



RECEIVED-TPSC

11 MAR 10 PM 2: 04

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

COMMISSION
CLERK

March 10, 2011

Ralph Jaeger
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 Twenty-Eighth Data Request

Dear Mr. Jaeger:

By this letter, Aqua Utilities Florida, Inc. (AUF or Company) provides its response to the Staff's Twenty-Eighth Data Request.

1. For the following questions, please refer to "DfrdTx 2010 Summary.xlsx" included on the CD labeled "MFR-As Filed, September 1, 2010 & Revised D-2."
 - a. Please explain the relation of the Crystal River Utility with respect to AUF and identify all systems of the Crystal River Utility that operate in the state of Florida.
 - b. Please briefly define "meritage" with regard to deferred income taxes and explain what method of accounting was used to compute "meritage" for tax and book purposes. Please identify all systems to which "meritage" relates.
 - c. Please provide an explanation for allocating Consolidated Accumulated Deferred Income Taxes to the AUF systems that filed using net book value percentage (NBV%) as the allocation method (rather than directly attributing related Deferred Income Taxes to each system) and what impact, if any, this may have on the revenue requirement. Please provide a revised "DfrdTx 2010 Summary.xlsx," reflecting pro forma plant additions in the computation of the NBV% and allocation of accumulated deferred income taxes (ADITs) to AUF systems.

COM _____
 APA _____
 ECR 2 _____
 GCL _____
 RAD _____
 SSC _____
 ADM _____
 OPC _____
 CLK _____

DOCUMENT NUMBER-DATE
01584 MAR 10 =

An Aqua America Company
www.aquautilitiesflorida.com

FPSC-COMMISSION CLERK

- d. Please refer to the “Defd Tx Summary” tab of the spreadsheet. With Arredondo, Jasmine Lakes, Lake Suzy, and Ocala Oaks systems listed separately, as shown on the schedule, please provide a list of all systems that are included in “AUF.” Please also indicate whether Arredondo, Jasmine Lakes, Lake Suzy, and Ocala Oaks systems, as shown on the schedule, include sewer, water or both types of systems.

RESPONSE:

- a. The Crystal River Utility systems are made up of seven AUF systems and five non AUF systems. The Crystal River Utility systems include:

Crystal River - AUF systems

Haines Creek (Lake) Water Sys
Lake Osborne Est Water Sys
Ravenswood (Lake) Water Sys
Rosalie Oaks Water Sys
The Woods Water Sys
Rosalie Oaks WW Sys
The Woods WW Sys

Crystal River - Non AUF systems

Castle Lake (Citrus) Water Sys
Kenwood North Water Sys
The Meadows (Citrus) Water Sys
Pine Valley (Citrus) Water Sys
West Citrus (Citrus) Water Sys

- b. Deferred taxes associated with “Meritage” result from the capitalization of organization costs related to the project for book purposes that were current deductions for federal income tax purposes. The major Meritage related systems are Banner and Itron Service Link.
- c. The reason for allocating Consolidated Accumulated Deferred Income Taxes to the AUF systems included in the filing using net book value percentage (NBV%) as the allocation method is because it is consistent with the methodology used and approved in the previous filing in Docket No. 080121-WS. A revised Staff DR Set 28 #1c (DfrdTx 2010 Summary).xlsx file reflecting pro forma plant additions in the computation of the NBV% and allocation of accumulated deferred income taxes (ADITs) to AUF systems is enclosed in the CD labeled Staff Twenty Eighth Data Request Response.
- d. Arredondo, Jasmine Lakes and Lake Suzy include both water and sewer systems, and Ocala Oaks is a water only system. Shown below is a list of all systems that are included in AUF:

Breeze Hill – Sewer
Breeze Hill - Water
Fairways at Mt. Plymouth - Sewer
Fairways at Mt. Plymouth - Water
Peace River - Sewer
Peace River - Water
Kings Cove - Sewer
Leisure Lakes - Sewer
Summit Chase - Sewer
Valencia Terrace - Sewer

PSC -- Twenty-Eighth Data Request Response
March 10, 2011

Holiday Haven - Sewer
Morningview - Sewer
Palm Port - Sewer
Palm Terrace - Sewer
Park Manor - Sewer
Silver Lake Oaks - Sewer
South Seas - Sewer
Sunny Hills - Sewer
The Woods - Sewer
Venetian Village - Sewer
Zephyr Shores - Sewer
Beecher's Point - Sewer
Jungle Den - Sewer
Lake Gibson Estates - Sewer
Rosalie Oaks - Sewer
FL Central Commerce Park - Sewer
Village Water - Sewer
Kings Cove - Water
Picciola Island - Water
Silver Lake Est/Western Shores - Water
Western Shores
Tangerine - Water
Carlton Village - Water
Fern Terrace - Water
Grand Terrace - Water
Lake Gibson Estates - Water
Piney Woods - Water
St. John's Highlands - Water
Sunny Hills - Water
Valencia Terrace - Water
48 Estates - Water
Gibsonia Estates - Water
Interlachen Lake/Park Manor - Water
Park Manor - Water
Lake Osborne Est - Water
Orange Hill/Sugar Creek - Water
Quail Ridge - Water
Ravenswood - Water
Sugar Creek - Water
Venetian Village - Water
Beecher's Point - Water
East Lake Harris Estates - Water
Friendly Center - Water
Haines Creek - Water
Harmony Homes - Water
Hermits Cove - Water

Hobby Hills - Water
Holiday Haven - Water
Imperial Mobile Terrace - Water
Jungle Den - Water
Kingswood - Water
Lake Josephine - Water
Leisure Lakes - Water
Morningview - Water
Oakwood - Water
Palm Port - Water
Palm Terrace - Water
Palms Mobile Home Park - Water
Pomona Park - Water
River Grove - Water
Rosalie Oaks - Water
Saratoga Harbour - Water
Sebring Lakes - Water
Silver Lake Oaks - Water
Skycrest - Water
Stone Mountain - Water
Summit Chase - Water
The Woods - Water
Tomoka/Twin Rivers - Water
Twin Rivers - Water
Village Water - Water
Welaka - Water
Wootens - Water
Zephyr Shores – Water
Chuluota - Sewer
Chuluota – Water

2. For the following questions, please refer to AUF's response to OPC's Interrogatory No. 96:
 - a. Please explain why AUF did not make an adjustment to the balance of ADITs to reflect deferred income taxes that would be generated by the requested pro forma additions to plant.
 - b. Please explain in detail why such adjustment would have decreased the deferred income tax credit balance. Please provide a calculation of such pro forma adjustments to the deferred income tax balance.

Response:

- a. AUF did not make an adjustment to the balance of ADITs to reflect deferred income taxes that would be generated by the requested pro forma additions to plant because pro forma values were

not settled at the time of the calculation of deferred taxes for the instant filing, and because the impact on total accumulated deferred taxes was expected to be immaterial.

If AUF had considered the deferred tax effect of the pro forma plant additions when filing its MFRs, the adjustment would have generated a \$26,813 decrease in the deferred income tax credit based on the calculations shown below:

Deferred Tax on proforma plant additions

	IT Equipment	Non Utility Property	Utility Property	Total
Pro Forma Plant Additions	264,584	200,279	3,414,607	3,879,469
Florida Tax Depreciation	52,917	40,056	68,292	161,265
Book depreciation	44,106	33,387	149,770	227,263
Temporary Difference	8,811	6,669	(81,478)	(65,998)
Less: State Deferred Tax	(485)	(367)	4,481	3,630
Net temporary difference	8,326	6,302	(76,997)	(62,368)
Federal Deferred Tax	2,914	2,206	(26,949)	(21,829)
Total Deferred Tax	3,399	2,573	(31,430)	(25,459)
AUF allocation %	60.15%	100.00%	100.00%	
Allocated Deferred Tax	2,044	2,573	(31,430)	(26,813)

3. In its response to Staff's Eighth Data Request, Question No. 2, AUF stated that "Bonus depreciation was not included for periods after 12/31/2009, for assets in service, or pro forma additions to plant. Pro forma tax depreciation expense was not included in the computation of temporary differences."
 - a. Please provide the amount and calculation of pro forma regulatory depreciation expense related to the pro forma additions to plant that was included in the company's MFRs for computation of rate base and cost of service.
 - b. Please explain tax normalization complications associated with the pro forma approach used by the company in its filings. Please also explain whether such an approach is in compliance with IRC Sec. 168(i)(9)(B) regarding the use of inconsistent estimates and projections.

Response:

- a. The amount of pro forma regulatory depreciation expense related to the pro forma additions to plant that was included in the Company's MFRs for computation of rate base and cost of service is \$227,263. The calculation of pro forma regulatory depreciation expense related to the pro forma additions to plant that was included in the company's MFRs is contained in the AUF Pro forma Plant Adds.xlsx source file, which was provided in the MFR CD in response to Staff's Second Data Request.
- b. As noted in the response to request #2a of this Staff Set 28, pro forma values were not settled at the time of the calculation of deferred taxes for the instant filing and the impact on total accumulated deferred taxes was expected to be immaterial. The Company will be in full compliance with section IRC Sec. 168(i)(9)(B) upon the filing of Federal Income tax returns for years 2010 and 2011.
4. Please explain why there is such a relatively low amount of deferred income taxes, \$1,456,472, associated with total capital of \$71,042,890, as compared to \$1,470,921 of deferred income taxes associated with \$36,347,772 of capital reconciled to rate base for the systems included in this rate case.

Response:

Given the limited number of issues that give rise to the accumulation of deferred taxes, there is no direct relationship between total capital and deferred taxes. However, the relatively low amount of deferred income taxes, \$1,456,472, associated with total capital of \$71,042,890 is due primarily to the inclusion of the non AUF systems in these total Florida amounts. For example, Sarasota Water and Wastewater systems are the largest non AUF systems embedded in the total Florida amounts. The Sarasota Water and Wastewater systems contain an extremely low relative amount of deferred taxes of \$136,108, associated with total Sarasota Water and Wastewater capital of \$19,862,676.

5. Please provide a revised "Staff Set 3 #6 D-2 Rev 1.xlsx" with all formulas intact reflecting inclusion of deferred income tax effects associated with pro forma plant. Please also include D-2 Reconciliation Schedules with all formulas intact for all systems on a consolidated and stand-alone basis.

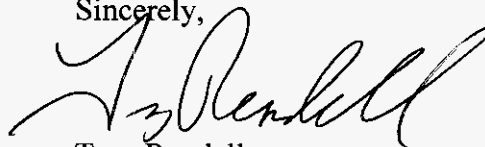
Response:

A revised Staff DR Set 28 #5 (Staff Set 3 #6 D-2 Rev 1).xlsx file is enclosed in the CD labeled Staff Twenty Eighth Data Request Response, reflecting inclusion of deferred income tax effects associated with pro forma plant additions.

PSC – Twenty-Eighth Data Request Response
March 10, 2011

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,

A handwritten signature in black ink, appearing to read "Troy Rendell". The signature is fluid and cursive, with the first name "Troy" being more prominent than the last name "Rendell".

Troy Rendell
Rates Manager

cc: Bruce May, Holland & Knight
Office of Commission Clerk
Patricia Christensen, Office of Public Counsel
Kimberly A. Joyce, Aqua America, Inc.
Kenneth Curtin, Esquire, Attorney for Arredondo Farms