practice, New Jersey utilities plan and
14 address this loss in other ways.

15 **Q. Ms. Dismukes is also recommending disallowance of the costs for consulting for**
16 **AUS to perform a billing analysis. Do you agree with her disallowance?**

17 A. No, I do not. Much like the OPC, Aqua engages consultants to perform certain
18 services. For this rate case, Mr. Prettyman was hired to perform a bill analysis per the
19 requirements of the MFRs.

20 **Q. Why did the Company hire a consultant to do perform its bill analysis?**

21 A. Aqua's internal staff that are experienced in performing a bill analysis were either
22 unavailable at the time it needed to be done, accepted other positions within the
23 Company or are no longer with the Company.

24 **Q. Can you comment on Ms. Dismukes assertion that a consultant was needed to**
25 **address billing errors?**

1 A. As I stated above, Mr. Prettyman was hired to perform the bill analysis for the AUF
2 rate case per the MFR requirements. The decision to hire him was based on the need
3 to supplement this resource for the rate case. Mr. Prettyman has addressed Ms.
4 Dismukes' allegations relating to the quality of billing data provided to him in his
5 testimony.

6 **Q. Do you agree that with her perception that the utility's billing records contain**
7 **errors?**

8 A. No. Certainly, there are adjustments that are made due to normal Company
9 operations. The billing data provided to Mr. Prettyman contained data which
10 reflected actual or trued up bills. This is automatically done in the new billing
11 system. Estimated reads in the test year would have been updated with actual data.

12 **Q. Lastly, do you agree with Ms. Dismukes' statement regarding AUF and rate**
13 **expense related to the cost of producing unnecessary copy of hard copies of**
14 **documents that are allowable electronically?**

15 A. No. Ms. Dismukes is wrong. My understanding from counsel is that this was done
16 pursuant to the rules of discovery and to reduce expense. Electronic copies of
17 documents require scanning which, when coupled with Bates label requirements,
18 becomes very labor and time intensive particularly given the voluminous discovery
19 requests made by OPC.

20 **Q. Did AUF proactively try to control the cost of rate case expense related to**
21 **discovery?**

22 A. Yes. I find the OPC's assertions disingenuous. At the outset of this case, AUF
23 attempt to reach agreement with OPC to limit discovery to a reasonable level. OPC
24 would not agree. The initial Order Establishing Procedure set discovery parameters
25 far in excess of what authorized by the Florida Rules of Civil Procedure (e.g., 750

1 interrogatories, including subparts, and 750 requests for production of documents).

2 Later, over the objections of AUF, OPC requested the Prehearing Office to expand
3 the discovery parameters previously established. Ultimately, the Prehearing Office
4 approved OPC's request to expand discovery, but warned OPC that "this is a large
5 number of interrogatories and will almost certainly increase the rate case expense."

6 **Q. How many discovery questions were propounded upon the Company?**

7 A. As stated earlier in my testimony, by AUF's conservative count, there were 1,561
8 interrogatories and provided 625 production of document requests. A significant
9 amount of rate case expense was created by OPC's insatiable appetite for layers upon
10 layers of discovery. [Did you include our break out of fees related to discovery?]

11 **Q. Can you please comment on other ways in which the OPC unnecessarily**
12 **increased rate case expense in this case?**

13 A. Yes. The OPC objected to AUF's use of the Commission's leverage formula to
14 establish return on equity.

15 **Q. Are there any past rate cases, in which Ms. Dismukes takes exception to rate**
16 **case expense for a utility that chose not to use the leverage formula?**

17 A. Yes. Specifically, in Order No. PSC-96-1320-FOF-WS, the Florida Commission
18 stated,
19
20 "OPC witness Kim Dismukes proposed to remove the estimated costs for Dr. Roger
21 Morin's consulting fees regarding cost of capital issues. Ms. Dismukes testified that
22 because this Commission establishes a leverage formula to determine cost of equity, this
23 expense or any additional costs incurred by SSU should not be allowed. She stated that
24 SSU's shareholders should bear the cost of cost of capital consulting fees if the utility
25 desires to dispute the leverage graph."
26

27
28 It is ironic, that in AUF's rate case, we are now in the situation to have to defend
29 using the leverage formula, when Ms. Dismukes previously believed a utility was
30 imprudent not to use it. By having to defend using the Commission's leverage formula,
31 the requested rate case expense has increased.

1 Interim Rate Increase Errors

2 **Q. Could you address whether there were errors made in the determination of interim**
3 **increases, specifically for the former Florida Water Services systems?**

4 A. Yes. The Commission's interim rate order contains a substantial error. The error amounts
5 to \$588,239 on an annualized basis of revenues which AUF is legally entitled to. AUF
6 requests that these amounts be included in the regulatory asset set forth in the
7 Commission's order and recovered over the two year period.

8 **Q. Can you please explain how this error occurred?**

9 A. AUF's interim increase for the former FWSC systems should have been based on the
10 aggregated revenues for these systems. (See page 10 of Order No. PSC-08-0534-FOF-
11 WS). However, the Commission erred by singling out three specific systems from this
12 aggregate group, concluding these systems were over-earning, and denied interim rate
13 relief. These systems are Silver Lake Estates / Western Shores water system, the
14 Skycrest water system, and the Palm Terrace wastewater system. Instead of considering
15 their amount of over-earnings in the aggregate with all the other FWSC systems, for
16 some reason, the systems mentioned above were singled out causing AUF to lose a
17 significant amount in interim rate relief.

18 AFPI

19 **Q. Is there anything in Ms. Patricia Merchant's testimony that you would like to**
20 **address?**

21 A. Yes. On pages 26 – 27, concerning AFPI, Ms. Merchant comments that if AUF has
22 not shown that it has added any new growth-related plant that is subject to used and
23 useful, any proposed AFPI charge should be limited to the charge that exists in the
24 current tariff. Unfortunately, Ms. Merchant fails to explain that if the Commission
25 required this approach, the utility would be precluded from its return on any prudently

1 invested plant. The used and useful adjustment limits the amount of return on plant in
2 service that is included in rates. Conversely, AFPI charges are calculated and
3 approved to recognize that the remaining non used and useful plant was prudent, and
4 the utility should be allowed to recover the carrying costs from future customers. If
5 Ms. Merchant's proposal is accepted, then there would be a shortfall that I believe the
6 utility would be entitled to recover. Ms. Merchant fails to address when or where this
7 shortfall would be recovered. I believe the Commission would be limited in then
8 increasing the used and useful percentage by this shortfall through statute. Thus, this
9 proposal fails to address the recovery of prudently invested plant.

10 **Q. Does this conclude your rebuttal testimony?**

11 A. Yes it does.

1 BY MR. MAY:

2 Q Mr. Szczygiel, have you attached any exhibits to your
3 rebuttal testimony?

4 A Yes, I have.

5 Q And those exhibits would be SS-5 through SS-24?

6 A That is correct.

7 Q Do you have any changes or revisions to those
8 exhibits?

9 A No, I do not.

10 CHAIRMAN CARTER: For the record, Commissioners --
11 excuse me, Mr. May -- on Staff's Composite Exhibit List those
12 exhibits are listed as Numbers 152 through 171.

13 MR. MAY: Thank you, Mr. Chairman.

14 CHAIRMAN CARTER: You may proceed.

15 BY MR. MAY:

16 Q Mr. Szczygiel, have you prepared a brief summary to
17 your rebuttal testimony?

18 A Yes, I have.

19 Q Could you provide that summary at this time?

20 A Yes, I will.

21 Thank you, Chairman and Commissioners. The purpose
22 of my rebuttal testimony is to address the issues raised by
23 Kimberly Dismukes who filed testimony on behalf of the Office
24 of Public Counsel, or OPC.

25 More specifically, I rebut many adjustments Ms.

1 Dismukes has recommended in her testimony which would leave the
2 company with a revenue increase vastly below what the company
3 needs to meet its allowed rate of return and expenses and to
4 operate as a viable utility. I disagree with most of her
5 adjustments, and the reasons are set forth in detail in my
6 rebuttal testimony.

7 In addition, I discuss Staff Witness Paul Stallcup's
8 repression adjustment related to fuel. I also respond to a
9 portion of the prefiled testimony of OPC Witness Patricia
10 Merchant in regards to AFPI computations.

11 That concludes my summary. Thank you.

12 **MR. MAY:** Thank you, Mr. Szczygiel.

13 We tender Mr. Szczygiel for cross-examination.

14 **CHAIRMAN CARTER:** Mr. Beck.

15 **MR. BECK:** Thank you, Mr. Chairman.

16 CROSS EXAMINATION

17 BY MR. BECK:

18 Q Good afternoon, Mr. Szczygiel.

19 A Good afternoon, Mr. Beck.

20 Q You are sponsoring the rate case expense exhibit in
21 this case, are you not?

22 A That is correct.

23 Q That's your Exhibit SS-24?

24 A Yes, sir.

25 Q I would like to start off by asking you a few

1 questions about that, if I could. And this is an exhibit
2 consisting of 451 pages?

3 A I didn't count them, but it's a big exhibit.

4 Q Let me ask you to turn to Page 3 of the big exhibit.

5 A Yes, sir.

6 Q This reflects a bill from Rutledge Ecenia Purnell and
7 Hoffman for 40,000-and-some-dollars, does it not?

8 A Yes, sir. It is I believe \$40,432.14.

9 Q And it is for an invoice dated September 12th, 2007?

10 A Yes, it is.

11 Q Okay. And could you tell me how that is part of the
12 rate case expense in this case as opposed to the last case?

13 A I would have to read this in detail to give you an
14 answer. Would you like me to spend the time reading it
15 now or --

16 Q Please. I would love to have an answer.

17 A I'm sorry, it's taking so long, but this is a long
18 invoice.

19 **MR. MAY:** Mr. Beck, I think we can cut to the chase
20 on this. I think this bill from the Rutledge Ecenia law firm
21 should not have been in this exhibit. This was a --

22 **THE WITNESS:** I would conclude that everything I have
23 seen up to this point -- I see nothing that relates to this
24 rate case.

25

1 BY MR. BECK:

2 Q Could you turn to Page 25 of your exhibit.

3 A Twenty-five of 451?

4 Q Yes.

5 A Yes, sir.

6 Q And this is another bill from the Rutledge firm.

7

8 Q And this is another bill from the Rutledge firm, Page
9 25?

10 Do you have that in front of you, Mr. Szczygiel?

11 A Yes, I do.

12 Q Okay. And this is for work related to reviewing an
13 e-mail from Troy Rendell and a draft final interim refund
14 report, do you see that?

15 A What page do you see that on, sir?

16 Q Page 25, the bill from --

17 A I'm sorry, it's Page 25?

18 Q Right. And it's for professional services provided
19 on March 12th, 2008.

20 A Yes. I see it. It's in the amount of 40,432, sir?

21 Q No.

22 A Which one --

23 Q Well, yes, at the bottom. That is the net balance
24 forward that you read.

25 A Are you referring simply to review e-mail for \$160?

1 Q Yes. Draft final interim refund report, do you see
2 that?

3 A Yes, sir.

4 Q The interim refund report would be referring to the
5 last rate case, would it not?

6 A Yes, I do believe it would.

7 Q So that would not be appropriate for a rate case
8 expense here, either, would it?

9 A I do not believe it's appropriate.

10 Q On Page 28 of the exhibit?

11 A Yes, sir, I'm there.

12 Q Do you see toward the bottom there's charges for
13 response to deficiency letters?

14 A On Page 28. You say toward the bottom.

15 Q Specifically, the March --

16 A The very last one on March 20th?

17 Q As well as March 13th.

18 A March 13th. The one in the amount of -- well, they
19 are both in the amount of \$96, sir?

20 Q Yes. And then on the next page also there is a
21 deficiency in the test year letter for March 25th.

22 A Yes, sir.

23 Q Okay. Would you agree that work responding to
24 deficiencies should not be included in rate case expense?

25 A Not at least these deficiencies, I would agree with

1 you.

2 Q Would you go to Page 33, please.

3 A Yes, sir, I'm there.

4 Q Do you see the entries for work in January of 2008
5 related to refund of interim refunds?

6 A You're referring to the three items here for 96, 96,
7 and \$160?

8 Q Yes.

9 A Yes, I do see those.

10 Q That would relate to the last rate case, would it
11 not?

12 A Give me a second. I just want to read the last
13 entry. Yes, sir, it was the last rate case.

14 Q So you would agree that shouldn't be here?

15 A I would agree with you.

16 Q Would you turn to Page 55, please.

17 A Fifty-five, sir?

18 Q 55.

19 A I'm there.

20 Q Okay. On April 18th, there's a bill for some work
21 regarding Mr. Rendell's participation in the rate case.

22 A What line item is it so I can just read it?

23 Q April 18th.

24 A April 18th. Yes, sir.

25 Q Would you agree that work related to Mr. Rendell's

1 participation in the rate case should not be charged to
2 customers in this proceeding?

3 **MR. MAY:** I think, Mr. Beck, that calls for a legal
4 conclusion, doesn't it?

5 **MR. BECK:** I'm asking him whether it should be
6 charged to customers in this proceeding, and Mr. Szczygiel is
7 the witness proposing that.

8 **THE WITNESS:** Right. I appreciate it. At this
9 time -- I mean, Mr. Rendell -- I think perhaps what this matter
10 is is just dealing with Mr. Rendell's employment with us and
11 his ability to be involved with the rate case.

12 BY MR. BECK:

13 **Q** But do you believe customers in this case should pay
14 for those expenses?

15 **A** No.

16 **Q** Could you turn to Page 59, please.

17 **A** Sure.

18 **Q** On the entry for May 29th there's a charge for draft
19 notice of substitution of counsel. Do you see that?

20 **A** Yes, sir.

21 **Q** Do you think that should be charged to customers in
22 this case?

23 **A** Yes, I do.

24 **Q** Why is that?

25 **A** Because we simply were changing counsel, and the rate

1 case proceedings had already begun. Planning had already
2 begun.

3 Q The changing of a counsel, you think that's part of
4 the normal rate case expense that should be charged to
5 customers?

6 A Well, when you say normal, I don't think -- anything
7 that's in a rate case is reacting to whatever the circumstances
8 and situation is in a rate case.

9 Q Right. But this isn't reacting to anybody external
10 to the company. It's the company.

11 A I didn't say that all the expenses were external,
12 they are just reacting to the needs of the case.

13 Q And so you believe it is proper to charge that to the
14 customers?

15 A Yes, I do.

16 Q Okay. Let's go to Page 64.

17 A I'm there.

18 Q On this page for June 5th, 2008, there's a charge
19 relating to the filing on behalf of Lake Suzy. Do you see
20 that?

21 A Yes, sir.

22 Q And that has Mr. May charging at \$420 per hour, is
23 that right?

24 A I do see that, yes.

25 Q Do you believe it's proper in a rate case to be

1 charging for a filing on behalf of Lake Suzy?

2 A If you will give me a second to read it, I'll
3 comment. Yes, I do believe that is legitimate.

4 Q And why should customers pay for that?

5 A We were bringing Lake Suzy into the case. In the
6 previous filing, Lake Suzy was not a part of the previous rate
7 case, so we were basically introducing a new element or a new
8 entity to the case. Lake Suzy has been under the rule of the
9 PCS, and there were some discussions between staff and our
10 attorney regarding it.

11 Q So you believe that charge for \$756 is proper on Page
12 64 for that?

13 A Yes, I do.

14 Q And then on the next page there is a charge on
15 June 6th, 2008 for \$1,151.50 related to the impact of Lake Suzy
16 Utilities remaining under Texas Aqua America. You believe that
17 is proper to charge customers in this case for that matter?

18 A Let me please read it. No, I don't believe this one
19 would be legitimate, sir.

20 Q Okay. Now, why is that different than the previous
21 one?

22 A Well, the other one was dealing with staff on the
23 inclusion of Lake Suzy into the case. This deals with us
24 basically trying to merge, I believe, Lake Suzy into Aqua
25 Utilities of Florida.

1 Q On the next page, which is Page 66, again, there's
2 additional charges for your joint application for June 8th, and
3 more charges on June 9th for the Lake Suzy issue. Do you see
4 those?

5 A Which one specifically?

6 Q On June 8th, there's two entries.

7 A Yes, sir.

8 Q There is one called joint application and another one
9 called Lake Suzy.

10 A Yes, I do see that.

11 Q Okay. Why should customers pay for that?

12 A I'll read it, and I'll give you a comment.

13 The corporate reorganization, I definitely would
14 agree with you, it shouldn't be in there.

15 Q And how about the entry on June 9th?

16 A Both of them, or all three of them, sir?

17 Q The first one.

18 A The first one. To be honest with you, I don't have
19 enough information to give you a conclusion on that just based
20 upon those words.

21 Q There's a second entry on June 9th for charges for
22 Mr. Miller, .6 hours at \$475 per hour.

23 A I see that.

24 Q That's related to the Lake Suzy issue, as well, is
25 that right?

1 A I do see that, and I see it's regarding the Florida
2 merger issues.

3 Q Yes.

4 A And as in previous statements, I agree that that
5 should be taken out.

6 Q On Page 75.

7 A I'm there.

8 Q On July 18th?

9 A Yes, I see it.

10 Q There is a matter of seeking an advisory opinion from
11 the Ethics Commission, and a charge on July 18th. Do you see
12 that?

13 A Yes, I do.

14 Q Do you think customers should pay for that?

15 A No, I do not.

16 Q And would the same be true for the July 25th charge
17 at the bottom of the page?

18 A I see that charge, and I agree with you.

19 Q Would you turn to Page 38, please?

20 A Sure. I'm there.

21 Q On August 6th. Well, these are almost all August
22 6th. In the middle of the page --

23 A The one, the third one down, right?

24 Q Yes.

25 A Yes.

1 Q There is a charge for \$1,159?

2 A Yes.

3 Q In states in part, numerous correspondence regarding
4 new discovery strategy, and it talks about a new discovery
5 protocol?

6 A Yes.

7 Q Could you tell us what those charges concern and what
8 the new discovery protocol is?

9 A No. I wasn't part of that conversation, so I don't
10 have direct knowledge.

11 Q If you know, did it deal with the discussion of no
12 longer providing electronic copies of files to the Office of
13 Public Counsel?

14 A I can't answer that, sir. Are we done with this?

15 Q Yes, for now.

16 A We only have 350 more pages to go.

17 **CHAIRMAN CARTER:** I think Mr. Beck is just getting
18 his second wind.

19 **THE WITNESS:** Oh, my luck.

20 BY MR. BECK:

21 Q You address in your testimony the compensation of the
22 executives of Aqua America, do you not?

23 A Yes, I have an exhibit that I attached.

24 **MR. BECK:** I'd like to have an exhibit passed out.
25 This is already in the record, I am just doing it for

1 convenience here, if I could. It's the Aqua America Executive
2 Compensation Analysis for February 2008.

3 **CHAIRMAN CARTER:** You may proceed.

4 BY MR. BECK:

5 **Q** Mr. Szczygiel, do you have the exhibit in front of
6 you?

7 **A** Yes, I do.

8 **Q** Let me ask you to turn to what is -- there's a Bates
9 stamp on the bottom, 6402.

10 **A** Yes, sir, I'm here.

11 **MR. MAY:** Mr. Beck, could you please advise the
12 witness where in his testimony this appears?

13 **MR. BECK:** Do you not have the Executive Compensation
14 Analysis for February 2008?

15 **THE WITNESS:** I only submitted four pages. I have
16 never seen this document before, sir.

17 **MR. BECK:** Could I have a moment?

18 **CHAIRMAN CARTER:** You got it.

19 **MR. BECK:** I thought it was in the record as a
20 late-filed exhibit, and perhaps I'm wrong.

21 **CHAIRMAN CARTER:** Okay.

22 **MR. MAY:** I don't disagree with you. I think it is
23 as a late-filed exhibit, but it was not attached to his
24 testimony.

25 **MR. BECK:** It's in the record, right?

1 **MR. MAY:** But I think you need to ask the witness
2 whether he knows anything about it before we go any further.

3 **MR. BECK:** I'm ready.

4 **CHAIRMAN CARTER:** You made proceed.

5 BY MR. BECK:

6 **Q** You have never seen this document, Mr. Szczygiel?

7 **A** No, I have not.

8 **Q** Do each of the officers of the parent company receive
9 a base salary?

10 **A** I believe so.

11 **Q** And are there other types of -- do they receive other
12 compensation other than base salaries?

13 **A** I believe so, based upon my reading of the proxy,
14 which is a public document, that there is other forms of
15 compensation for those officers.

16 **Q** And that would be your sole basis for being aware of
17 that?

18 **A** Yes, sir. Unfortunately, I'm not one of those
19 officers, so I can't speak directly.

20 **Q** Do you officers receive, in addition to a base
21 salary, cash bonuses as well at the end of the year?

22 **A** I believe that they are eligible for cash bonuses.

23 **Q** And do they receive long-term incentives as well in
24 the form of stock?

25 **A** I believe that they receive some form of stock

1 compensation.

2 Q Okay. Are there any other forms of compensation you
3 are aware of?

4 A No, sir.

5 Q So you're not familiar with the actual base salaries,
6 say, of Mr. Franklin or Mr. DeBenedictis?

7 A Unless they are in the proxy, 14A, I'm not aware of
8 it.

9 Q Well, let me ask you to turn to Page 6402.

10 A I'm there.

11 Q Are you aware from your other investigation into the
12 salary matters of what the salaries are for Mr. Franklin and
13 Mr. DeBenedictis, for example?

14 A No, sir. This is basically -- again, unless it's in
15 the proxy, which I don't know why that page gets a lot of
16 attention, but that's the only time I have ever seen it.

17 MR. BECK: Let me hand out another exhibit. This one
18 I would ask that it be marked, employee compensation.

19 CHAIRMAN CARTER: That would be Number 213.

20 MR. BECK: Oh, I'm sorry, Employee Expense Report.

21 CHAIRMAN CARTER: Employee Expense Report. 213,
22 Commissioners, for your records.

23 (Exhibit Number 213 marked for identification.)

24 BY MR. BECK:

25 Q Do you have this expense report in front of you?

1 A I do.

2 Q And does this reflect some travel by Mr. DeBenedictis
3 during the test year of 2007?

4 A It appears that it was approved and hopefully
5 processed in 2007.

6 Q And let me ask you to take a look on the right column
7 activity number.

8 A Yes.

9 Q Does that show how such expenses are allocated to the
10 various companies in Aqua?

11 A Are you referring to the comment that's "all PSC all
12 util"?

13 Q Yes.

14 A Yes.

15 Q What would that mean, or what does that mean?

16 A "PSC all util" is a code is used to basically say
17 that those expenses should be allocated to each of these
18 operating subsidiaries based upon their customer count.

19 Q Okay. And there is a list for a general ledger
20 account a few columns to the left of that. Do you see that?

21 A That is correct.

22 Q Those are 67 series general ledger accounts, is that
23 right?

24 A Right. They are NARUC travel accounts.

25 Q Right. And they would be above-the-line type

1 expenses, would they not?

2 A They are all above-the-line.

3 Q I'm sorry?

4 A They are all above-the-line.

5 Q So charges such as this would be allocated to the
6 companies and included in the test year in this case, would it
7 not?

8 A That is true.

9 Q Do you know what the European Water Congress and
10 European IR visits are?

11 A No, I do not.

12 Q Do know what the term IR means?

13 A I have heard it referred to as investor relations.

14 Q Would you accept that these are charges that are
15 included in the test year in this case, an allocated portion
16 of?

17 A Well, first, yes, I do accept that they are test
18 charges that are in the test case. And I do -- just because I
19 state that the letter IR means, to my knowledge, investor
20 relations, I honestly don't know what happened at this
21 conference.

22 Q But in any event, these are allocated to
23 above-the-line regulated accounts for travel?

24 A Yes, they are. Florida in this case would receive
25 approximately, let's say, 5 percent of this charge, and AUF,

1 which is a subsidiary of Florida, would receive approximately
2 65 percent of that charge.

3 Q And this includes a trip to Europe that would include
4 trip to both Zurich and London?

5 A It appears that way, yes. There's dinner in Zurich
6 and a bus in Gatwick.

7 Q How would you tell the customers of Aqua Utilities
8 that paying an allocated portion of expenses such as these are
9 reasonable and necessary for the provision of water and
10 wastewater service to them?

11 A I would simply have to first find out what this trip
12 was for, and then I could explain it.

13 Q On Page 26 of your rebuttal. Changing topics, again.

14 A Sure, no problem. Yes, sir.

15 Q Starting on Line 17 you have a discussion concerning
16 Severn Trent. Do you see that?

17 A Yes.

18 Q Could you tell us -- just briefly describe what
19 charges are related to Severn Trent are?

20 A After we converted from Severn Trent to the Banner
21 billing systems and customer service systems, our customer
22 records remained on Severn Trent. And what we entered into an
23 agreement with Severn Trent was to make those records available
24 to us at a highly discounted price of about \$25,000 a year. We
25 were allowed to access those records in the event we had to go

1 back and look for any historical bill analysis information or
2 any customer information. We maintained this for two years
3 from the conversion date. The contract stops basically in
4 December of this year.

5 Q Okay. The conversion -- Severn Trent was providing
6 billing services for Aqua prior to your company taking over
7 that process itself?

8 A Absolutely.

9 Q And that conversion occurred in about October of
10 2006, is that right?

11 A November 1st.

12 Q Okay.

13 A And this is for just the availability of the data
14 that was created and has been retained, and for them to access
15 and run reports for us if needed.

16 Q So during that overlap period, the test year then
17 would include both the expenses of your own billing system as
18 well as this for the ability to view old records, is that
19 right?

20 A The expenses are in there on an annual basis for the
21 two-year period. So in the test year there is only one of
22 those two years.

23 Q Right. But the charges end in 2008, is that what
24 you're saying?

25 A That is correct.

1 Q So on a going-forward basis, you will not be
2 incurring these types of charges?

3 A Well, what we have suggested was that those charges
4 be amortized over a five-year period.

5 Q Do you know what the amount of the charges from
6 Severn Trent in the test year are?

7 A I believe that they are 12,500. And, again, the
8 portion to AUF would only be 65 percent of that.

9 Q Let me hand you an exhibit, if I could.

10 A Sure.

11 CHAIRMAN CARTER: Would you like to mark it?

12 MR. BECK: Yes.

13 CHAIRMAN CARTER: That would be Exhibit Number 214,
14 Commissioners. A title, Mr. Beck?

15 MR. BECK: Response to Interrogatory 430.

16 THE WITNESS: Yes, sir.

17 (Exhibit Number 214 marked for identification.)

18 BY MR. BECK:

19 Q Do you recognize this document?

20 A And, again, this is the response to interrogatory
21 what number?

22 Q 430.

23 A 430?

24 Q Yes.

25 A Give me a second to locate that.

1 **MR. MAY:** Mr. Beck, it looks like these are responses
2 to interrogatories other than 430, is that right?

3 **MR. BECK:** I think we received these Friday.

4 **CHAIRMAN CARTER:** Let's just take a moment. Let's
5 take a moment and check the status. Just take a break in place
6 here.

7 Mr. Beck, do you want to take a moment to check
8 these?

9 **MR. BECK:** Yes. My fault. We handed out a different
10 exhibit than I thought we were.

11 **MR. MAY:** All right, Mr. Beck, we're even.

12 **CHAIRMAN CARTER:** We will just leave this as 214 just
13 in case we do anything with it. For now.

14 Mr. Reilly said don't kill the messenger.

15 **MR. BECK:** And I apologize for this.

16 **CHAIRMAN CARTER:** Okay. Here is what we will do,
17 Commissioners. We'll leave the title, but on the handout that
18 we got before we will just -- we will scratch the number off,
19 the preceding one. This will not be 214. We'll keep the title
20 for 214, but the one Mr. Reilly just gave us, which is this
21 document here, this will be 214 for your records. That way
22 we'll have symmetry in the universe.

23 **MR. BECK:** Thank you.

24 BY MR. BECK:

25 **Q** Now, do you have the response to Interrogatory 430,

1 which I had intended to hand out to begin with?

2 A I have the document.

3 Q And there is a total at the end of the document?

4 A Yes, \$221,884.

5 Q What does that represent?

6 A Without the complete file, I don't know. I mean, let
7 me tell you what I know it is and what I don't know what it is.

8 Q Okay.

9 A If looks like a general ledger listing by period, by
10 accounting unit, by account, telling me that the transactions
11 were paid by our accounts payable group. It gives me some
12 journal entry references, amounts, and description. So this
13 would tell me that there's charges to these accounting units in
14 these amounts of money. What I don't know from this
15 information is what year this is.

16 MR. BECK: I think perhaps the easiest way, Mr.
17 Chairman, if I may, is ask for a late-filed exhibit.

18 THE WITNESS: Absolutely.

19 MR. BECK: And if you would tell us what time period
20 it is and what units and how much of this appears in the test
21 year.

22 THE WITNESS: Correct.

23 CHAIRMAN CARTER: That will be Exhibit Number 215,
24 late-filed.

25 Mr. May, did you get that?

1 MR. MAY: Yes, Mr. Chairman, we've got it.

2 CHAIRMAN CARTER: Okay. You may proceed.

3 MR. BECK: Thank you.

4 CHAIRMAN CARTER: Did you give us a title?

5 MR. BECK: Response related to the --

6 CHAIRMAN CARTER: How about we just say --

7 THE WITNESS: Severn Trent bills?

8 CHAIRMAN CARTER: Hang on a second. Let me come up
9 with something clever.

10 MR. JAEGER: Chairman Carter, would it be an
11 explanation of 214, Exhibit 214?

12 MR. BECK: That would be fine.

13 CHAIRMAN CARTER: Okay. Explaining 214.

14 MR. BECK: And I apologize, Mr. Chairman.

15 CHAIRMAN CARTER: That's not a problem, Mr. Beck.
16 That's okay. It's alright. TGIT.

17 You may proceed.

18 (Late-filed Exhibit Number 215 marked for
19 identification.)

20 BY MR. BECK:

21 Q Mr. Szczygiel, let's change topics to Page 27 of your
22 rebuttal testimony beginning at Line 10.

23 A Yes, I see it.

24 Q You take exception to Ms. Dismukes' adjustment to
25 eliminate the directors and officers liability insurance

1 expense from the test year, is that right?

2 A Yes, sir, I do.

3 MR. BECK: Let me ask for one last exhibit. I think
4 this is the last one. If I could have it be identified for --

5 CHAIRMAN CARTER: It would be 216.

6 MR. BECK: And it's an excerpt from Order
7 PSC-99-1912.

8 CHAIRMAN CARTER: Excerpt from Order PSC-99-1912.
9 Got it. Thank you.

10 You may proceed.

11 (Exhibit Number 216 marked for identification.)

12 BY MR. BECK:

13 Q Mr. Szczygiel, do you have this excerpt from the
14 order in front of you?

15 A Yes, I do.

16 Q Are you familiar with the order?

17 A No, I'm not.

18 Q Let me ask you to turn to the last page of the
19 excerpt.

20 A Yes, sir.

21 Q And in that near the top, or about five lines down it
22 states that Mr. Larkin made a compelling argument as to why
23 this type of insurance should be disallowed. Again, he's
24 referring, if you look on the prior page, to director/officer
25 liability insurance.

1 **A** When you say on the previous page -- I'm reading the
2 paragraph. It says, "We agree with the utility that NARUC USOA
3 does not prohibit recovery of costs for premiums from director
4 and officer liability insurance and ESOP or pension insurance"?

5 **Q** Okay. Let's go back to the Page 21.

6 **A** Sure.

7 **Q** Do you see toward the bottom where there is an
8 excerpt from Mr. Larkin's testimony in that case?

9 **A** Where does it start, sir; at the officers liability,
10 you're saying?

11 **Q** Page 21 of the order.

12 **MR. MAY:** And just to clarify, Mr. Larkin was
13 testifying, Mr. Beck, on behalf of OPC. Is that what you are
14 quoting from?

15 **MR. BECK:** Yes, absolutely.

16 **THE WITNESS:** Right. You want me to start reading
17 from where it says Mr. Larkin testified on behalf of the OPC?

18 **MR. BECK:** Yes. And you don't need to read it all,
19 but read part of it to yourself. I want you to go down there
20 where it says Mr. Larkin testified there is no benefit to the
21 ratepayer there, referring to the officers insurance.

22 **THE WITNESS:** And I guess I can take your word for it
23 rather than read the whole thing if that is what he said.

24 **BY MR. BECK:**

25 **Q** Would you agree that he is referring to the directors

1 and officers liability insurance at issue in that case?

2 A He may be, yes.

3 Q And then on the next page, on the sixth line, the
4 Commission concluded that Mr. Larkin made a compelling argument
5 as to why this type of insurance should be disallowed. Do you
6 see that?

7 A Sure. Yes, I do.

8 Q And the Commission stated it appears to provide no
9 benefit to the utility's ratepayers, only protection for its
10 stockholders. Do you see that?

11 A Yes, I do see that.

12 Q Okay. And in that case they disallowed, and that was
13 \$1,738 for director or officer liability insurance. Do you see
14 that?

15 A And also the other insurances, correct.

16 Q Yes. Does any of this change your opinion as to the
17 appropriateness of the directors and officers liability
18 insurance being included by Aqua in the test year in this case?

19 A As I stated in my rebuttal, directors and officers
20 insurance is to protect the officers and directors for wrongful
21 acts. Those wrongful acts could result in lawsuits that both
22 affect those officers, directors, as well as the company
23 assets. So, in my point of view, the directors and officers
24 insurance is an extremely prudent insurance, just as auto
25 insurance, or fire insurance, or worker's compensation

1 insurance.

2 The other side of the equation, from just a personal
3 point of view, having been an officer and a director in
4 corporations, both public and private, I surely wouldn't --
5 unless I was an equity owner of a company, I personally
6 wouldn't have taken the risk of being in such a risk position
7 without those insurances. And if you want competent and
8 qualified officers and directors, this is almost a required
9 coverage to secure these people.

10 **CHAIRMAN CARTER:** Mr. Beck, would you yield for a
11 moment?

12 **MR. BECK:** Yes.

13 **CHAIRMAN CARTER:** You said that this insurance is to
14 protect the officers and directors from wrongful acts?

15 **THE WITNESS:** No, to protect the company, the
16 officer, and the directors. In other words, if the officer and
17 director were to make a bad decision, a wrongful act, and
18 somebody sued them and the company, it protects the officer and
19 director. In addition, if the suit was large enough, let's
20 say, it would then also protect the company's assets.

21 **CHAIRMAN CARTER:** But it's really to protect the
22 officers and the directors in the carrying out of their
23 official and legitimate business purposes, right? If they act
24 outside of that scope then it doesn't apply.

25 **THE WITNESS:** Absolutely. And I think --

1 **CHAIRMAN CARTER:** I just heard your answer to be more
2 global.

3 **THE WITNESS:** Well, it's a little more global than
4 shareholder lawsuits, sir, Commissioners, Chairman. Again, a
5 lawsuit could be for any wrongful act that they may have
6 initiated, not just a wrongful act that affected a shareholder
7 decision to maybe file a suit against the officers and
8 directors of a company.

9 **CHAIRMAN CARTER:** Okay.

10 **THE WITNESS:** And, again, this is very common in both
11 public and private companies to have these types of insurance.

12 **CHAIRMAN CARTER:** I'm familiar with that, but, I
13 mean, your response just kind of threw me. It sounded more
14 global than -- so I misheard you then.

15 You may proceed, Mr. Beck.

16 **MR. BECK:** Thank you, Mr. Chairman.

17 BY MR. BECK:

18 **Q** Mr. Szczygiel, nonetheless, the insurance is for
19 claims of wrongful acts by the officers and directors, is it
20 not?

21 **A** Correct.

22 **Q** That's what it's insuring against?

23 **A** Absolutely.

24 **Q** And I'm not questioning the company's decision to
25 purchase that, what I'm questioning is whether customers should

1 pay for insurance that protects the officers or protects the
2 company against wrongful acts by their customers.

3 A And I believe it should.

4 Q I didn't think it would change your opinion, but I
5 thought I'd ask.

6 MR. BECK: Mr. Chairman, thank you.

7 That's all I have, Mr. Szczygiel. Thank you.

8 CHAIRMAN CARTER: Thank you, Mr. Beck. Your response
9 to my question was far more eloquent, and I appreciate you
10 asking that.

11 Ms. Bradley, you're recognized.

12 MS. BRADLEY: Thank you. I just a few questions.

13 CROSS EXAMINATION

14 BY MS. BRADLEY:

15 Q Can you look at Page 1 of that --

16 CHAIRMAN CARTER: Excuse me, Ms. Bradley. One
17 second.

18 Mr. Beck, did you want to do anything with what we
19 had formerly marked as 214?

20 MR. BECK: That is the --

21 CHAIRMAN CARTER: This is the one that deals with --

22 MR. BECK: No. That's the one that was --

23 CHAIRMAN CARTER: Okay. You don't want to do
24 anything?

25 MR. BECK: No.

1 **CHAIRMAN CARTER:** Okay. You may proceed, Ms.
2 Bradley. Thank you for your patience there.

3 **MS. BRADLEY:** Thank you, sir.

4 BY MS. BRADLEY:

5 **Q** If you will look at Page 1 of the big 451-page
6 exhibit.

7 **A** Sure. Exhibit 24?

8 **Q** Yes.

9 **A** I'm there.

10 **Q** Okay, thank you.

11 Down at the bottom under service company, there is a
12 bunch of people listed. Can you tell me who JR Dulbert, Brian
13 Divine, Rick Drager, David Shank, Kelly Burns, Mary Hopper,
14 Paul Gabbage, and William Packer are? (REPORTER NOTE: All
15 names are phonetic.)

16 **A** I sure can. They are all employees of the service
17 company. Perhaps all but one of them are in our rates
18 department as full-time employees that generally help us
19 process and adjudicate rate cases.

20 **Q** Do you know what these expenses were for?

21 **A** I would believe it is for their time. Primarily
22 their time to basically assemble MFRs and to assist in response
23 of discovery.

24 **Q** Do you know that, or are you just assuming that
25 because of what they do?

1 **A** Well, I know it since I am responsible for the rate
2 case expenses of the four states that they would charge me to,
3 and I sit down with them and I ask them many questions about
4 their charges. I conduct a prudent oversight management.

5 **Q** Let me ask you about this exhibit that Mr. Beck
6 handed you. And I apologize, I didn't get the exhibit, but it
7 was the one with the -- it was a one-page exhibit, employee
8 expense report.

9 **A** Oh, yes.

10 **CHAIRMAN CARTER:** That's Number 213.

11 **MS. BRADLEY:** Thank you, sir.

12 **THE WITNESS:** I have that.

13 **BY MS. BRADLEY:**

14 **Q** About half way down it says taxi to HSBC offices.
15 What is that?

16 **A** As I explained to Mr. Beck, I don't know exactly what
17 was the purpose of this business trip, so that's taking me to a
18 higher level of specificity that I don't have answers.

19 **Q** So you don't know what the HSBC offices are?

20 **A** No, I do not.

21 **Q** A see a lot of charges and we know that he stayed at
22 the Millennium Hotel, but I don't see any hotel charges. Is
23 that because somebody else paid for them?

24 **A** I wouldn't know.

25 **Q** Excuse me?

1 A I wouldn't know.

2 Q Okay. Down at the bottom we see U.S. Airways
3 upgrade. Would you agree that that was for the personal
4 comfort of Mr. DeBenedictis and would not have some benefit to
5 citizens?

6 A I might ask the question why was the upgrade. I
7 think it's an appropriate question to ask, but I don't have the
8 answer.

9 Q You don't think an upgrade for the convenience of
10 someone for their comfort is a personal expense?

11 A As I said, I don't know why the upgrade was required.
12 I simply don't have enough knowledge to answer that question.
13 I'd be happy to answer it for you, if you would like me to.

14 Q I don't know that we need to pursue it. I think it's
15 self-evident. Let me ask you to look at Pages 128 and 129.

16 A Of the same exhibit?

17 Q Yes.

18 A I'm there, Ms. Bradley.

19 Q Thank you. Looking part way down the page there is
20 an entry for 7-25-08 by Mr. May. Can you tell me from looking
21 at that how much time was spent reviewing the Attorney
22 General's petition to intervene?

23 A We're referring to the second 7/25 entry there?

24 Q Yes.

25 A For \$1,752?

1 Q Yes.

2 A Can I tell you how much time was spent?

3 Q Yes.

4 A It says 4.8 hours.

5 Q Well, how much time then was spent researching --
6 research and analysis of case law concerning staff
7 recommendation?

8 A You're asking me to breakdown the 4.8 hours, right?

9 Q I'm asking you specifically how much time was spent
10 on each one of those items.

11 A I don't know, but I could ask my attorney to give me
12 a response and I'd be happy to respond to you.

13 MR. MAY: We'll be glad to give a late-filed exhibit.

14 BY MS. BRADLEY:

15 Q Is there some reason that they don't break it down?

16 A I think it is pretty detailed.

17 Q But you don't how much time was spent on each one of
18 those items.

19 CHAIRMAN CARTER: Ms. Bradley, we'll give a
20 Late-filed, Number 217, and that will be the billing for the
21 attorney. Is there going to be more so we can make this a
22 composite exhibit?

23 MS. BRADLEY: Well, there are several pages it looks
24 like.

25 CHAIRMAN CARTER: Is it dealing with the same law

1 firm?

2 MS. BRADLEY: Yes, sir.

3 CHAIRMAN CARTER: Okay. Well, let's just make it a
4 composite exhibit, and for specifics, Mr. May, as it relates to
5 the attorney billing.

6 MR. MAY: I guess I need some clarification. She
7 wants me to break out each of the services rendered within the
8 semicolons and give the precise amount of time?

9 CHAIRMAN CARTER: That is correct.

10 Right, Ms. Bradley?

11 MS. BRADLEY: I'm just wondering -- maybe I should
12 ask the questions, and then you can decide if we really need
13 that, but --

14 CHAIRMAN CARTER: I mean, if you need the
15 information, we'll get it for you. I want to get it for you.
16 I mean, I'm a lawyer. I'm used to reading billings.

17 BY MS. BRADLEY:

18 Q How do you tell -- do you look at the reasonableness
19 of the charges?

20 A The reasonableness of charges are reviewed.

21 Q How can you make that determination without knowing
22 how much time was spent on each item?

23 A Well, perhaps what you are asking for is more
24 specificity of those items than would be reasonable.

25 Q You're wanting the customers to pay for all of this,

1 correct?

2 A That is correct.

3 Q How can you decide if it's reasonable to ask them to
4 pay for all of this if you don't know specifically how much
5 time --

6 A You asked me specifically how much time. Again, my
7 attorney reports to me that he spent 4.8 hours. That appears
8 to be a reasonable amount of time for the work described, and,
9 therefore, the invoice is approved for payment.

10 Q Since it involves our office, let's look at these. I
11 mean, there were charges related to our petition on 7/25, more
12 on 7/26, and I think there was another one or two. But do you
13 add all of those up?

14 A Do we summarize all of the various submatters and
15 total them up?

16 Q Yes.

17 A No, we do not.

18 Q So you really don't know how much time was spent on a
19 particular item?

20 A Unless I go through and analyze it at a specific
21 request, I don't.

22 Q Do you look at whether or not something was
23 successful or actually benefited the company in any way?

24 A Of course.

25 Q Were you aware that that motion related -- their

1 motion related to our motion intervene was not successful?

2 **A** Well, again, we are basically defending many matters.
3 There is going to be decisions here being made that I disagree
4 with that I would consider unsuccessful, and I wouldn't exclude
5 the expenses to defend my position because they were
6 unsuccessful.

7 **Q** Are you aware that the courts have held that the
8 Attorney General is constitutionally authorized to intervene in
9 essentially any case to benefit the citizens of the state?

10 **MR. MAY:** I object to that. She's asking for a legal
11 opinion. And, off the record, I disagree with her legal
12 analysis.

13 **CHAIRMAN CARTER:** Rephrase.

14 **MS. BRADLEY:** You know, I was just asking him as the
15 person who approved all of this and is passing it along to the
16 customers if he's aware of that.

17 **CHAIRMAN CARTER:** You're asking him his knowledge
18 about the constitutional authority of the Attorney General of
19 the State of Florida is what you were asking him. I mean, I
20 think he -- no disparagement by bean counter, but I think he's
21 the fiscal person.

22 **THE WITNESS:** Bean counter is a nice name.

23 BY MS. BRADLEY:

24 **Q** Can you at least tell me whether you know?

25 **A** State the question again, please.

1 Q Do you know whether the Attorney General is
2 constitutionally authorized to intervene in cases on behalf of
3 citizens?

4 A I do not know constitutionally if you are authorized
5 to intervene.

6 Q Did you look at the rule to see if it authorized us
7 to intervene?

8 A No, I did not look at the rule to see if you can
9 intervene.

10 Q Did you look at the notes to the rule to see whether
11 it says the information Mr. May was asking for is not
12 necessary?

13 A No, Ms. Bradley, I didn't look at any rules. We are
14 here -- you are asking me these questions, and --

15 Q I'm not trying to give you a hard time.

16 A No, I don't think you are trying to give me a hard
17 time, but I think the obvious is I don't know the rules, but I
18 know that you are intervening.

19 **MR. MAY:** Ms. Bradley, if you would like to know why
20 we have moved to oppose your intervention, it's for the very
21 reason for the last twenty minutes of this discussion. We
22 wanted to narrow the scope of this proceeding to focus on the
23 rate base issues, the rate case issues. And I know you
24 disagree with that, and we have a fundamental disagreement, but
25 I don't know why you continue to ask these questions of him.

1 We can talk after the hearing, off the record, when I'm not
2 billing my client for this, and I will give you a line and
3 verse as to why we did it. And I think it was for a purpose,
4 and I think it was for a lawful purpose.

5 **CHAIRMAN CARTER:** Ms. Helton.

6 **MS. BRADLEY:** Mr. Carter, that's the end of the
7 questions. I don't mean to belabor it. I think he has
8 established what he knows and doesn't know about this when
9 approving these costs.

10 **CHAIRMAN CARTER:** He's a bean counter, he doesn't --

11 **THE WITNESS:** I care, but I just don't know.

12 BY MS. BRADLEY:

13 Q Let me ask you to look at Page 134.

14 **CHAIRMAN CARTER:** Before you go further, Ms. Bradley,
15 do you want -- we've got a placeholder for you at 217. Do you
16 want just the specific specificity to the line item on the
17 billings as it relates to the Attorney General's motion and
18 those areas?

19 **MS. BRADLEY:** I don't know that that's necessary
20 because he has established that he doesn't know.

21 **CHAIRMAN CARTER:** Okay. You may proceed.

22 **THE WITNESS:** I'm at Page 134, Ms. Bradley.

23 **MS. BRADLEY:** Thank you.

24 BY MS. BRADLEY:

25 Q Did you look at reasonableness of any of the payment

1 as far as you have a paralegal and an intern that you were
2 paying \$140 an hour to? Did you compare that with what other
3 folks are paying interns and paralegals in Tallahassee?

4 A No, I didn't do a comparative analysis of the
5 paralegals and interns.

6 Q Can you tell me what they were working on?

7 A Unless it's described throughout here, I don't have
8 the specific knowledge of what they were working on.

9 Q What about Mr. Baez?

10 A Yes.

11 Q Do you have any knowledge of what he was working on?

12 A No, I do not. Again, unless I can go through here
13 and find a specific reference to where Mr. Baez worked and a
14 description of that work, I can't tell you.

15 Q You don't have any independent knowledge?

16 A No.

17 MS. BRADLEY: I don't think I have anything further,
18 Mr. Carter.

19 CHAIRMAN CARTER: Thank you, Ms. Bradley.

20 Staff.

21 MR. SAYLER: Thank you, Mr. Chairman. We do have a
22 couple of questions.

23 CROSS EXAMINATION

24 BY MR. SAYLER:

25 Q And it appears, Mr. Szczygiel, Chairman,

1 Commissioners, fellow attorneys, that we are about to bring
2 this in for a landing, and our questions are this:

3 Mr. Szczygiel, are you familiar with Aqua's response
4 to Staff's POD Number 25, which addresses rate case expense?

5 A Rate case expense, yes.

6 Q I believe we were discussing that at length in your
7 SS-24.

8 A This 451-page document here?

9 Q Yes, sir.

10 A Yes.

11 Q Is it correct that those responses were provided on
12 or about November 18th, 2008?

13 A I believe so.

14 Q At this time, would you be willing to submit as a
15 late-filed exhibit an update of AUF's actual rate case expense
16 through the conclusion of this hearing today and the Chairman's
17 final gavel, or through the conclusion of today, and then also
18 provide an estimate to complete the case?

19 A Yes, we will give you that update.

20 CHAIRMAN CARTER: That would be 217. Exhibit Number
21 217.

22 (Exhibit Number 217 marked for identification.)

23 CHAIRMAN CARTER: You may proceed.

24 BY MR. SAYLER:

25 Q My final question for bringing this definitely into a

1 landing, and this may call for speculation on your part, Mr.
2 Szczygiel, how do you get an upgrade to first class for only
3 20 pounds British sterling on an international flight?

4 **A** I don't know. It sounds like a bargain.

5 **MR. SAYLER:** Mr. Chairman, that concludes staff's
6 questions for today and with this rate case, I believe.

7 **CHAIRMAN CARTER:** Okay. Let's do this.

8 Mr. May.

9 **MR. MAY:** Mr. Chairman, we have no redirect, but
10 there was a couple of housekeeping items that staff had asked
11 of Mr. Szczygiel when he was up on direct. They had asked for
12 a Late-filed Exhibit Number 188. I think it was entitled the
13 November and December 2008 EIA Short-term Energy Outlook
14 Releases. Just to expedite the process, I think we have those
15 late-filed exhibits now, and we can go ahead and provide them
16 to the parties and to staff if that would be appropriate.

17 **CHAIRMAN CARTER:** Make it so.

18 Do you any of the other ones that were -- so we can
19 do it like in an omnibus manner, Mr. May?

20 **MR. MAY:** Not in that regard, but I did have the
21 exhibits to Mr. Szczygiel's testimony, SS-5 through SS-24,
22 which are designated in Staff's Comprehensive Exhibit List as
23 Exhibit Numbers 152 through 171.

24 **CHAIRMAN CARTER:** Thank you. Okay.

25 **MR. MAY:** We would move those into evidence.

1 **CHAIRMAN CARTER:** Make it so. Show it done without
2 objection.

3 (Exhibit Number 152 through 171 admitted into the
4 record. Exhibit 188 admitted into the record.)

5 **MR. MAY:** The other thing that I would like to bring
6 to the attention of the Commission and to Mr. Beck -- Charlie,
7 I just wanted to, I guess, make the record clear. I think
8 during your questioning of Mr. Szczygiel he identified some
9 expense items that were in Exhibit 24 as not being appropriate
10 in this rate case, and I was just going to just clarify for the
11 record that we can respond and address those and confirm those
12 in our Exhibit 195, which we will be responding to -- providing
13 in response to Ms. Dismukes' rate case expense Schedules 194,
14 just to clarify the record.

15 **CHAIRMAN CARTER:** Mr. Beck.

16 **MR. BECK:** That's fine. Thank you.

17 **CHAIRMAN CARTER:** Make it so. Okay.

18 Mr. May, for this witness we have, as pursuant to
19 Staff's Exhibit Number 1, the exhibit list listed on there
20 Exhibits Number 152 through 171. Any objections? Without
21 objection, show it done.

22 Then we have Number 213, OPC, which is the Employee
23 Expense Report. Any objections.

24 **MR. MAY:** No, Your Honor.

25 **CHAIRMAN CARTER:** Without objection, show it done.

1 (Exhibit Number 213 admitted into the record.)

2 **CHAIRMAN CARTER:** Then we had -- where is 214?

3 **MR. JAEGER:** Response to Interrogatory Number 430.

4 **CHAIRMAN CARTER:** Any objections? Show it done.

5 (Exhibit Number 214 admitted into the record.)

6 **CHAIRMAN CARTER:** Then we had -- 215 is a late-filed,
7 which will be to explain Exhibit 214.

8 Then we had 216, which is the excerpt from Order PSC
9 Number 99-1912. Any objections? Without objection, show it
10 done.

11 (Exhibit Number 216 admitted into the record.)

12 **CHAIRMAN CARTER:** Then we have Late-filed Number 217,
13 which is the staff's requested update for the actual
14 expenditures for the rate case expense. Is that correct? All
15 righty. Show it done.

16 **CHAIRMAN CARTER:** Staff, any concluding -- well, let
17 me do this. Let me go to the parties first.

18 Any concluding matters, Mr. May?

19 **MR. MAY:** No, sir.

20 **CHAIRMAN CARTER:** Mr. Beck.

21 **MR. BECK:** No, sir.

22 **CHAIRMAN CARTER:** Ms. Bradley?

23 **MS. BRADLEY:** No, sir.

24 **CHAIRMAN CARTER:** Staff, concluding matters?

25 **MR. JAEGER:** Just the future critical dates.

1 The hearing transcripts, it's daily copy, so we
2 should have today's transcript tomorrow. Briefs are due on
3 December 30th with the recommendation on January 30th for the
4 revenue requirement for the special agenda on February 11th.

5 And then we have the recommendation for rates due on
6 February 19th for the rate agenda on March 3rd, with a final
7 order due out on March 23rd.

8 **CHAIRMAN CARTER:** Okay. Any questions from the
9 parties on concluding matters? Any concerns?

10 Commissioners, anything further for the good of the
11 order?

12 I want to say a special thanks to our loyal corps of
13 court reporters that have gone above and beyond the call of
14 duty. Thank you.

15 And with that, Commissioners, we are adjourned.

16 (The hearing concluded at 1:34 p.m.)

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STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, FPSC Division of Commission Clerk, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS December 12, 2008, 2008.

Junda Boles / for

JANE FAUROT, RPR
Official FPSC Hearings Reporter
(850) 413-6732