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Aqua Utilities Florida, Inc.
2228 Capital Circle NE, Ste. 2A
Tallahassee, FL 32308

COMMISSION
CLERK

January 3, 2011

Katherine E. Fleming
Office of General Counsel
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 100330-WS - Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc. - Staff Second Data Request - Third Supplemental Response, Numbers 7 and 24

Dear Ms. Fleming:

By this letter, Aqua Utilities Florida, Inc. (AUF or Company) provides its third supplemental response to the Staff's Second Data Request, Numbers 7 and 24.

Pro Forma Plant

- 7. The following items relate to the pro forma plant improvements reflected in adjustments on MFR Schedules A-3. These improvements include the Purchase of Trucks for Replacement, Administrative Assets, IT, as well as the following system specific improvements: (emphasis added)

[Table omitted]

For each improvement, provide the following information:

- (a) a statement why each improvement is necessary;
- (b) a copy of all invoices and other support documentation if the plant improvement has been completed or in process;
- (c) a copy of the signed contract or any bids, if the plant improvement has not been completed;
- (d) a status of the engineering and permitting efforts, if the plant improvement has not been through the bidding processing;

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An Aqua America Company
www.aquautilitiesflorida.com

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- (e) the projected in-service date for each outstanding plant improvement; and
- (f) If any outstanding estimated completion dates for the pro forma improvements have changed, please state how many times the date was revised and explain, in detail, why each completion date was changed.

THIRD SUPPLEMENTAL RESPONSE:

AUF is providing this additional information as a supplemental response to Staff Second Data Request, Number 7. Supplemental support documentation for AUF's pro forma Administrative Assets is enclosed in the CD labeled, "AUF Pro Forma Admin Assets."

These documents represent plant closings for the period May 2010 through November 2010. Due to the voluminous nature of these documents, AUF is filing the support documents in electronic format on the enclosed CDs.

Further, additional documentation for closed Administrative Assets during the month of December 2010 are contained on the enclosed CD labeled, "Staff Second Data Request – Third Supplement Response."

AUF will continue to compile any additional documentation as it is received and processed and any additional support documentation will be supplied in further supplemental responses to both Staff's Data Requests and OPC's Request for Production of Documents.

- 24. Please provide any and all documents in your possession, custody or control that demonstrate whether charges from all unregulated affiliates are provided to AUF at the lower of cost or market.

SUPPLEMENTAL RESPONSE:

See the attached analysis of AUF's affiliate charges as requested.

Please acknowledge receipt of this filing by stamping the extra copy of this letter "filed" and returning the copy to me. Thank you for your assistance.

Sincerely,



Troy Rendell
Rates Manager

cc: Bruce May, Holland & Knight
Office of Commission Clerk
Charles Beck, Office of Public Counsel
Kimberly A. Joyce, Aqua America, Inc.

Affiliate Charges to Aqua Utilities Florida, Inc.

Aqua America, Inc. is organized as a holding company which owns regulated and unregulated utilities. Aqua Utilities Florida, Inc. (AUF) is a wholly owned subsidiary of Aqua America.

Aqua Services, Inc., (Service Company) is a service company formed by Aqua America to provide centralized management, accounting, engineering, human resources, information technology support, legal, and rate case support to Aqua America's operating subsidiaries. The Service Company allows all those operating subsidiaries to take advantage of the economies of scale provided by common ownership of numerous companies. For example, affiliated companies like AUF can share accounting software; asset software; and billing and customer information software, thus saving the individual companies from the cost of acquiring that software on their own.

If operated as a standalone company, AUF would have to hire and retain additional employees and/or outside contractors to provide the many services now being provided by the Service Company. For example, the Service Company offers a centralized staff of professional engineers available to AUF and other Aqua America operating subsidiaries. Those professional engineers provide services such as obtaining and preparing requests for proposals and evaluating submitted proposals from various engineering firms and are available to AUF as needed.

The cost of sharing the expense of an engineering staff is far less than contracting outside engineering firms, which bill to not only cover the fully loaded cost of their engineering staff, but also include a profit margin. The average hourly cost of engineering services allocated to AUF from the Service Company, including overhead, is approximately \$82 an hour. Two Florida engineering firms were surveyed for their billing rates. The rates ranged from \$110 per hour for

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entry level professional staff to \$140 for principals. In this example, AUF's per hour cost savings range from approximately 25% to approximately 41% by using the Service Company.

Likewise, if operated as a standalone company, AUF would have to hire an attorney or attorneys, or contract out legal services to outside law firms. As a subsidiary of Aqua America, AUF can access legal service from the legal staff at the Service Company. The average 2009 billing rate for Florida law firms, as published in the "2010 Economics & Law Office Management Survey" conducted by the Florida Bar, was \$247 an hour. The hourly rate, including overhead, for legal services in the test year to AUF by Aqua Services was approximately \$140 an hour, which represents a savings of approximately 43% as compared to the Florida Bar average rate.

AUF also has access to a full accounting staff at Aqua Services, including accounts payable, property accountants, tax accountants, general ledger accountants, payroll, purchasing and accounts receivable. The average hourly rate billed from Aqua Service was approximately \$57 an hour. The "2008 PCPS/TSCPA National MAP Survey" conducted by the AICPA shows national average rates for accounting professionals. These rates, adjusted for inflation, are Directors- \$161, Managers- \$137, Senior Associates- \$110 and Associates- \$88. The average rate charged by the Aqua Services, which includes all levels of personnel, is approximately 35% less at the low end and 65% less at the high end when comparing to the national averages.

As part of Aqua America, AUF also has access to a full range of management professionals. Some, but not all, of the functions these professionals perform include human resources, information systems, investor relations, financial planning, internal audit, regulatory affairs, and corporate governance. The "Operating Ratios for Management consulting Firms, 2007 Edition" survey conducted by the Association of Management Consulting Firms shows the

range of billing rates of management consultants in the U.S. Those rates, adjusted for inflation, are \$115 an hour for an entry level consultant at a small firm, to \$468 for the highest level consultant at a large firm. The average hourly cost of all levels of management services allocated from Aqua Services for the test year was approximately \$128, which is approximately 73% less than the high end of the national average.

For customer service, Aqua America had total customer service charges of \$15,485,729 during the test year in this rate case. These costs translate to a per customer cost of \$18.12 per year. The “Benchmarking Performance Indicators for Water and Wastewater Utilities: 2007 Annual Survey Data and Analyses Report” released by the American Water Works Association, listed an average customer service cost per account. That cost, adjusted for inflation, is approximately \$44, which is 59% higher than Aqua America’s customer service charge. The per hour costs for services and costs per customer verify that operating AUF as an affiliate of Aqua America is beneficial to Florida customers.

Upon issuance of the temporary protective order which AUF requested on December 13, 2010 and in response to OPC Production of Documents Requests No. 66 and No. 67 - AUF will make available to OPC and staff documentation that verifies that Aqua America compensation levels are market based. Included in these documents are surveys used for salary structure and merit targets from consulting firms, such as World at Work, William Mercer, Hewitt Associates, ERI, and Watson Wyatt and further documentation demonstrating that its compensation plans are developed with direct input from a compensation consultant.

In summary, having centralized services provided by Aqua America is - in fact - beneficial to AUF and all of its customers. This affiliate analysis provides undisputed evidence that Aqua America’s services are provided at a fair and reasonable cost, which are below market.

As demonstrated above, these services have been, and continue to be, provided to AUF at a lower cost than it would incur to obtain these services from outside, non-affiliated sources.

Aqua Utilities Florida

Comparison of average hourly rates to market rates in Florida

Type of Employee	Market	AUF	Difference	%
Accounting	\$ 119	\$ 57	\$ (62)	-52%
Engineering	\$ 122	\$ 82	\$ (40)	-33%
Legal	\$ 247	\$ 140	\$ (107)	-43%
Management Professionals	\$ 207	\$ 128	\$ (79)	-38%
Customer Service Cost per Account	\$ 44	\$ 18	\$ (26)	-59%

Aqua America, Inc.
Average Per Hour Rate Outside Services
Accounting, Engineering, Legal, and Management Consulting Services
For the Test Year Ended 4/30/2010

1.

Engineering

2 firms were contacted that AUF has used in the past

	Average Hourly Rates by Position		
	Project Engineer	Project Manager	Principal Engineer
Firm #1	\$ 110	\$ 130	\$ 145
Firm #2	\$ 110	\$ 125	\$ 135
Average	\$ 110	\$ 128	\$ 140

	Overall Average Hourly Rate			Weighted Average
	Project Engineer	Project Manager	Principal Engineer	
Average Hourly Billing Rate	\$ 110	\$ 128	\$ 140	
Percent of Engineering Assignments	50%	25%	25%	
Weighted Factor	\$ 55	\$ 32	\$ 35	\$ 122

2.

Legal

Rates obtained from the "2010 Economics & Law Office Management Survey" conducted by the Florida Bar

	Average
Billing Rate	\$ 247

3.

Accountant

Standard rate from "AICPA 2008 PCPS/TSCPA National MAP Survey"

	Average Hourly Billing Rate				Weighted Average
	Associate	Senior	Manager	Director	
Standard Rates	\$ 85	\$ 107	\$ 133	\$ 156	
Inflation Adjustment	3.00%	3.00%	3.00%	3.00%	
2010 Rates	\$ 88	\$ 110	\$ 137	\$ 161	
Typical Percent of Time Spent on a Consulting Project	30%	30%	20%	20%	
Average	\$ 26	\$ 33	\$ 27	\$ 32	\$ 119

4.

Management Consultant

Rates obtained from the "Operating Ratios For Management consulting Firms, 2007 Edition" survey conducted by the Association of Management Consulting Firms

	Average Hourly Billing Rate					Weighted Average
	Entry Level	Midlevel	Advanced	Upper Level	Highest Level	
Annual Consulting Fees						
Less than \$2,000,000	\$ 110	\$ 130	\$ 175	\$ 300	\$ 295	
\$2,000,000 - \$4,999,999	\$ 123	\$ 150	\$ 180	\$ 200	\$ 300	
\$5,000,000 - \$19,999,999	\$ 135	\$ 185	\$ 230	\$ 293	\$ 324	
\$20,000,000 & Over	\$ 169	\$ 226	\$ 281	\$ 360	\$ 450	
Inflation Adjustment	4.10%	4.10%	4.10%	4.10%	4.10%	
2010 Rates						
Less than \$2,000,000	\$ 115	\$ 135	\$ 182	\$ 312	\$ 307	
\$2,000,000 - \$4,999,999	\$ 128	\$ 156	\$ 187	\$ 208	\$ 312	
\$5,000,000 - \$19,999,999	\$ 141	\$ 193	\$ 239	\$ 305	\$ 337	
\$20,000,000 & Over	\$ 176	\$ 235	\$ 293	\$ 375	\$ 468	
Typical Percent of Time Spent on a Consulting Project	30%	30%	20%	10%	10%	
Average	\$ 42	\$ 54	\$ 45	\$ 30	\$ 36	\$ 207

5.

Customer Service Cost per Account

Rate obtained from the "Benchmarking: Performance Indicators for Water and Wastewater Utilities: 2007 Annual Survey Data and Analyses Report" conducted by the American Water Works Assoc

	Median
Cost per Account	\$ 42
Inflation Adjustment	4.10%
2010 Cost per Account	\$ 44

Aqua America, Inc.
Average Per Hour Rate Affiliate Services
Accounting, Engineering, Legal, and Management Consulting Services
For the Test Year Ended 4/30/2010

Service Allocations - 5/1/2009 - 4/30/2010

Type of Employee	Sum of HOURS	Sum of DIST_AMT	Per hour
Accounting	85,910	4,805,747	55.94
Engineering	17,555	1,435,512	81.77
Legal	7,132	992,561	139.17
Management Professionals	113,892	10,918,377	95.87
Grand Total	224,489	18,152,197	

Sundry Allocations - 5/1/2009 - 4/30/2010

Sum of TRAN_AMOUNT			
Depart	Exclusions	ACCOUNT	Total
Accounting		Accounting	75,546
		Comp Hardware/Software Maint	2,998
		Contract Services	540,803
		Travel Expense	43,369
Accounting Sum			662,716
Engineering		Comp Hardware/Software Maint	0
		Engineering	142
		Travel Expense	359
Engineering Sum			501
Legal		Comp Hardware/Software Maint	1,282
		Contract Services	986,533
		Legal	5,980
		Travel Expense	5,786
Legal Sum			999,582
Management Professionals		Comp Hardware/Software Maint	830,052
		Contract Services	2,049,149
		Management Professionals	2,399,522
		Travel Expense	367,420
Management Professionals Sum			5,646,143
Grand Total			7,308,942

AP Directs - 5/1/2009 - 4/30/2010

Comp Hardware/Software Maint	393,832
Contract Services	380,436
Management Professionals	1,207,127
Grand Total	1,981,396

Total Service and Sundry Charges
Rate per hour ASI charges AUF

	Hours	Amt	Per hour
Accounting	85,910	4,881,293	56.82
Engineering	17,555	1,435,653	81.78
Legal	7,132	998,542	140.01
Management Professionals	113,892	14,525,026	127.53
Grand Total	224,489	21,840,515	

Aqua America, Inc.
Average Customer Service Cost
Per Customer
For the Test Year Ended 4/30/2010

<u>Service Company Call Center</u>	Total Aqua
Allocation	\$ 9,739,146.02
ACO Direct	<u>\$ 5,746,582.90</u>
Total ACO	\$ 15,485,728.92
Wghtd Customer	<u>854,493.00</u>
ACO per Wghtd Customer	<u>\$ 18.12</u>
2007 American Water Works Assoc Benchmarking Survey	
Customer Service Cost per Account	<u>\$ 42.03</u>

**Aqua America, Inc.
Average Per Hour Rate Benefit of Service Co.
Over Outside Professionals-Less Exclusion Costs
For the Test Year Ended 4/30/2010**

	Accounting Services	Engineering Services	Legal Services	Management Professionals	Total
Total Services Charges	5,468,462.71	1,436,012.78	1,992,142.94	17,771,648.09	26,668,266.52
Less Excludable:					
Contract Services	540,802.73		986,532.85	2,049,149.35	3,576,484.93
Travel Expenses	43,368.56	359.14	5,786.16	367,420.46	416,934.32
Computer Hardware/Software	2,998.08		1,282.31	830,052.00	834,332.39
Net Service Charges	<u>4,881,293.34</u>	<u>1,435,653.64</u>	<u>998,541.62</u>	<u>14,525,026.28</u>	<u>21,840,514.88</u>
Total Hours	<u>85,909.94</u>	<u>17,555.10</u>	<u>7,132.04</u>	<u>113,891.86</u>	<u>224,488.94</u>
Average Hourly Rate	<u>56.82</u>	<u>81.78</u>	<u>140.01</u>	<u>127.53</u>	<u>97.29</u>

Contract Services, Travel Expenses, and Computer Hardware/Software charges not included in Service Charge Hourly Rate:
Contract Services - charges that have already been assigned to outside professionals
Travel Expenses - charges would be billed separately and in addition to an outside contractor's hourly wage
Computer Hardware/Software - charges would be billed separately and in addition to an outside contractor's hourly wage

Aqua America, Inc.
Average Costs of Outside Professionals vs.
Service Co. Cost by Total Hours
For the Test Year Ended 4/30/2010

Type of Employee	Values Sum of HOURS	Average Outside Rate	Outside Cost for Service
Accounting	52,664	\$ 119	\$ 6,259,843
Engineering	7,411	\$ 122	\$ 903,221
Legal	7,132	\$ 247	\$ 1,761,614
Management Professionals	157,282	\$ 207	\$ 32,493,697
Grand Total	224,489		\$ 41,418,374
Total Service Cost			\$ 21,840,515
Difference			\$ 19,577,859

-Hours worked actually understates the cost advantages of the Service Co. An outside contractor would bill for every hour worked compared to a exempt Service Co. employee who charges a maximum of 8 hours per day.

**Aqua America, Inc.
Inflation Calculation
CPI Index**

	<u>CPI as of Nov</u>
2007	210.177
2010	218.803
CPI Differential	8.626
CPI Index Increase	4.10%

	<u>CPI as of Nov</u>
2008	212.425
2010	218.803
CPI Differential	6.378
CPI Index Increase	3.00%

-I used November because that is the latest available data