

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 100330-WS

APPLICATION FOR INCREASE IN WATER AND  
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.

VOLUME 1

Pages 1 through 185

PROCEEDING: HEARING

COMMISSIONERS  
PARTICIPATING: CHAIRMAN ART GRAHAM  
COMMISSIONER LISA POLAK EDGAR  
COMMISSIONER RONALD A. BRISÉ  
COMMISSIONER EDUARDO E. BALBIS  
COMMISSIONER JULIE I. BROWN

DATE: Tuesday, November 29, 2011

TIME: Commenced at 9:30 a.m.  
Concluded at 1:15 p.m.

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

REPORTED BY: LINDA BOLES, RPR, CRR  
FPSC Reporter  
(850) 413-6734

DOCUMENT NUMBER-DATE  
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## 1 APPEARANCES:

2 D. BRUCE MAY, JR., and GIGI ROLLINI, ESQUIRES,  
3 Holland & Knight, LLP, Post Office Drawer 810,  
4 Tallahassee, Florida 32302-0810, appearing on behalf of  
5 Aqua Utilities Florida, Inc.

6 KENNETH M. CURTIN and ANDREW McBRIDE,  
7 ESQUIRES, Adams and Reese, LLP, 150 Second Avenue North,  
8 Suite 1700, St. Petersburg, Florida 33701, appearing on  
9 behalf of YES Communities, Inc., d/b/a Arredondo Farms.

10 CECILIA BRADLEY, ESQUIRE, Office of the  
11 Attorney General, The Capitol, L01, Tallahassee, Florida  
12 32399-1050, appearing on behalf of the Attorney General  
13 and the Citizens of the State of Florida.

14 PATRICIA CHRISTENSEN and STEPHEN C. REILLY,  
15 ESQUIRES, Office of Public Counsel, c/o The Florida  
16 Legislature, 111 West Madison Street, Room 812,  
17 Tallahassee, Florida 32399-1400, appearing on behalf of  
18 the Citizens of the State of Florida.

19 JOSEPH D. RICHARDS, ESQUIRE, Pasco County  
20 Attorney's Office, Pasco County Board of County  
21 Commissioners, 8731 Citizens Drive, Suite 340, New Port  
22 Richey, Florida 34654, appearing on behalf of the  
23 Citizens of Pasco County.

1 APPEARANCES (Continued):

2 RALPH JAEGER, LISA BENNETT, and LARRY HARRIS,  
3 ESQUIRES, FPSC General Counsel's Office, 2540 Shumard  
4 Oak Boulevard, Tallahassee, Florida 32399-0850,  
5 appearing on behalf of the Florida Public Service  
6 Commission Staff.

7 CURT KISER, GENERAL COUNSEL; MARY ANNE HELTON,  
8 DEPUTY GENERAL COUNSEL; and SAMANTHA CIBULA, ESQUIRE,  
9 Office of the General Counsel, Florida Public Service  
10 Commission, 2540 Shumard Oak Boulevard, Tallahassee,  
11 Florida 32399-0850, Advisors to the Florida Public  
12 Service Commission.

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## P R O C E E D I N G S

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2           **CHAIRMAN GRAHAM:** Good morning, everyone. I'm  
3 glad you all made it here safely, and hope you all had a  
4 fantastic Thanksgiving weekend. I know I did.

5           We are here for Docket No. 100330. Let the  
6 record show it is Tuesday, November the -- what's  
7 today's date?

8           **MR. JAEGER:** 29th. 29th.

9           **CHAIRMAN GRAHAM:** November the 29th, and it's  
10 about 9:30 a.m. We'll call the hearing to order. If I  
11 can get Staff to read the notice.

12           **MR. JAEGER:** Yes, Chairman. Pursuant to  
13 notice, this time and place was set for the technical  
14 hearing in the Docket No. 100330-WS, application for  
15 increased water and wastewater rates by Aqua Utilities  
16 Florida, Inc.

17           **CHAIRMAN GRAHAM:** All right. Let's take  
18 appearances. Who do we have here?

19           **MS. CHRISTENSEN:** Patty Christensen with the  
20 Office of Public Counsel. I'm also putting in an  
21 appearance for Steve Reilly with the Office of Public  
22 Counsel.

23           **MS. BRADLEY:** Cecilia Bradley, Office of the  
24 Attorney General, for the Attorney General and the  
25 Citizens of Florida.

1                   **MR. RICHARDS:** Joe Richards, Pasco County.

2                   **MR. CURTIN:** Kenneth Curtin and Andrew McBride  
3 for YES Communities.

4                   **MR. MAY:** Bruce May and Gigi Rollino with the  
5 Holland & Knight law firm on behalf of Aqua Utilities  
6 Florida.

7                   **CHAIRMAN GRAHAM:** All right.

8                   **MR. JAEGER:** Ralph -- we've got staff over  
9 here. Ralph Jaeger, and also Lisa Bennett, Larry Harris  
10 on behalf of Commission Staff.

11                   **MS. HELTON:** And Mary Anne Helton, Advisor to  
12 the Commission. I'd also like to make an appearance for  
13 our General Counsel, Curt Kiser, as well as Samantha  
14 Cibula.

15                   **CHAIRMAN GRAHAM:** Is that everybody? Okay.  
16 Preliminary matters?

17                   **MR. JAEGER:** Chairman, I'm not aware of any  
18 pending motions. And the first thing I would go to is a  
19 correction to the Prehearing Order, unless parties have  
20 any pending motions.

21                   Due to my error, a change in the position for  
22 Pasco County did not make it into the Prehearing Order.  
23 For Issues 27, 28, and 29, they, they want their  
24 position to be "The rate band structure may be unfairly  
25 discriminatory to the customers of certain systems." So

1 that's 27, 28, and 29, the language is the same.

2 And then Issue 31, Pasco County's position  
3 should read as follows: "The monthly rates should be  
4 set to avoid being unfairly discriminatory to the  
5 customers of certain systems to the benefit of others."

6 And at that -- at this time that's the only  
7 corrections I know of to the Prehearing Order, other  
8 than I'll go through all the excused witnesses and the  
9 time certain. We'll do that in just a minute. And --  
10 but that was the, the first correction I had to the  
11 Prehearing Order.

12 **MR. CURTIN:** Mr. Jaeger, if I could just  
13 interrupt for a minute. With Issue No. 31, since we  
14 moved Issue No. 24 basically to Issue 31A, I do -- YES  
15 will change their position on Issue 31 because of that.  
16 I don't know when we want to address that. I know it  
17 was, it was changed in the pre -- by one of the motions,  
18 but we want to change our position on that. We can  
19 address it either now or later.

20 **MR. JAEGER:** Okay.

21 **MR. CURTIN:** And that's because of the, that's  
22 because of the change from Issue 24 to 31A.

23 **MR. JAEGER:** Yes. Chairman, basically Issue  
24 24 was excluded or deleted, and Issue 31A was added by  
25 the Prehearing Officer. And that was done, you know,

1 last -- well, I mean, the order did not come out until  
2 last Wednesday, November 23rd. And so the parties, none  
3 of the parties have taken a position on 31A at this  
4 time. And if he wants to redo his position on 31, he  
5 can. And then if you want, we can see if the parties  
6 want to state their position on 31A.

7 **CHAIRMAN GRAHAM:** Do you want to see how all  
8 the parties take their position on 31A, and then see if  
9 that flushes itself out?

10 **MR. JAEGER:** Okay. Issue 31A reads, "Are the  
11 resulting rates affordable within the meaning of fair,  
12 just, and reasonable, pursuant to Sections 367.081 and  
13 367.121, *Florida Statutes*?" And none of the parties  
14 have had a chance to take a position on that issue yet.

15 **CHAIRMAN GRAHAM:** Mr. Jaeger, are we doing  
16 that now?

17 **MR. JAEGER:** They may want to look at that and  
18 give that to us later. I wasn't -- was it Mr. Curtin  
19 or Mr. -- I'm sorry.

20 **MR. CURTIN:** We can do it a little later. I  
21 just want to reserve my right. And I think 31 needs to  
22 change YES's position, because 31A has been thrown into  
23 that. So it's kind of like a fallout issue. We were  
24 going to defer to OPC on 31, but now since 31 -- Issue  
25 24 has been really thrown into 31A, my position will

1 change slightly on 31 and 31A because of that. But we  
2 can handle that another time. I just want to make sure  
3 that I reserve that right.

4 **CHAIRMAN GRAHAM:** Mr. Jaeger?

5 **MR. JAEGER:** We can handle it later as needed.  
6 I think it's -- I don't think it's really important.  
7 It's -- in the briefs they'll have to put in their  
8 position, and it'll come later in the briefs naturally.  
9 So whether we get it on the record, I don't think it's  
10 that important at this time. We just have added 31A and  
11 that will be a part of the issues that will be briefed.

12 **CHAIRMAN GRAHAM:** Okay.

13 **MR. MAY:** Mr. Chair?

14 **CHAIRMAN GRAHAM:** Mr. May.

15 **MR. MAY:** I've spoken to Mr. Curtin, and Aqua  
16 has no issues with respect to him changing his position  
17 on 31 or 31A. That's fine with us.

18 **CHAIRMAN GRAHAM:** Okay.

19 **MR. MAY:** I did want to bring one minor that I  
20 think might have slipped by. In response to Staff's  
21 last tranche of discovery, I think there is one pending  
22 request for confidentiality that was filed very  
23 recently. Excuse me. It was in response to one of  
24 OPC's requests, but that's, I think that is pending.

25 **MR. JAEGER:** Okay. I didn't -- I don't

1 remember that. Okay.

2 **MR. MAY:** I don't think, I don't think it's  
3 going to have any impact on our proceedings over the  
4 next couple days. But just for the record I think there  
5 is one outstanding request for confidentiality, and  
6 that's never interfered with the progress of the  
7 proceeding in the past, so.

8 **CHAIRMAN GRAHAM:** Whose request was that?

9 **MR. MAY:** It was Aqua's.

10 **CHAIRMAN GRAHAM:** Okay.

11 **MS. HELTON:** Mr. Chairman, that information  
12 that was requested to be confidential would just be  
13 treated confidential throughout the proceeding, and so  
14 that, that happens, unfortunately quite a bit sometimes  
15 because of the volume of confidentiality requests that  
16 we receive right before a proceeding.

17 **CHAIRMAN GRAHAM:** Okay.

18 **MR. JAEGER:** The next thing I'd like to go to  
19 is we have two classes of stipulations that the  
20 Commission should review and approve. And if you'll  
21 turn to page 63 of the Prehearing Order, that's where  
22 the stipulations start.

23 The first type of stipulation is deemed  
24 stip -- are those issues deemed stipulated pursuant to  
25 Section 120.80(13)(b) because they were not put at issue



1 by any party. And those go from 63 through page 76, and  
2 all the parties have agreed to these stipulations.

3 And if you want to, we can go issue --  
4 stipulation by stipulation, or however you wanted to  
5 proceed, Chairman.

6 **CHAIRMAN GRAHAM:** Is it necessary to go  
7 through all these stipulations one by one?

8 **MR. JAEGER:** I don't think so. All the  
9 parties have agreed to these stipulations.

10 **CHAIRMAN GRAHAM:** Any of the Commissioners  
11 have any questions or concerns about any of these  
12 stipulations? I'm not seeing a light come on.

13 Mr. Jaeger, how do we approve all these  
14 stipulations all at one time?

15 **MR. JAEGER:** Approve all stipulations on pages  
16 63 through 76 deemed stipulated pursuant to Section  
17 120.80(13)(b).

18 **CHAIRMAN GRAHAM:** Okay. Commissioner Edgar.

19 **COMMISSIONER EDGAR:** Thank you, Mr. Chairman.  
20 To put us in that posture, I would move that we approve  
21 the proposed stipulations described as Type A, beginning  
22 on page 62 in the Prehearing Order.

23 **CHAIRMAN GRAHAM:** It's been moved and seconded  
24 to approve all stipulations labeled as proposed  
25 stipulations A, starting on the bottom of 62 through 76.

1 Any further discussion? It's been moved and seconded.

2 Commissioner Balbis.

3 **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.

4 I just want to make sure that throughout this hearing  
5 process if there are questions asked of the witness that  
6 may affect some of these as it's a fallout issues, that  
7 we would still have the opportunity to make some  
8 adjustments to it.

9 **CHAIRMAN GRAHAM:** If you're saying fallout  
10 issues, just more a numerical number change and not a  
11 substantive change?

12 **COMMISSIONER BALBIS:** Correct. Just numerical  
13 changes.

14 **CHAIRMAN GRAHAM:** That is fine.

15 Mr. Jaeger, you look like you're --

16 **MR. JAEGER:** These were basically pretty set  
17 numbers. They were not in dispute, and all the parties  
18 have agreed. I mean, we still have all the issues on  
19 rate case expense, affiliate transactions, wages,  
20 salaries, and this was just -- these issues were not put  
21 at issue by any party and all the parties agreed. So  
22 I'm not sure --

23 **COMMISSIONER BALBIS:** Let me -- Mr. Chairman,  
24 if I can just clarify.

25 **CHAIRMAN GRAHAM:** Sure.

1                   **COMMISSIONER BALBIS:** For example, on page 63  
2 of the PAA, Issue 2, if we have other adjustments that  
3 aren't included as audit adjustments, we would still  
4 have that opportunity to do so. I just want to make  
5 sure we still have that.

6                   **MR. JAEGER:** I believe all the audit  
7 adjustments were in except one, which all the parties  
8 agreed that it was not appropriate. And so everything  
9 that's in the audit that was from the audit has been  
10 agreed to. But --

11                   **COMMISSIONER BALBIS:** I'll try one more time.  
12 If the Commission comes up with additional adjustments  
13 that weren't picked up by the audit report, we can still  
14 have that ability to do so; correct?

15                   **MR. JAEGER:** Yes. Yes, Commissioner.

16                   **COMMISSIONER BALBIS:** Okay. That's all I had.

17                   **CHAIRMAN GRAHAM:** Okay. We have a motion on  
18 the floor to accept all the items, all the stipulated  
19 items as indicated. Any further discussion? All in  
20 favor, say aye.

21                   (Affirmative response.)

22                   Any opposed?

23                   (No response.)

24                   By your action, you've approved those  
25 stipulation -- those stipulated items.

1 Mr. Jaeger.

2 **MR. JAEGER:** Okay. We have a Type B  
3 stipulation. That's where the utility and Staff agree  
4 and all the Intervenors take no position, and that's  
5 basically just that the leverage formula to be used in  
6 setting rates is the leverage formula in existence at  
7 the time of the Commission's final vote on the rate  
8 applications. That's the Type B stipulation that needs  
9 to be approved.

10 **CHAIRMAN GRAHAM:** Any questions from the  
11 Commissioners on the Type B stipulations?

12 Seeing none, Commissioner Edgar.

13 **COMMISSIONER EDGAR:** Thank you, Mr. Chairman.

14 I move that we approve the stipulations  
15 described as Type B stipulations, beginning on page  
16 76 of the Prehearing Order.

17 **CHAIRMAN GRAHAM:** It's been moved and seconded  
18 to accept the Type B stipulations on page 76. Any  
19 further discussion? Seeing none, all in favor, say aye.

20 (Affirmative response.)

21 **CHAIRMAN GRAHAM:** Any opposed?

22 (No response.)

23 By your action, you've approved the Type B  
24 stipulations.

25 Mr. Jaeger.

1           **MR. JAEGER:** Next, subsequent to the issuance  
2 of the Prehearing Order, ten more witnesses were excused  
3 from the hearing and some others were set for dates  
4 certain. If you will turn to page 5 of the Prehearing  
5 Order, I can run you through that real quick.

6           **CHAIRMAN GRAHAM:** Okay.

7           **MR. JAEGER:** Okay. On page 5, OPC's first  
8 witness, Andrew Woodcock, he has been stipulated to, his  
9 testimony and exhibits. And then going down, you have  
10 Jack Mariano, which is Pasco County's witness, he's been  
11 set for a date certain, December 1st. Angela Chelette,  
12 the very next witness, has been excused. Jay W.  
13 Yingling has been excused. Catherine Walker has been  
14 excused. Ms. Daugherty was excused before, and Scott  
15 Harrison is excused. So the last five witnesses are all  
16 excused on that page.

17           Then going to page 6, Diane Loughlin, if you  
18 look at Schwarb, Lott, Piltz, those four have all been  
19 excused, that's the first four. And then Patricia  
20 Carrico has been set for a day certain, November 30th,  
21 2011, and she'll be here at 9:30 tomorrow morning,  
22 unless we tell her to get here earlier.

23           Next witness, Tom Rauth, has been excused.  
24 Caitlyn Eck has been excused. Then the next four, they  
25 have plus signs, Miller, Montoya, Penton, and Sloan,

1 they're are all set for December 1st. That's this  
2 Thursday. And Miller and Sloan are coming from quite  
3 some ways away, and they've been authorized to get here  
4 at 10:45. And Ms. Montoya and Ms. Penton will be here  
5 at 9:30 or earlier, if needs be.

6 Then Kimberly Dodson, which is the next  
7 witness after Sloan, has now been excused. Jeffery  
8 Greenwell, he's set for November 30th at 10:45 also.  
9 Blanca Rodriguez has been excused, and Rhonda Hicks and  
10 Kathy Welch are already designated as being excused.

11 And then on page 7, Frank Seidman, AUF's last  
12 witness on their rebuttal, he's been excused, and his  
13 testimony and exhibits have been stipulated to.

14 And what we will do is we will move their  
15 testimony into the record at the appropriate time when  
16 they come up in the order.

17 And we will in a minute be going over the  
18 Comprehensive Exhibit List and we can figure out how to  
19 do their exhibits at that time.

20 **CHAIRMAN GRAHAM:** Do we want to wait or do you  
21 just want to do all that now?

22 **MR. JAEGER:** We can do all the stipulated  
23 exhibits. First of all, I'd like to get to the -- get  
24 the Comprehensive Exhibit List moved into the record,  
25 and then we can go through and I can go over which ones

1 have been stipulated.

2 **CHAIRMAN GRAHAM:** Okay. Continue.

3 **MR. JAEGER:** Okay.

4 **MR. CURTIN:** Mr. Jaeger, if I could remind you  
5 that Ms. Kurz, I don't think you mentioned Ms. Kurz,  
6 that Ms. Kurz's mother -- remember, Ms. Kurz's mother is  
7 going into surgery tomorrow, and she has -- either her  
8 testimony needs to come in or, if her surgery goes well,  
9 she will try to be here on the 7th and 8th if we go to  
10 that. That was what we had agreed to.

11 **MR. JAEGER:** Yes. It's -- she is designated  
12 in the order, I skipped over her, but she is designated  
13 on page 5 as excused. But I think that's contingent --  
14 I mean, if she can come, they may get her here, but  
15 she's been excused and stipulated to if she can't make  
16 it because of her mother.

17 **MR. CURTIN:** Exactly. Her mother goes to  
18 surgery tomorrow and she's in Colorado. And if the  
19 surgery goes well, she does have a flight here for the  
20 7th or 8th. If this hearing goes that long, which I  
21 suspect it will, she will then be here if the surgery  
22 goes well. If not, I think we've all stipulated her  
23 testimony will come in then. So I will know better  
24 after the surgery.

25 **CHAIRMAN GRAHAM:** Okay.

1           **MR. JAEGER:** Okay. The Comprehensive Exhibit  
2 List, Staff usually does a composite exhibit, but in  
3 this case, because of all the controversy, we just  
4 listed, we listed our exhibits that we were wanting to  
5 get into the record separately, and then the parties  
6 said which ones they could stipulate to.

7           First of all, on the first page, service  
8 hearing exhibits, there were 51 numbered service hearing  
9 exhibits, up to 51. And 2 was the late-filed exhibit  
10 that AUF was given permission to file, to respond to the  
11 customer testimony, that one has not been stipulated to.  
12 But 3 through 51 have been stipulated to by all the  
13 parties. So that's every service hearing exhibit except  
14 the service hearing Exhibit 2.

15           **CHAIRMAN GRAHAM:** So you want to, you want to  
16 enter Exhibit 1, which is the Comprehensive List, and  
17 Exhibits 3 through 51?

18           **MR. JAEGER:** That's correct.

19           **CHAIRMAN GRAHAM:** We will move Exhibit 1 and  
20 Exhibits 3 through 51 into the record.

21           (Exhibit 1 through 283 marked for  
22 identification.)

23           (Exhibits 1 and 3 through 51 admitted into the  
24 record.)

25           **MR. JAEGER:** Okay. The next ones that I see



1 are Ms. Kurz's exhibits. She's been stipulated. That's  
2 132, if you'll turn to it. That's where they pick up  
3 again. She had four exhibits, and those are listed as  
4 stipulated. So we could move those in.

5 **CHAIRMAN GRAHAM:** So we'll move Exhibits 132  
6 through 135 into the record.

7 (Exhibits 132 through 135 admitted into the  
8 record.)

9 **MR. JAEGER:** The next are Staff's direct,  
10 starting on 147, Exhibit 147. Mr. Yingling's one  
11 exhibit has been stipulated, and Ms. Walker's two  
12 exhibits have been stipulated. They were right there  
13 together, 147, 148, and 149. And then Ms. Dodson's  
14 Exhibit 156 -- do you want to do them by groupings, or  
15 how did you want to do that, Chairman?

16 **CHAIRMAN GRAHAM:** We'll move 147, 148, 149,  
17 and 156 into the record.

18 (Exhibits 147, 148, 149, and 156 admitted into  
19 the record.)

20 **MR. JAEGER:** Okay. Next is Rhonda Hicks. She  
21 had Exhibits 160 through 163, and Kathy Welch had  
22 Exhibits 164 through 168, and those have all been  
23 stipulated. 160 through 168.

24 **CHAIRMAN GRAHAM:** We'll move 160 through 168  
25 into the record.

1 (Exhibits 160 through 168 admitted into the  
2 record.)

3 **MR. JAEGER:** Okay. Exhibit 171, it says AUF's  
4 response to Staff's 24th data request, numbers 3 through  
5 5, we -- Staff would like modify that to make that  
6 numbers 4 through 5. And Ms. -- the parties have said  
7 that 4 through 5 may be stipulated, so that would be one  
8 to add. That happened this morning that we agreed to  
9 that, and so we would have 171 through 176 stipulated.

10 **CHAIRMAN GRAHAM:** We'll move 171 through 176  
11 into the record, with the change on 171 from 3 to 5 to  
12 4 to 5.

13 (Exhibits 171 through 176 admitted into the  
14 record.)

15 **MR. JAEGER:** That's correct.

16 Then 178 through 183, those have been  
17 stipulated.

18 **CHAIRMAN GRAHAM:** 178 through 183 we will move  
19 into the record.

20 (Exhibits 178, 179 through 183 admitted into  
21 the record.)

22 What about 184?

23 **MR. JAEGER:** The -- I think -- well, YES had  
24 an objection. They wanted all of their -- you know,  
25 instead of piecemealing their discovery into the record,

1 they wanted to have all their discovery into the record.  
2 And so they would not just -- they would not stipulate  
3 to their discovery being piecemeal. And Mr. May and YES  
4 were trying to work out an agreement about whether all  
5 of AUF's discovery to YES and all of YES's discovery to  
6 AUF would be admitted, and I understand that, that an  
7 agreement was not reached.

8 **CHAIRMAN GRAHAM:** That's fair enough. Let's  
9 go on.

10 **MR. JAEGER:** Okay. Next is 187 and 188.  
11 Those have been stipulated.

12 **CHAIRMAN GRAHAM:** We'll move 187 and 188 into  
13 the record.

14 (Exhibits 187 and 188 admitted into the  
15 record.)

16 **MR. JAEGER:** And 189 has not been stipulated.  
17 That was a production of documents that came in very  
18 late, and OPC just has not had a chance to review all  
19 the PODs, and they want to look those over.

20 And so then we have stipulated Exhibits 190,  
21 191, and 192.

22 **CHAIRMAN GRAHAM:** Move 190 through 192 into  
23 the record.

24 (Exhibits 190, 191, and 192 admitted into the  
25 record.)

1           **MR. JAEGER:** Then the next ones are, again,  
2 discovery, either from AUF to YES or YES to AUF, and  
3 those are still in dispute.

4           Then on -- the next exhibit is 196. And it  
5 was the Steven E. Grisham deposition. It's 196, 197,  
6 198, 199, and 200. Those are all depositions with some  
7 designated exhibits, but basically those have all been  
8 stipulated to.

9           **CHAIRMAN GRAHAM:** Move 196 through 200 into  
10 the record.

11           (Exhibits 196 through 200 admitted into the  
12 record.)

13           **MR. MAY:** Mr. Chairman?

14           **CHAIRMAN GRAHAM:** Yes, sir.

15           **MR. MAY:** Just a matter of clarification.  
16 I've spoken to Mr. Curtin. I haven't had a chance to  
17 talk with Ms. Christensen, but these depositions do not  
18 have the errata sheets. It's a technicality. At the  
19 appropriate time we have the errata sheets for the  
20 depositions and we have the appropriate exhibit numbers.  
21 I just -- I didn't want -- I didn't know if you wanted  
22 to do that now or we could wait. That's up to you all.

23           **CHAIRMAN GRAHAM:** Is that something we have do  
24 or is that something that Staff can handle later?

25           **MR. MAY:** I don't think it should be a problem

1 with any of the parties, but --

2 **MR. CURTIN:** No objection by YES.

3 **MS. HELTON:** My recommendation, Mr. Chairman,  
4 would be to acknowledge that the errata sheets will be  
5 attached to each of the depositions and distributed to  
6 the parties to correspond with the exhibit numbers that  
7 have been designated.

8 **CHAIRMAN GRAHAM:** So noted.

9 **MR. JAEGER:** The last thing we have was the  
10 application and the MFRs of AUF, and those pick up --  
11 just a second. That starts with 228 and goes through  
12 283, and that's basically the application and MFRs. And  
13 I think Ms. Christensen had verbally advised me that she  
14 had no problems with the application and MFRs coming in,  
15 but I've never gotten that for sure, and I wanted to  
16 make sure. I didn't mark them as stipulated, but  
17 basically that's, that's all the exhibits that would  
18 encompass the MFRs and the application.

19 **MS. CHRISTENSEN:** We have no objection to the  
20 MFRs coming into the record.

21 **MR. JAEGER:** Okay.

22 **CHAIRMAN GRAHAM:** Okay. We will move  
23 Exhibits 228 through --

24 **MR. JAEGER:** 283.

25 **CHAIRMAN GRAHAM:** -- 283 into the record.

1 (Exhibits 228 through 283 admitted into the  
2 record.)

3 **MR. MAY:** Mr. Chair?

4 **CHAIRMAN GRAHAM:** Yes.

5 **MR. MAY:** I believe that we might have  
6 overlooked Exhibit 227. It's the curriculum vitae for  
7 Mr. Seidman, who has been stipulated in, so.

8 **MR. JAEGER:** Okay. 227 was Frank Seidman, and  
9 he has been a stipulated witness pursuant to an  
10 agreement reached between the parties.

11 **CHAIRMAN GRAHAM:** Is there any problem with  
12 227 going into the record?

13 **MS. CHRISTENSEN:** No objection. I do have a  
14 question. Are we moving in the witnesses' exhibits at  
15 this time? Because Mr. Woodcock also would be, need to  
16 have his exhibits moved in.

17 **MR. JAEGER:** I think for the rest of the  
18 witnesses, the way we've done before is just at the time  
19 that witness comes up to testify, and then we move the  
20 rest of the exhibits, their exhibits in at that time.

21 **MS. CHRISTENSEN:** Right. But Mr. Woodcock has  
22 been stipulated.

23 **MR. JAEGER:** Okay. Where is his?

24 **MS. CHRISTENSEN:** It's page 7 of the exhibits,  
25 numbers 71 through 80.

1                   **MR. JAEGER:** Okay. Mr. Woodcock had 71  
2 through 80?

3                   **MS. CHRISTENSEN:** That's correct.

4                   **MR. JAEGER:** And he's been stipulated. He's  
5 not going to be here.

6                   **MS. HELTON:** Mr. Chairman, if I could make a  
7 recommendation, and this is also kind of a selfish  
8 recommendation for purposes of having a very clean  
9 record and easy to work with. If we could enter  
10 testimony in the order that it's presented in the  
11 Prehearing Order and enter the stipulated witnesses', or  
12 excused witnesses' testimony at that time too, and then  
13 take up their exhibits, I think it will make for a  
14 cleaner, smoother, easier process.

15                   **MR. MAY:** I'm sorry. I've created this  
16 nightmare. I apologize.

17                   **CHAIRMAN GRAHAM:** That's all right. Let's go  
18 ahead and enter 71 through 81 into the record because  
19 we've already talked about it -- I'm sorry -- 71 through  
20 80 into the record because we've already talked about  
21 it, and we're going to put 227 into the record.

22                   (Exhibits 71 through 80 and 227 admitted into  
23 the record.)

24                   And, Mr. Jaeger, you have the floor.

25                   **MR. JAEGER:** That's all Staff had. I'm aware

1 that a part of the stipulation for Woodcock and Seidman  
2 involved Staff's first set of interrogatories 1 through  
3 14 to OPC, and I didn't know how we wanted to handle  
4 that. And also I would hope that YES and AUF would work  
5 on a stipulation concerning their discovery and what can  
6 be stipulated in.

7 **MR. MAY:** Mr. Chairman, with respect to AUF  
8 and YES, I think Mr. Curtin and I certainly at the next  
9 break would be able to talk about that, and I don't see  
10 why we couldn't agree that all of our discovery  
11 responses to them would be entered in, and we would  
12 stipulate to all of your responses to us.

13 **MR. CURTIN:** And we've already talked about  
14 that. We can talk about that more on the break.

15 The only other issue, Mr. Jaeger, I'd like to  
16 point out just for the record that Exhibit 140 for  
17 Mallory Starling is the same as customer service hearing  
18 Exhibit No. 14. It's the same document. So I don't  
19 know if you want for the record just to enter that in,  
20 because 14 is in.

21 **MR. JAEGER:** That came in under the service  
22 hearings. Service Hearing Exhibit 14 was Mallory  
23 Starling, so it would be just duplicative to enter it  
24 again. So it came in under the service hearings.

25 **MR. CURTIN:** No problem.



1           **MR. JAEGER:** She adopted that in her testimony  
2 that she provided at the service hearing.

3           **MR. CURTIN:** I just wanted to make sure for  
4 the record that is in as 14.

5           **MS. CHRISTENSEN:** Can I ask, for purposes of  
6 clarification, Mr. Jaeger had said it was part of the --  
7 and he's correct, it's part of the agreement for  
8 stipulating Woodcock and Mr. Seidman's testimony into  
9 the record. There was OPC's responses to Staff's first  
10 set of interrogatories. If that was -- I don't know if  
11 that's already been marked and identified as part of the  
12 Comprehensive Exhibit List. If not, I would request  
13 that we do that at this time and maybe make it Exhibit  
14 284.

15           **MR. JAEGER:** It has not been. That was not  
16 Staff's wish list. That's basically what all these, the  
17 known exhibits and what Staff wanted as an exhibit. So,  
18 yes, we can mark that as an exhibit, if you want. And  
19 as you say, it would be 284, and it would be Staff's  
20 first set of interrogatories, OPC interrogatories  
21 1 through 14.

22           **CHAIRMAN GRAHAM:** Staff's first set of  
23 interrogatories, set -- I mean, you said 1 through 14?

24           **MR. JAEGER:** 1 through 14.

25           **CHAIRMAN GRAHAM:** We enter 284 into the

1 record.

2 (Exhibit 284 marked for identification and  
3 admitted into the record.)

4 Mr. Jaeger, are we done with exhibits?

5 **MR. JAEGER:** I think so, Commissioner --  
6 Chairman.

7 **CHAIRMAN GRAHAM:** Okay. What's next?

8 **MR. JAEGER:** I believe what I have showing is  
9 we -- the record and have opening statements, and each  
10 party has been allowed ten minutes for opening  
11 statements.

12 **CHAIRMAN GRAHAM:** We've already gone over all  
13 the excused witnesses, the DEP, Department of Health,  
14 and all these other people, we have done that already?

15 **MR. JAEGER:** Yes, we have.

16 **CHAIRMAN GRAHAM:** Okay. This says the  
17 Prehearing Officer is going to allow everybody ten  
18 minutes each for opening statement. Thank you for that,  
19 Mr. Brisé.

20 Let's get started. Where are we starting?  
21 OPC? Who's starting? Aqua.

22 **MR. MAY:** Good morning, Mr. Chairman,  
23 Commissioners. I'm Bruce May with the law firm of  
24 Holland & Knight appearing today on behalf of Aqua  
25 Utilities Florida.

1                   This has been a long and winding process.  
2                   Since AUF filed for rate relief back in September of  
3                   2010, the Commission has conducted nine service  
4                   hearings -- service meetings and ten customer service  
5                   hearings around the state, my client has responded to  
6                   massive volumes of discovery served by OPC, and the  
7                   parties have filed pages and pages of testimony. We're  
8                   now coming to the end of that process, and I want to  
9                   take a moment to commend your Staff and the Office of  
10                  Public Counsel for the work they've done on this case.

11                  Although I don't always agree with  
12                  Ms. Christensen and Mr. Kelly on many of the issues in  
13                  the case, I do have the utmost respect for their  
14                  professionalism, and I have the same respect for  
15                  Ms. Bradley, Mr. Richards, and Mr. Curtin.

16                  Commissioners, as you begin to consider the  
17                  evidence today, I would ask that you keep in mind that  
18                  this is a rate case that you preside over just like any  
19                  other rate case for electric or gas utilities. And just  
20                  like an electric or gas utility, my client is only  
21                  seeking the opportunity to earn a reasonable return on  
22                  the investment in infrastructure improvements that's  
23                  made around the state.

24                  With respect to these investments, the  
25                  evidence will show that since the last rate case Aqua

1 has invested over \$11 million in system improvements to  
2 address operational and service quality issues  
3 identified by you, the Commission, by DEP, and by the  
4 customers. Aqua has filed for approximately  
5 \$3.7 million in rate relief so that it can recover the  
6 cost of those system improvements.

7           Commissioners, raising rates is not something  
8 that my client takes lightly, particularly in these,  
9 these current economic times. Aqua has done everything  
10 it can to tighten its belt before coming to you for rate  
11 relief. The evidence will show that the decision to  
12 seek additional revenues was one of necessity to allow  
13 my client to remain viable.

14           OPC's own witnesses don't dispute that my  
15 client needs rate relief. Rather, the disagreement  
16 between OPC and Aqua centers around the amount of that  
17 rate increase. As you know, this case has been handled  
18 through the PAA process, so the only issues to decide  
19 are those narrow issues that have been protested by the  
20 parties.

21           At the beginning of each of the customer  
22 service hearings, you'll recall that Mr. Kelly talked  
23 about some of those disputed issues. He mentioned  
24 affiliated transactions, used and useful calculations,  
25 pro forma plant additions, and quality of service.

1                   With respect to affiliated transactions, what  
2 Mr. Kelly did not tell you and what the evidence will  
3 show is that Aqua's affiliate charges were found to be  
4 reasonable in the last case and are every bit as  
5 reasonable in this case. Indeed, the testimony of  
6 Mr. Stanley Szczygiel will show that Aqua conducted a  
7 Florida market study which demonstrated that the  
8 services Aqua receives from its affiliates actually cost  
9 less than if Aqua secured those services from outside  
10 sources. Moreover, the evidence will show that Aqua's  
11 management fees from its affiliates have actually  
12 decreased since the last case.

13                   With respect to used and useful calculations,  
14 the evidence will show that Aqua's used and useful  
15 percentages were closely reviewed and established by the  
16 Commission in the last case, and there is no valid  
17 reason to change those used and useful percentages now.

18                   With respect to pro forma plant additions,  
19 these are capital projects that will be completed  
20 outside of the test year, but because their completion  
21 is imminent, they are properly included in rate base.  
22 The evidence will show that many of these capital  
23 projects that were imminent when you voted on the PAA  
24 order are now, in fact, complete. Thus, there's no  
25 valid reason to exclude those projects from rate base.

1                   Moreover, the testimony of Mr. Preston  
2 Luitweiler will show that most of the pro forma projects  
3 that are part of this rate case are directly related to  
4 the aesthetic water quality improvement initiatives that  
5 was part of Phase II monitoring of quality of service.

6                   Let me speak briefly on quality of service.  
7 In the last rate case the Commission found that the  
8 quality of service for the systems in this rate case  
9 were marginal. For almost three years now Aqua's  
10 customer service and its environmental compliance have  
11 been under the microscope and have been reviewed from  
12 almost every angle imaginable, including by your own  
13 staff. Based on that stringent and objective review, no  
14 one can credibly say that Aqua's overall quality of  
15 service has gone anywhere but up since the last rate  
16 case. Indeed, the overwhelming evidence will show that  
17 Aqua's quality of service has significantly improved  
18 since the last case and, in fact, is good.

19                   Following the last rate case there was  
20 considerable discussion about how you measure customer  
21 satisfaction. To give some structure to this issue, the  
22 Commission directed OPC and Aqua to collaborate and  
23 agree on a program that would enable the Commission to  
24 evaluate Aqua's customer service in a cost-effective  
25 manner. Aqua and OPC met and agreed on a monitoring

1 program that used reports and Aqua's own internal  
2 quality goals to evaluate Aqua's customer service.

3 Not only did Aqua and OPC agree on that plan,  
4 the Commission approved that plan. The evidence will  
5 show that Aqua complied in all respects to that  
6 monitoring plan and has initiated seven water quality  
7 improvements projects that it agreed to do. The  
8 evidence will show that the Chuluota system has also  
9 been the subject of substantial capital investment,  
10 which has significantly improved the water quality for  
11 that system.

12 The evidence will show that your Staff has  
13 independently reviewed the results of those monitoring  
14 reports and found that the company's meters and its  
15 bills accurate and that the company is committed to  
16 addressing customer satisfaction. Likewise, the  
17 testimony of FDEP witnesses in this case shows that the  
18 company is committed to environmental compliance and  
19 that AUF's water and wastewater product is satisfactory.

20 As you listen to OPC's testimony regarding  
21 these monitoring reports, I'd respectfully ask that you  
22 pay close attention to OPC's position. That position  
23 has changed. The evidence will show that OPC is now  
24 ignoring and disagreeing with the very metrics and  
25 monitoring reports to which it initially agreed and

1 which the Commission approved. The evidence will also  
2 show that OPC is now attempting to deflect attention  
3 away from the monitoring reports by focusing instead on  
4 a nonissue called back billing.

5 With all due respect, this is a tempest in a  
6 teapot. The evidence will show that back billing is not  
7 illegal and it's not improper, but instead it's an  
8 expected outcome and occurrence in the utility industry.  
9 The evidence will also show that back billing is rare on  
10 Aqua's system. And when it does occur, Aqua complies  
11 with the Commission rules.

12 Finally, I'd asking you to listen closely as  
13 OPC's witnesses discuss the disputed issues in this  
14 case. You will hear these witnesses try to distance  
15 themselves from fundamental cost of service ratemaking  
16 principles and regulatory precedent. You will also hear  
17 them attempt to marginalize the doctrine of regulatory  
18 certainty, which is a cornerstone of sound utility  
19 ratemaking. These actions have caused the parties to  
20 relitigate settled issues, which in turn has caused rate  
21 case expense to increase.

22 When we were last before you on May 24th, you  
23 warned that a protest of the PAA order would inevitably  
24 cause rate case expense to increase. Your warning has  
25 now come to fruition.



1           Only two parties protested the PAA order  
2 before the deadline, OPC and Ms. Wambsgan. Ms. Wambsgan  
3 has withdrawn her protest. Thus, but for OPC's protest,  
4 we would be operating under a PAA order, under which had  
5 rate case expense set at around \$78,000, far less than  
6 what has been incurred to litigate OPC's protest.

7           Although there are a number of standard issues  
8 in this rate case, this case also has its own unique  
9 aspects. Several people have intervened, but when  
10 confronted with discovery about what motivated their  
11 intervention, they've mysteriously withdrawn. We have a  
12 local governmental entity that by its own admission  
13 seeks to use this case as leverage to force the utility  
14 to sell some of its systems to the Florida Governmental  
15 Utility Authority.

16           We also have a national for-profit developer  
17 of mobile home communities intervene and  
18 contemporaneously sue the utility in circuit court. We  
19 also have special interest groups on the periphery that  
20 are using this rate case to advance their own political  
21 agendas.

22           However, at the end of the day, this rate case  
23 is not about political agendas and this case is not  
24 about a commercial dispute over a failing development  
25 project. This case is about what tariffed rate will

1 allow the company to provide safe and reliable services  
2 to its customers.

3 This case is about the rule of law, about a  
4 rate case -- a ratemaking process, one built on  
5 statutes, rules, and long-standing precedent that some  
6 would like to stand on its head.

7 Finally, Commissioners, this case is about  
8 competent, substantial evidence, which we are now  
9 prepared to put on to support our request for rate  
10 relief.

11 Thank for your time.

12 **MS. CHRISTENSEN:** Good morning, Commissioners.  
13 My name is Patty Christensen, and I represent the  
14 Citizens of the State of Florida.

15 In these economic times where families,  
16 businesses, the State of Florida, and local governments  
17 are tightening their belts, the Commission needs to make  
18 sure that this company is only getting the dollar it  
19 needs to provide reliable service, not a wish list of  
20 projects and items they could make do without.

21 Aqua has asked for an increase of 4.1 million.  
22 This increase was requested less than two years after  
23 the 2008 rate case increase, which went into effect  
24 shortly after the final order was issued May 29th, 2009.  
25 The PAA order in this case approved a \$2.6 million

1 increase for Aqua. While the PAA order approved an  
2 increase less than what the company requested, Aqua's  
3 request is still grossly overstated and excessive in  
4 today's economy.

5 Citizens, through the witnesses Kim Dismukes,  
6 Andy Woodcock, Denise Vandiver, and Earl Poucher, have  
7 reviewed the company's minimum filing requirements,  
8 conducted and reviewed discovery, and reviewed the  
9 customers' comments in this case. And our close review  
10 of the company's proposal shows that the company has at  
11 most supported \$312,149 (phonetic) of the \$4.1 million  
12 it had requested.

13 Now you've heard for yourselves from Aqua's  
14 customers that they are unsatisfied with Aqua's product  
15 and the quality of service. Since the customers spoke  
16 so forcibly on this subject, I will not attempt to cover  
17 everything they said, but I would like to address a few  
18 points.

19 First, as you heard, these customers are the  
20 ones who are forced to buy this product. It is clear  
21 from their testimony that if they had a choice, they  
22 would stop buying Aqua's product. Some have already  
23 stopped using their product. If this was not a monopoly  
24 service, Aqua might well be going out of business due to  
25 their poor product and the quality of service.

1                   Second, despite the ongoing monitoring plan,  
2 whatever the improvements are the company has made in  
3 the last two years, they are not enough to change  
4 customers' minds. The Commission should judge the  
5 company's quality of service based on its product and  
6 customer service, not based on recent changes that may  
7 not have proven over time.

8                   Aqua has a record, starting before the last  
9 rate case, of providing poor quality service. Based on  
10 this poor quality of service, the Commission should find  
11 the overall quality of service unsatisfactory and reduce  
12 their ROE 100 basis points.

13                   Now several adjustments deserve special  
14 attention and special discussion. First, Aqua's  
15 requested increase for its affiliate transactions is  
16 unjustified and should be denied. Citizens believe that  
17 these cost increases should be significantly reduced.  
18 Based on the shifting of affiliate costs from the  
19 miscellaneous account to management fee accounts, it was  
20 hard to tell what the percentage increase in affiliate  
21 costs were from the previous rate case.

22                   However, management fees, where the majority  
23 of the affiliate expenses are charged, increased by more  
24 than 250%, and in one system by over 400%. But the  
25 miscellaneous account did not decrease by anywhere near

1 that percent, despite the company's claim that this was  
2 caused -- that this caused -- was caused by the  
3 management fee increase.

4 Aqua's total requested affiliate cost request  
5 was 3.2 million. Citizens' witness Dismukes analyzed  
6 the basis for the 3.2 million in affiliate costs. Based  
7 on her comparative rate analysis and comparative service  
8 analysis, Citizens believe that Aqua's request should be  
9 reduced by 977,000.

10 However, if Aqua is just held to the 2007  
11 levels, plus customer growth and inflation, which range  
12 between 9% and 16%, depending upon the system, this  
13 reduction to affiliate costs would even be greater at  
14 1.2 million.

15 Second, Aqua's rate case expense is  
16 overstated. Aqua has not supported all of its requests,  
17 and in some instances has caused additional rate case  
18 expense unnecessarily. And customers should only have  
19 to pay for a reasonable average attorney rate, not the  
20 more expensive attorney rate. And even though Aqua  
21 would like to blame Citizens for the rate case expense,  
22 Aqua was the one who chose to file back-to-back rate  
23 cases and to file this cause using the PAA process. So  
24 customers and stockholders should split rate case  
25 expense 50/50.

1           In the last rate case, this company was given  
2 two years of salary increases. Given the current  
3 economic environment where many people are losing their  
4 jobs and are having difficulty paying for their bills,  
5 no salary wage increase is warranted.

6           Because of Aqua's billing problems, its bad  
7 debt expense should be adjusted to reflect good billing  
8 practices, and since Aqua has experienced lower than  
9 expected revenues due to its high rates and poor  
10 service, the billing determinants should be adjusted  
11 upward. Stockholders, not the customers, should bear  
12 the risk of lost revenue.

13           In addition to the adjustments I have  
14 discussed, Aqua has requested some pro forma plant  
15 adjustments to historic test year, but the utility has  
16 not stated -- or started, excuse me, construction on  
17 several of these requested pro forma plant more than 18  
18 months after the close of the test year.

19           In addition, Citizens believe that Aqua has  
20 asked for some plant to be considered 100% used and  
21 useful when the actual used and useful percentage are  
22 significantly less. Citizens believe that the request  
23 violates ratemaking principles and the requirement of  
24 *Florida Statutes* that only property used and useful for  
25 public service be used for ratemaking purposes.

1           The Commission has the opportunity, based on  
2 the evidence presented in this case, to make a decision  
3 and a determination based on the facts and evidence  
4 presented in this case, and is not necessarily bound by  
5 precedent and the need to follow precedent blindly.

6           And last but not least, you've heard from  
7 Aqua's customers that this rate increase will create a  
8 hardship for them. You've heard from the customers that  
9 Aqua's rates were unaffordable, and that was before this  
10 request. These customers need and deserve to have all  
11 the fat and excesses trimmed from Aqua's rate of  
12 request.

13           Based on Citizens' recommended reductions to  
14 Aqua's request to remove the excesses I discussed, an  
15 overall reduction to Aqua's request of at least  
16 2.3 million is warranted.

17           We are convinced that after hearing all the  
18 evidence the Commission will agree that these  
19 adjustments are not only warranted but appropriate,  
20 given today's economic circumstances, Aqua's  
21 unsatisfactory quality of service, and unaffordable  
22 rates. Thank you.

23           **CHAIRMAN GRAHAM:** Ms. Bradley?

24           **MS. BRADLEY:** Thank you. I'm here today on  
25 behalf of the Attorney General for the Florida customers

1 of Aqua.

2 The statute says that customers are entitled  
3 to fair and reasonable rates, and we think that's  
4 especially true when we're talking about something as  
5 basic as water. Now the water quality has been an issue  
6 for years with Aqua. This is not the first time we've  
7 been here.

8 At the customer hearings you heard many people  
9 that came to testify and they told you that they are  
10 simply afraid to drink the water. It's damaging  
11 appliances, it looks bad, it soils their clothes, their  
12 doctors have told them not to let their children drink  
13 it, and unfortunately some of these people can't afford  
14 the expense of bottled water. The ones that can are  
15 doing that, but many of them can't afford it.

16 They've talked about -- one lady in tears  
17 talked about her dog dying and the vet told her not to  
18 let the dogs, the animals drink the water.

19 Who knows what is in these? We know that  
20 there have been some notices, and boil water notices  
21 unfortunately. People have complained they don't get  
22 those in time, or they're left hanging on the door and  
23 they must have blown off, this type of thing. When they  
24 do find them, it's usually long after they've been using  
25 the water, and they wonder what they may have been



1 drinking.

2           There was a well driller that came to testify  
3 in Gainesville. I believe it was Gainesville; one of  
4 the public service hearings. And he talked about the  
5 fact that he used to drill wells, and he talked about  
6 the sediment that he sees in Aqua's water and the fact  
7 that when he was drilling wells, if they got that kind  
8 of sediment out of the wells they were drilling, they  
9 would have to redrill them and make sure that there was  
10 not this type of sediment. That that's just not  
11 acceptable.

12           One of the other things, Mr. May referred to  
13 it, and with all due respect to him, we think back  
14 billing is an issue here. There were people that came  
15 and testified. One lady testified that she's had to  
16 move in with her parents and that they got a bill for  
17 \$20,000. Now they calculated, and her, I think,  
18 90-year-old father, who's very feeble, and her mother  
19 would have had to drink something like 200 gallons of  
20 water per hour to have used that much water. And  
21 obviously that was an error. They finally, after  
22 repeated calls, got it fixed.

23           But it puts a burden on people. And sometimes  
24 people will get a bill for a few thousand or several  
25 hundred. And in this economy that's impossible for

1 these people to pay it. And they offer to put them on  
2 payment plans, which is nice, except we heard again and  
3 again, if you're a dollar late or a day short, then  
4 we'll turn off your water.

5 And when they're trying to pay high water  
6 bills and make up for what they weren't billed -- one  
7 lady that got a lot of attention at one of the hearings,  
8 that may have been in Gainesville as well, she said she  
9 called them repeatedly, she kept calling, and they  
10 wanted to argue her, and she kept calling until they  
11 finally sent her a bill. And that's the effort people  
12 are having to make to get timely bills. And that, you  
13 know, that may be legal, but it sure is a poor business  
14 practice, and it puts an unbearable burden on the  
15 citizens, who are trying, just trying to pay their  
16 bills.

17 We think affordability is an issue here.  
18 Citizens are entitled to clean water and they're  
19 entitled to water at a rate that they can pay. And I  
20 know the economy is bad and I know that the economy is  
21 not Aqua's fault, but we have to take that into account  
22 when we're determining what's the appropriate rate for  
23 them to be paid.

24 And a number of customers at every one of the  
25 hearings came in and said they simply couldn't afford

1 it. And these are not people that are filling swimming  
2 pools and water parks and various things like that.

3 These are people that are just trying to live.

4 There were people that talked about they  
5 didn't participate, there was a young lady that came and  
6 said she didn't participate in a lot of exercises and  
7 things like some of her friends. She'd like to, but if  
8 she did that, then she'd have to bathe more and she  
9 couldn't afford to.

10 They talked about not flushing the toilet  
11 unless they just had to. One lady talked about helping  
12 another older person who would collect the water from  
13 her shower and use that to flush the toilet. Again and  
14 again we heard stories of all the drastic measures that  
15 people are taking in order to try to get by.

16 They're doing their best not to use water.  
17 And to add insult to injury, when you have -- and I  
18 brought some of the water they brought us. When you  
19 have water that looks kind of like this, I don't think  
20 any of us would want to drink that. That came out of  
21 somebody's faucet.

22 We had another lady that took some water out  
23 of her water tank, and it's black stuff floating in it.  
24 When you have to look at water like that and pay these  
25 kind of rates for it, it's neither fair nor reasonable.

1 And it's certainly not affordable for these people.

2 You know, they're struggling. These are  
3 people that have worked hard all of their lives, many of  
4 them retired. They just want a fair rate. They want to  
5 be able to drink water. They don't want to have to  
6 worry about what's in it or is it going to soil their  
7 clothes, is it going to make their children sick.

8 You know, there were people that talked about  
9 going and borrowing water from friends that lived across  
10 the street. I had a, I believe it was Mr. Dewey called  
11 me last week and told me that he compared his rates to  
12 one person on one side who paid about \$30, another  
13 person on the other side paid about 20 something  
14 dollars, and his was over a hundred because he was in  
15 the Aqua territory and the others were not.

16 You know, these people are bothered. Why are  
17 they having to pay so much for water that, one, is not  
18 as clean as their neighbors and, two, they can't afford?

19 And it's having an impact on the communities.  
20 We had testimony about people that -- we also heard from  
21 small business people that had some rental property.  
22 They can't keep it up because the renters can't afford  
23 to pay the water bills. One lady was very upset. She  
24 said she helped take care of some property and that she  
25 had to tell some customers they didn't have to pay the

1 rent, which put a burden on her to try to pay the taxes,  
2 because they were trying to pay their water bill.

3 You know, we heard stories everywhere we went  
4 that was very similar to this, about people were  
5 struggling to pay these bills. They want to pay the  
6 bills. They're not people that ignore bills or don't  
7 want to pay. They're just honest, hardworking people  
8 that want clean water at an affordable rate, and they're  
9 not getting it with Aqua.

10 They talked about the number of homes in their  
11 community that are in foreclosure now, or the neighbors  
12 that have moved, and frequently the excuse given was  
13 they just couldn't afford the water. Other people are  
14 kind of in a catch-22 because they would like to move  
15 someplace where they could get clean and affordable  
16 water, but when people hear that Aqua is their water  
17 supplier, they don't want to buy their homes. So  
18 they're stuck there.

19 You know, this is something that has to be  
20 considered. We're not trying to say don't give money to  
21 Aqua, don't -- make sure they're a solid, profitable  
22 company. But you have to take this in light of the fact  
23 that these customers are hurting. They're in dire  
24 circumstances and they can't afford an increase like  
25 this. They just had one a couple of years ago, and that

1 put a burden they're having, still having trouble with.

2 The statute says that there is clean and  
3 affordable rates, and I never thought you'd -- you  
4 probably never thought you'd hear me agree with Mr. May,  
5 but he's correct. This is not about politics, it's not  
6 about anyone's interests other than that of the  
7 customers, the citizens of Florida who are Aqua  
8 customers, and all they want is clean and affordable  
9 water.

10 And we would ask in your deliberations that  
11 you keep that in the front of your mind. Thank you.

12 **CHAIRMAN GRAHAM:** Thank you.

13 Mr. Curtin or Bernstein [sic].

14 **MR. CURTIN:** Good morning, ladies and  
15 gentlemen, Commissioners.

16 Myself and my client usually do not agree on  
17 Aqua. We do agree on Aqua on one thing, that all the  
18 attorneys, all the PSC Staff, Mr. Jaeger, Ms.  
19 Christensen, Mr. May, everybody on staff has been very  
20 highly professional in this long process, and I want to  
21 thank them for that professionalism and what they have  
22 displayed to me. It is a pleasure being -- having  
23 worked with them, even though we don't agree on  
24 everything.

25 Ladies and gentlemen, I have the pleasure of

1 representing YES Communities. YES Communities and Aqua  
2 have a lot of similarities. YES is a national company;  
3 aqua is a national company. YES is in many different  
4 states around the nation, so is Aqua in many different  
5 states. YES is headquartered in Colorado. Aqua is  
6 headquartered in Pennsylvania. Aqua provides an  
7 essential life service, water and wastewater. YES  
8 provides an essential life service, affordable housing  
9 for residents.

10 Aqua and YES both serve the same communities.  
11 They're vulnerable members of society. They're  
12 hardworking people, but are on the lower economic  
13 echelon of society. They are not highly educated for  
14 the most part, but we serve them, provide this  
15 life-essential service of affordable housing. Aqua  
16 serves them, providing another life-essential service of  
17 water and wastewater. That, ladies and gentlemen, are  
18 where the similarities end.

19 The differences between the companies are  
20 stark. If you read some of their depositions of their  
21 employees, using an old military term from the Marine  
22 Corps, the actual boots on the ground, the employees who  
23 go to the actual park. The employees that you will hear  
24 from here have never been to Arredondo Farms, not once.  
25 Mr. Luitweiler, an environmental compliance agent, never

1       been to Arredondo Farms.

2                   But the boots on the ground individuals who  
3 actually go there every day, how have they described the  
4 clients that they serve? They describe them as baby  
5 mamas living off of government checks. How does YES  
6 describe them? YES describes them as working families,  
7 single mothers, disabled veterans, retirees. That stark  
8 difference will show you the stark difference in how the  
9 quality of service, the quality of the water and  
10 wastewater that they provide is starkly different than  
11 the quality of affordable housing that YES attempts to  
12 provide, because YES treats their clients as clients.  
13 If they don't treat them well, treat them with good  
14 service, treat them with good, affordable housing, they  
15 won't have clients.

16                   Aqua, on the other hand, they're stuck. Many  
17 of these people in our park rent only -- rent both the  
18 land and a mobile home. They can leave. Many of the  
19 people there own their own mobile home. They cannot  
20 leave, or it would be too expensive for them to hire  
21 someone to pick up their mobile home and leave. And  
22 many of these mobile homes are older. They may be  
23 called mobile homes, but a lot of times those built in  
24 the '80s, they can't be moved. Codes won't allow them  
25 to be moved.



1           You actually, you actually heard, if you went  
2 to the Gainesville hearing, of an instance where a lady  
3 who wants to pay her bill, she only owes a couple  
4 hundred dollars a month to YES for the land, but she  
5 owned her mobile home since the '80s. She can't afford  
6 to live there because of the water. She cannot move her  
7 mobile home because of the age of it. She tore it down  
8 and threw it away and she had to move, because she  
9 didn't want to abandon her home and be sued by YES or  
10 have an abandoned house there on a property owned by  
11 YES, so she actually tore it down. That is the extent  
12 of what has happened by these water and wastewater  
13 rates. And not only the rates, but the quality of  
14 service and the quality of the water. When you're  
15 paying triple the amount of your neighbor next door but  
16 you are getting the service and water quality that you  
17 get here with Aqua, that is where it really comes into  
18 play.

19           And you will see consistent evidence of  
20 perpetual issues of lack of customer service, billing  
21 errors, excessive back billing, water quality and  
22 wastewater quality services. You'll hear from Aqua's  
23 witnesses, which say we meet every DEP regulation. But  
24 then you heard from, if you went to Arredondo Farms, you  
25 heard from the residents there that they cannot -- every

1 two, three weeks at times they have to replace their hot  
2 water heating elements because of encrustations, because  
3 of the calcification on them.

4 You heard from a lady who has an oxygen  
5 machine which she needs to breathe which has clogged up  
6 because of the water. You have heard from a mother  
7 whose ten-year-old son has a skin condition called  
8 eczema, which is you get can boils on your skin. And  
9 that is -- every time he takes a bath that condition  
10 comes out and those boils come out.

11 Those issues, while you drink the water and it  
12 may not kill you, but you use the water, you cannot use  
13 it the way water is meant to be used. You cannot take a  
14 shower in it, you cannot wash your car because it turns  
15 white, you cannot bathe your young children in it.  
16 Those are the type of issues that affect families,  
17 especially at this lower socioeconomical scale.

18 Now YES didn't have to intervene this case.  
19 YES collects their rent. They don't provide the water  
20 and wastewater. But YES took it on themselves to try to  
21 protect the residents of this park, residents who both  
22 own their own homes and only rent the land, residents  
23 who rent both the home and the land, at enormous expense  
24 to YES, expense they don't get back from their  
25 ratepayers.

1           You will actually hear testimony where YES has  
2 lowered their rents to try to help people pay their  
3 water bill. You will hear testimony where YES has paid  
4 water bills because there've been issues of back billing  
5 where the residents just can't pay it, and they paid it  
6 for the residents to try to keep them there. That is  
7 what YES does as a company, as a good corporate citizen.

8           Aqua, on the other hand, yes, they have a  
9 right to back bill. We know the Commission's rules as  
10 far as everybody else here, OPC knows them, Staff knows  
11 them. But the back billing is there for a reason; it's  
12 for a mistake. You will see consistent areas where Aqua  
13 has no -- they bill for water but they don't bill for  
14 wastewater for six, eight months. That's something a  
15 good company looking into their billing should know  
16 immediately. Someone is using water, they're flushing  
17 the toilet. You should be billing them for wastewater.  
18 And they bill them, back bill them six months later.  
19 These are just individuals who cannot pay that. It's as  
20 simple as that. You try to take another \$25, \$30 out of  
21 their paycheck, that is actually taking food off their  
22 table.

23           So while back billing is there for mistakes,  
24 meter issues, you will see that this is a consistent  
25 issue where if Aqua had looked into it, really just

1 looked into it and noticed that they're billing someone  
2 for water and not wastewater or for wastewater and not  
3 water, or they haven't billed someone for six months,  
4 eight months, a year. And consistently we only have  
5 examples of what the residents come to us, because when  
6 they have a problem with Aqua, they come to us because  
7 we have officers on site there, we have a management  
8 office, they think we are -- have something to do with  
9 it, and we help them. We don't have to help them, but  
10 we try to contact Aqua. Why? Because these individuals  
11 are afraid of Aqua. They're afraid to get their water  
12 cut off. They're afraid to call them. So we try to  
13 help them with that, and we have done that.

14 And only -- and Aqua has worked with us on  
15 certain issues, but only after this rate case. Only  
16 after we intervened have they helped, have they actually  
17 assisted with us. And even that is very sporadic. Aqua  
18 does assist and does try to show that they're doing  
19 something, but only in order to obtain a rate increase.

20 The last rate increase, what they did two  
21 years ago, they said they will improve quality. Only  
22 after that rate increase did they try to improve quality  
23 in three or four or five different areas, aesthetic  
24 quality. Well, I submit that the statute says this  
25 Commission needs to take in water and, and service

1 quality issues as they exist, not a promise to improve  
2 to get a rate increase.

3 If Aqua wants to come to this table to get a  
4 rate increase, they should show that they, their service  
5 and quality issues are up to par, not that they will  
6 improve it. Once the rate increase goes in, they have  
7 no incentive to improve it.

8 You will hear testimony that, and you've seen  
9 the prefiled testimony, that they talk about how  
10 Arredondo Farms would be in the second tier of aesthetic  
11 water quality issues. Well, it seems to be only if you  
12 complain enough, hire lawyers, intervene that you get  
13 into that. The other parks, I don't know where they're  
14 at. And I'm happy that Arredondo will be in there, but  
15 you'll also hear that will be part of the next rate  
16 increase too. After we improve your water, after we try  
17 to do that, we're going to do another rate increase to  
18 pay for it. Fine. But before you give this rate  
19 increase, let us improve the water and then move for  
20 your rate increase for improving it.

21 Aqua has demonstrated that they should not be  
22 trusted to improve service in wastewater. They should  
23 be told to improve it before they come to this rate  
24 increase. Yes, they probably deserve some rate  
25 increase, but I submit to you that their basis points

1 for quality of water service should be increased, the  
2 basis points you take off of their rate increase here  
3 today.

4 And you also see that --

5 **CHAIRMAN GRAHAM:** Sir, you've got a minute  
6 left.

7 **MR. CURTIN:** Thank you, ladies and gentlemen.

8 **MR. RICHARDS:** Good morning. I'm Joe  
9 Richards. I'm an Assistant County Attorney with Pasco  
10 County, and I'm here on behalf of the Board of County  
11 Commissioners, who voted to intervene in this case  
12 because they are the elected officials that are closest  
13 to the customers.

14 Aqua has three systems in Pasco County, and  
15 they're frustrated and they're feeling desperate, and  
16 these Pasco County Commissioners are the closest elected  
17 officials, so they come to them. We've received scores  
18 of complaints, e-mails, and phone calls to the  
19 Commission's office, and they felt that if the county  
20 intervened in this action, they could provide some  
21 assistance, help their voices get heard in this matter.

22 They're frustrated that Aqua's people are in  
23 Pennsylvania, and they feel like they can't get in touch  
24 with them. They're tired of being put on hold, so they  
25 call the county commission office. And that's the

1 reason why the county commission intervened in this  
2 action.

3 And we support the position of the Office of  
4 Public Counsel and the Attorney General and the  
5 statements that they made. We've heard numerous  
6 complaints that the people don't drink the water, the  
7 quality of service is bad, and we're trying to assist  
8 them in this.

9 Pasco County did contact its Florida  
10 Governmental Utility Authority, of which it's a member,  
11 to look at purchasing the systems, Aqua's systems in  
12 Pasco County.

13 But we're here to help the customers that feel  
14 that the water quality service is very less than  
15 satisfactory, and they're hoping to get rate relief.  
16 There are low income residents of Pasco County that  
17 cannot afford these rates, which are more than double  
18 the rates of comparable systems in Pasco County, the  
19 systems provided by the city of New Port Richey in Pasco  
20 County. These rates are exorbitantly high, and we hope  
21 that you would reduce their rate increase.

22 Thank you.

23 **CHAIRMAN GRAHAM:** Okay. Mr. Jaeger, are we  
24 completely done with all the exhibits for now?

25 **MR. JAEGER:** I believe so, sir. I do have one

1 point of clarification I want to make, if I can do that  
2 at the appropriate time.

3 **CHAIRMAN GRAHAM:** Sure.

4 **MR. JAEGER:** I think Mr. May referred to an  
5 OPC POD request that they had requested confidential  
6 status for. Basically they requested a temporary  
7 protective order and then OPC, pursuant to the  
8 procedures, we issued a temporary protective order on  
9 November 23rd, so that document request POD 228 is  
10 protected by Order No. PSC-0543-PCO-WS.

11 **CHAIRMAN GRAHAM:** Okay.

12 **MR. JAEGER:** So that was why I sort of gave  
13 you that blank stare. I couldn't think of anything that  
14 we hadn't covered. And so that, it is protected until  
15 OPC decides what it wants to do with that.

16 **CHAIRMAN GRAHAM:** Okay.

17 **MR. JAEGER:** Other than that, I know of no  
18 other exhibits or any other preliminary matters except  
19 go to the testimony and swear in the witnesses.

20 **CHAIRMAN GRAHAM:** All right. I meant to do  
21 this at the beginning of the meeting. I think now is  
22 probably just as good a time as any to let you guys know  
23 what to expect this week. Every day we're starting at  
24 9:30. Today we're probably going to go a little longer,  
25 probably going to go to about 6:30 or so. Both



1 Wednesday and Thursday we'll be finishing about 4:30 or  
2 5:00, just so you guys can make your plans on how you  
3 need to do that. We'll probably be breaking for lunch  
4 about 1:00 all three days.

5 And that being said, let's take a ten-minute  
6 break. I've got about 12 minutes 'til. So about two  
7 'til, let's come back and we'll start swearing the  
8 witnesses in, unless there's some question or concern  
9 that anybody's got before we go on break.

10 All right. Let's take a ten-minute break.

11 (Recess taken.)

12 I guess one thing we need to make sure, I'll  
13 swear in all the witnesses that we have here now, but we  
14 need to make sure as we call the witnesses up that we  
15 ask if they have already been previously sworn and make  
16 sure that that's put on the record.

17 If I can get everybody that's a current  
18 witness now that's here to stand and raise your right  
19 hand.

20 (Witnesses collectively sworn.)

21 Okay. Mr. May.

22 **MR. MAY:** Thank you, Mr. Chairman. With your  
23 permission, Aqua would call its direct witness, Mr. Stan  
24 Szczygiel.

25 **STAN F. SZCZYGIEL**

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

4 **EXAMINATION**

5 **BY MR. MAY:**

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

8 A Yes, I have.

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

11 A My name is Stan Szczygiel. My business  
12 address is 762 West Lancaster Avenue, Bryn Mawr,  
13 Pennsylvania 19010.

14 Q Mr. Szczygiel, did you prepare and cause to be  
15 filed 18 pages of prefiled direct testimony in this  
16 case?

17 A Yes, I have.

18 Q Do you have that prefiled direct testimony  
19 before you today?

20 A I do.

21 Q Do you have any corrections or revisions to  
22 your prefiled testimony?

23 A No, I do not.

24 Q If I were to ask you the questions that are  
25 contained in your prefiled testimony today, would your

1 answers be the same?

2 A Yes, they would.

3 MR. MAY: Mr. Chairman, I'd ask that the  
4 prefiled direct testimony of Mr. Stan Szczygiel be  
5 inserted into the record as though read.

6 CHAIRMAN GRAHAM: We will insert  
7 Mr. Szczygiel's prefiled direct testimony into the  
8 record as if though read.

9 MR. MAY: Thank you.

10 BY MR. MAY:

11 Q Mr. Szczygiel, have you attached any exhibits  
12 to your prefiled testimony?

13 A Yes, I have. Exhibits 1 through 3.

14 Q Do you have any corrections or revisions to  
15 those exhibits?

16 A No, I do not.

17

18

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## 1                   BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2                                   AQUA UTILITIES FLORIDA, INC.

3                                   DIRECT TESTIMONY OF STAN F. SZCZYGIEL

4                                   DOCKET NO. 100330-WS

5

6   **Q.    Please state your name and business address.**7   A.    My name is Stan F. Szczygiel. My business address is 762 West Lancaster Avenue,  
8        Bryn Mawr, Pennsylvania 19010-3489.

9

10 **Q.    By whom are you employed and what is your position?**11 A.    I am employed by Aqua Services, Inc. as Manager of Rates and Planning for the  
12        Southern and Midwest region. Aqua Services, Inc. is a service company subsidiary of  
13        Aqua America, Inc.

14

15 **Q.    Please describe your duties and responsibilities in that position.**16 A.    I am responsible for all financial, rate, and business planning functions performed in  
17        Aqua America's Midwest and Southern regions, which includes all operations in  
18        Florida, Texas, North Carolina, Virginia, Ohio, Indiana and Illinois.

19

20 **Q.    Please describe your educational background and professional experience.**21 A.    I am a graduate of Drexel University with a M.B.A. in Finance. I received my  
22        undergraduate degree from Arizona State University with a B.S. in Accounting. In  
23        addition, I passed my CPA examination and completed my experience requirements  
24        in Pennsylvania. Prior to my joining Aqua America, I held several senior financial

1 management positions, including the Chief Financial Officer of Apogee Inc., Abbey  
2 Home Healthcare, Xyan, Inc., and Prescient Systems, Inc. After graduating college,  
3 my first career position was on the audit staff at Coopers & Lybrand, a public  
4 accounting firm at which I worked for four years.

5  
6 **Q. Have you previously appeared and presented testimony before state regulatory  
7 bodies?**

8 A. I have testified before the Florida Public Service Commission (the "Commission") in  
9 AUF's last rate case in Docket No. 080121-WS. In addition, I have testified before  
10 the North Carolina Public Utilities Commission.

11  
12 **Q. What is the purpose of your testimony?**

13 A. My testimony is filed for five primary reasons. First, I provide a general overview of  
14 AUF's request for rate relief. Second, I address the following issues in the  
15 Commission's Proposed Agency Action Order No. PSC-11-0256-PAA-WS, which  
16 the Office of Public Counsel ("OPC") protested in its petition filed on July 1, 2011:  
17 the appropriateness of affiliated transaction costs allocated to AUF from its affiliates;  
18 the appropriateness of the billing determinants set forth in AUF's MFRs; and, the  
19 appropriate amount of rate case expense to be recovered in this proceeding. Third, I  
20 address the appropriateness of the Corporate information technology ("IT") plant  
21 costs allocated to AUF, which AUF raised as an issue in its cross-petition filed on  
22 July 11, 2011. Fourth, I address the appropriateness of executive incentive  
23 compensation allocated to AUF, which AUF raised as an issue in its cross-petition  
24 filed on July 11, 2011. Finally, I address the appropriateness of the bad debt expense

1 set forth in AUF's MFRs, which issue was raised by YES Companies LLC ("YES")  
2 in its cross-petition filed on July 11, 2011.

3

4 **Q. Are you sponsoring any exhibits in this case?**

5 A. Yes, I am sponsoring the following exhibits, which are attached to my testimony:

6 **Exhibit SS-1** - is the AAI Corporate Charges Allocations Manual, which was  
7 previously provided to OPC and other parties in AUF's last rate  
8 case in Docket No. 080121-WS.

9 **Exhibit SS-2** - is the Florida-specific analysis which demonstrates that the charges  
10 allocated to AUF from its affiliates are below market costs.

11 **Exhibit SS-3** - is the three-year average calculation of AUF's bad debt expense.

12

13 **Q. Were these exhibits prepared by you or under your direction and supervision?**

14 A. Yes.

15

16 **Q. Are you the sponsor of any of the MFR schedules which may be in dispute in**  
17 **light of the protests filed by OPC and other parties in this proceeding?**

18 A. Yes. I am the sponsor or co-sponsor of MFR Schedules B and E, as well as AUF's  
19 Billing Analysis.

20

21 **Q. Please summarize your testimony.**

22 A. AUF projects that its achieved rate of return will fall significantly below the return  
23 which the Commission previously established. Without rate relief, AUF cannot  
24 realistically maintain a stable financial position and simultaneously meet its

1 customers' needs for safe and reliable services. In support of AUF's request for rate  
2 relief, my testimony shows that the methodology by which affiliated transaction costs  
3 are allocated to AUF was closely reviewed and approved by the Commission in  
4 AUF's last rate case. The costs allocated to AUF from its affiliates pursuant to that  
5 approved methodology (including the allocation of Corporate IT costs and incentive  
6 compensation) are reasonable, necessary and are either at or below market.  
7 Furthermore, my testimony shows that the rate case expense incurred by AUF in this  
8 docket is reasonable given the scope of the proceeding, and that the billing  
9 determinants used by AUF in its MFRs are appropriate. Finally, my testimony shows  
10 that the bad debt expense stated in the MFRs is reasonable and representative of the  
11 bad debt expenses expected to be incurred by AUF.

12  
13 *Overview of the Proposed Agency Action Rate Case*

14 **Q. Please provide an overview of this rate case.**

15 A. In early 2010, AUF projected that the overall return on equity ("ROE") from its  
16 Commission regulated systems would be approximately 1 percent, which was 875 basis  
17 points below the midpoint ROE of 9.75 percent that the Commission had previously  
18 established for our Company. Recognizing that it could not realistically maintain a  
19 stable financial position and simultaneously meet its customers' needs for safe and  
20 reliable services, AUF filed for rate relief on September 1, 2010. As part of its filing,  
21 AUF provided the Commission, its Staff and OPC with Minimum Filing Requirements  
22 ("MFRs") that supported its request for rate relief. To minimize the cost of the rate  
23 case -- which can be significant and is ultimately borne by our customers -- AUF

1 requested that the rate case be processed using the proposed agency action (“PAA”)  
2 procedures provided in Section 367.081(8), Florida Statutes.

3  
4 Over the following months, AUF participated in 9 customer meetings which were held  
5 in areas that AUF serves throughout the State of Florida. The Company also responded  
6 to extensive discovery requests from Staff, OPC and intervenors throughout the PAA  
7 process. After reviewing the information in AUF’s MFRs, the information gathered  
8 from the customer service meetings, and the information received from AUF through  
9 various data requests and other discovery, Commission Staff prepared a detailed  
10 analysis of AUF’s request for rate relief and provided that analysis and  
11 recommendation to the Commission on May 12, 2011. The Commission considered its  
12 Staff’s recommendation at its publicly noticed Agenda Conference on May 24, 2011.  
13 After hearing from AUF’s customers, the OPC and other stakeholders, the Commission  
14 voted to grant in part, and deny in part, AUF’s request for rate relief. A proposed  
15 agency action order memorializing the Commission’s vote was issued on June 13, 2011  
16 -- Order No. PSC-110256-PAA-WS (the “PAA Order”). The PAA Order specified that  
17 it would become final unless a person whose substantially interests are affected by the  
18 order filed a protest on or before July 5, 2011.

19  
20 **Q. Did AUF initially challenge the PAA Order?**

21 A. No. Although AUF found portions of the PAA Order objectionable, it initially elected  
22 not to protest the PAA Order in the spirit of compromise so as to avoid protracted  
23 litigation and minimize rate case expense. However, on July 1, 2011, OPC filed a  
24 petition which protested specific portions of the PAA Order and demanded that the



1 Commission conduct a formal evidentiary hearing. Also on July 1, 2011, an AUF  
2 customer, Ms. Lucy Wambsgan, filed a petition which protested the PAA Order on  
3 many of the same grounds as OPC.  
4

5 **Q. Did the protests filed by the OPC and Ms. Wambsgan cause AUF to reconsider its**  
6 **initial decision to accept the findings in the PAA Order?**

7 A. Yes it did. Even though AUF considered several findings in the PAA Order to be  
8 problematic, it initially elected not to protest the PAA Order in hopes that it could  
9 minimize rate case expense and avoid protracted litigation. However, the relief  
10 requested by OPC and Ms. Wambsgan in their protests, if granted, would cause AUF's  
11 rates to stay dramatically below the levels it needs to maintain a stable financial  
12 position and meet its customers' needs. Consequently, AUF had no alternative but to  
13 file a cross-petition on July 11, 2011, which protested what AUF believes to be specific  
14 material defects in the PAA Order that adversely affects AUF's interests. I would also  
15 point out that another AUF customer -- YES Communities -- filed a cross-petition on  
16 July 11, 2011, which protested the PAA Order on virtually the same grounds as OPC.  
17

18 **Q. What are the next steps in this PAA rate case?**

19 A. Unless the matter is settled, I understand that over the next several months the  
20 Commission will conduct a series of 10 service customer service hearings in the  
21 various AUF service areas, at which time our customers will have the opportunity to  
22 testify under oath about the case. Following those customer service hearings, the case  
23 will proceed to a formal technical administrative hearing before the full Commission.  
24 The issues in this case will be limited to the specific issues protested in the petitions

1 filed by OPC and Ms. Wambsgan, and in the cross-petitions filed by YES and AUF.  
 2 Under Florida law, issues in the PAA Order which were not protested are deemed  
 3 stipulated.

4  
 5 **Q. Please identify the witnesses who will provide prefiled direct testimony on behalf**  
 6 **of AUF in this case.**

7 A. The witnesses who will provide prefiled direct testimony on behalf of AUF are:

<u>Witness</u>	<u>Topic</u>
9 Stan Szczygiel	10 Affiliated Transaction Costs, Billing 11 Determinants, Rate Case Expense, Bad Debt 12 Expense
13 Susan Chambers	Quality of Service
14 Preston Luitweiler	Quality of Service, Pro Forma Plant Additions
15 William T. Rendell	16 Used and Useful, Salary Expense, Leverage 17 Formula, Regulatory Asset, Rate Structure 18

19 *Affiliated Transaction Costs*

20 **Q. How are affiliate transaction costs allocated to AUF?**

21 A. Affiliated transaction costs are allocated in accordance with the policy set forth in the  
 22 Aqua America, Inc. ("AAI") Corporate Charges Allocations Manual, which was  
 23 previously provided to OPC and other parties in AUF's last rate case in Docket No.  
 24 080121-WS, and is also attached to my testimony as Exhibit SS-1. AUF'S affiliate  
 25 cost allocation policy ensures that costs are properly allocated to AUF's ratepayers.

26  
 27 Similar to many other electric, gas, telephone and water utilities, AAI is a holding  
 28 company that has a number of operating subsidiaries, of which AUF is one. As an

1 affiliate of AAI, AUF has access to a full range of cost-effective utility related  
2 services that enhance AUF's ability to provide water and wastewater services to its  
3 customers. AAI makes those services available to AUF through two service  
4 companies: Aqua Services Inc. ("ASI") and Aqua Customer Organization ("ACO").  
5

6 **Q. Please describe the services that AUF receives from ASI.**

7 A. ASI provides centralized management, accounting, engineering, human resources, IT  
8 support, legal, and rate case support to AUF and other AAI operating subsidiaries.  
9 AUF's relationship with AAI (and ASI) allows it to take advantage of economies of  
10 scale provided by AAI's common ownership of numerous companies. For example,  
11 AUF shares the cost of accounting software, asset software, and billing and customer  
12 information software with other AAI operating affiliates. This saves AUF from the  
13 cost of purchasing such software on its own.  
14

15 **Q. Please describe the services that AUF receives from ACO.**

16 A. ACO provides customer billing and handles call center operations for AUF. Just as  
17 with ASI, AUF's relationship with AAI (and ACO) allows it to take advantage of  
18 economies of scale provided by AAI's common ownership of numerous companies.  
19 For example, AUF shares the cost of Meter Operations, Call Centers, Billing and  
20 Collection services and a customer inquiry and resolution department. This saves  
21 AUF from the cost of purchasing such services on its own.  
22  
23

1 Q. Please be more specific as to how the affiliated transaction costs from ASI and  
2 ACO are allocated to AUF.

3 A. ASI accumulates and allocates common payroll from AAI's corporate headquarters.  
4 It also accumulates invoices that are common to all of the state operating subsidiaries.  
5 These costs are allocated in two separate billings to AUF. The payroll is charged  
6 based on time sheet hours, which are multiplied by a rate that includes payroll costs,  
7 benefits, taxes, pension costs, and space costs. The invoices are charged through a  
8 sundry allocation that assigns the costs based on the number of customers.

9  
10 With respect to ACO, ACO accumulates all of its costs including payroll and various  
11 invoices, and allocates charges to AUF and other operating subsidiaries that use the  
12 Call Center and billing system based on the number of customers.

13  
14 In addition to allocating division costs, AAI assigns certain costs directly to its state  
15 operating subsidiaries. For example, insurance is directly assigned from AAI because  
16 each policy identifies costs attributable to specific states and, based on this  
17 information, AAI directly assigns the costs. AAI and ASI also directly charge the  
18 operating subsidiaries for some items paid on a consolidated basis (*e.g.*, fleet charges,  
19 lock box charges, and health insurance) where the bills can be specifically identified  
20 by state.

21  
22 All of the costs which I just discussed are charged to a headquarters cost center in  
23 Florida, which is part of AUF. In addition to AAI's corporate costs, AUF  
24 headquarters has its own payroll and office costs. Because AUF has systems in

1 Sarasota and Citrus Counties that are not regulated by the Commission, there is an  
2 additional allocation among those regulated and non-regulated systems. The AAI  
3 corporate and AUF headquarters costs are allocated based on one of two methods:  
4 the payroll-related costs are allocated based on direct labor, and the other costs are  
5 allocated based on number of customers.

6  
7 **Q. What is the standard by which the Commission reviews affiliate transactions?**

8 A. In Florida, the standard for reviewing affiliate transactions is “whether the  
9 transactions exceed the going market rate or are otherwise inherently unfair.” *GTE v.*  
10 *Deason*, 642 So. 2d 545, 548 (Fla. 1994).

11  
12 **Q. Has AUF analyzed whether the affiliated transaction costs allocated to AUF  
13 exceed the going market rate for the services provided?**

14 A. Yes. AUF prepared a Florida-specific analysis in December 2010 to address whether  
15 the charges allocated to AUF’s affiliates were below the market rate for the industry.  
16 That Florida-specific study is attached to my testimony as Exhibit SS-2, and was  
17 previously provided to Staff, the OPC and the other parties on January 3, 2011 as a  
18 supplemental response to Staff’s Second Data Request.

19  
20 **Q. What does the study in Exhibit SS-2 show?**

21 A. The study shows that AUF’s customers clearly benefit by having centralized services  
22 provided to it by AAI. Moreover, these services have been and continue to be  
23 provided to AUF at a cost lower than AUF would incur to obtain these services from  
24 outside, non-affiliated sources.

1 **Q. Has this study been independently reviewed by Commission Staff?**

2 A. Yes. Commission Staff thoroughly reviewed the study regarding affiliate charges and  
3 concluded that AUF “has met its burden of proof by demonstrating that AUF’s  
4 requested affiliate charges are reasonable and that customers are benefiting from the  
5 remaining allocated affiliate charges.” Staff Recommendation dated May 12, 2011, at  
6 p. 87.

7  
8 **Q. Has the Commission previously analyzed the affiliate transactions of AUF?**

9 A. Yes. In the last rate case, Commission Staff actually performed an “audit” of AUF’s  
10 affiliated transactions in strict accordance with the Commission’s audit procedures.  
11 During that audit, Commission Staff obtained and reviewed the total expenses  
12 allocated to the individual systems by AAI and AUF. After reviewing the audit, the  
13 Commission expressly found that:

14           During the audit, our staff obtained and reviewed the total expenses  
15           allocated to the individual systems from AAI and AUF. Total AAI  
16           and AUF allocation expenses allocated to the individual systems were  
17           traced to the general ledgers. Our staff reviewed and recalculated the  
18           allocated expenses from AAI and AUF, and sampled allocated  
19           expenses for the proper amount, period, classification, and whether the  
20           expense was utility-related, non-recurring, unreasonable and/or  
21           imprudent. There was nothing found in the audit to suggest that the  
22           affiliate charges were unreasonable or imprudent. . . . In summary,  
23           based on our staff’s audit and our review of the record, we find that no  
24           adjustment is needed for charges from affiliates.

1 Order No. 09-0385-FOF-WS, issued May 29, 2009, at p. 78.

2

3

*Allocation of Corporate IT Costs*

4 **Q. Please explain how Corporate IT costs have been allocated to AUF.**

5 A. As I previously stated, ASI provides AUF and other AAI operating subsidiaries IT  
6 software and software support services, which allow AUF and other operating  
7 subsidiaries to take advantage of the economies of scale provided by AAI's common  
8 ownership of numerous companies. Through this structure, AUF can share IT  
9 software and support costs with other affiliated companies, thus saving AUF from the  
10 cost of acquiring such IT software and support services on its own.

11

12 **Q. Please describe the Corporate IT software and support services that AUF**  
13 **received from AAI.**

14 A. The major IT systems which AAI (through ASI) provides to AUF include: required  
15 asset tracking, customer service, billing, collections, and service delivery  
16 management. During the past three years, AAI has made investments to help ensure  
17 that these functions are fully capable of effectively supporting AUF's customers. As  
18 I also previously stated, the cost of these Corporate IT services are allocated to AUF  
19 through a sundry allocation that assigns the cost based on the number of customers.

20

21 **Q. Have any Corporate IT costs previously allocated to other operating affiliates**  
22 **been reallocated to AUF?**

23 A. No. AUF is very aware of the Commission's policy, recently announced in Docket  
24 No. 090462-WS, that Corporate IT costs previously allocated to subsidiaries should

1            not be reallocated to the surviving utilities when those subsidiaries are sold. There  
2            appears to be some confusion about the issue of reallocation in the PAA Order.

3

4            **Q.     Please explain.**

5            A.     In its PAA Order, the Commission notes that, following the filing of this rate case,  
6            AAI divested itself of 8 operating subsidiaries: Utilities Center North-W; Utilities  
7            Center North-WW; Woodhaven-W; Woodhaven-WW; Cypress Bayou-W; Cypress  
8            Bayou-WW; Fountain Lakes-irrigation; and Fountain Lakes-WW. The Commission,  
9            however, mistakenly assumed that AAI had previously allocated Corporate IT costs  
10           to those “divested” subsidiaries, and thereafter “reallocated” those Corporate IT costs  
11           to AUF and other surviving operating utilities. The assumption that AAI reallocated  
12           Corporate IT is incorrect and appears to be driven by the mistaken belief that AAI  
13           follows the same allocation methodology as Utilities, Inc. (“UI”). Unlike UI, AAI’s  
14           cost distribution method allocates project costs only to those subsidiaries that benefit  
15           from the project. Moreover, unlike UI, in the event one subsidiary sells a system,  
16           AAI does not reallocate the Corporate IT costs.

17

18           For the foregoing reasons, AUF does not agree with the Commission’s proposal to  
19           reduce the amount of allocated Corporate IT costs, accumulated depreciation, and  
20           depreciation expense by \$50,058, \$20,461, and \$8,343, respectively. The Corporate  
21           IT allocations set forth in the MFRs should be restored. I would also point out that  
22           AUF does not disagree with the Commission’s proposal to change in the depreciation  
23           life for Corporate IT assets from six to ten years.

24



*Incentive Compensation*

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**Q. Does any of the executive compensation allocated by ASI to AUF include incentive compensation?**

A. Yes.

**Q. Please explain how that incentive compensation component provides benefits to AUF's customers.**

A. First, I think it is very important to understand that AAI's executive compensation level is at or below other utility benchmarks. Second, AAI's incentive compensation model is a "pay for performance" program that rewards reliability and efficiency in water and wastewater services. Third, that "pay for performance" program is a widely accepted compensation method in the utility industry, and is an important component in AAI's overall compensation model that is needed to attract and retain a qualified management team.

**Q. Why is it important to allow recovery of the "pay for performance" component of AAI's executive compensation?**

A. As I stated, AAI's overall executive compensation level is at or below market. To remove that incentive component from the overall compensation package would cause executive compensation to fall substantially below market and make it difficult for AAI to retain qualified management.

1 **Q. Has AAI taken any other steps to benchmark the incentive compensation**  
2 **component of its executive compensation program?**

3 A. Yes. The Company has an outside consultant annually review its executive  
4 compensation package. That review encompasses the overall competitive  
5 benchmarking of the salaries, total cash component and total direct compensation for  
6 executives. That benchmark study shows that AAI's executive compensation is at or  
7 below its benchmarks.

8

9 **Q. Can you be more specific on how AAI's incentive compensation plan benefits**  
10 **AUF's customers?**

11 A. Certainly. AAI has adopted compensation policies, practices and strategies that are  
12 designed to provide compensation to employees and that is cost effective and serves as  
13 motivation to attract and retain a highly qualified and diverse workforce. AAI's  
14 incentive compensation model has specific objectives that are directed towards  
15 improving customer service, enhancing environmental compliance, controlling costs,  
16 and improving efficiencies and productivity. These objectives are clearly designed to  
17 benefit customers.

18

19 **Q. What action are you requesting the Commission to take with respect to the**  
20 **executive bonus and dividend incentive compensation included in AUF's MFRs?**

21 A. AUF included approximately \$22,623 in bonus and dividend compensation of AAI  
22 corporate management. As I explained, AAI's bonus and incentive compensation  
23 structure is specifically designed to drive excellence in providing reliable and efficient  
24 utility services to AUF's customers. In other words, AAI's incentive compensation

1 program encourages beneficial employee behavior that helps AUF's customers. The  
2 Commission has expressly recognized these benefits of incentive compensation. *See*  
3 Order No. PSC-09-0411-FOF-GU (June 9, 2009) ("We believe that an incentive  
4 compensation plan is an appropriate tool to motivate employees to work efficiently and  
5 effectively. The incentive portion of salary gives the employee the opportunity to earn  
6 the market average salary."). To disallow incentive compensation would discourage  
7 "pay for performance," which is bad regulatory policy. It is for these reasons that AUF  
8 is requesting that the full \$22,623 in incentive compensation be recognized as a  
9 legitimate management fee to be included in O&M expenses.

10  
11 *Rate Case Expense*

12 **Q. Please address the rate case expense in this proceeding.**

13 A. In its MFRs, AUF projected a rate case expense amount of \$670,269 using the  
14 Commission's PAA procedure, which represented AUF's best estimate of total rate  
15 case expense at the date of filing. As of June 30, 2011, the current amount of actual  
16 rate case expense incurred by AUF is approximately \$876,000. The difference  
17 between the original estimated amount of rate case expense and the current amount of  
18 actual rate case expense incurred is directly related to the expansive and  
19 unprecedented discovery propounded by OPC during the PAA phase of this  
20 proceeding, the intervention of three different customers prior to the issuance of the  
21 PAA Order, and extensive pleadings filed by customers during the PAA phase of this  
22 proceeding. The current amount of actual rate case expense does not include the  
23 additional costs of prospective rate case expense that will be incurred due to  
24 subsequent discovery, service hearings, the evidentiary hearing, filing of formal post-

1 hearing briefs, and the agenda conference. In addition, there will also be substantial  
2 expense related to the customer service hearing notices, evidentiary hearing notices,  
3 and the final customer notice on the final rates. For example, the cost of these  
4 noticing requirements will be approximately \$20,000 for each notice issuance. In  
5 addition, there will be additional travel expenses for attendance at each service  
6 hearing, as well as the formal evidentiary hearing. AUF reserves the right to submit  
7 an updated rate case expense estimate prior to the evidentiary hearing in this matter.  
8

9 **Q. Why did AUF request that its rate case be processed under the Commission's**  
10 **PAA procedure?**

11 A. AUF elected to use the PAA procedure in order to mitigate the rate case expense that  
12 would be incurred using the formal hearing process. For example, in AUF's last rate  
13 case -- where a formal hearing process was utilized -- the Commission granted rate  
14 case expense in the amount of \$1,501,609. Clearly, the PAA process presented an  
15 opportunity to save significant costs.  
16

17 ***Billing Determinants***

18 **Q. Are the billing determinants used by AUF in its MFRs appropriate?**

19 A. Yes. The billing determinants utilized by AUF in its MFRs are reasonable and  
20 appropriate because they are based on an accurate and representative number of bills,  
21 ERCs, and consumption data for AUF's water and wastewater systems that are part of  
22 this rate case. The appropriate billing determinants to be used in this case are set  
23 forth in the E-Schedules in AUF's MFRs and the Billing Analysis filed in this case.  
24

*Bad Debt Expense*

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**Q. Is the amount of bad debt expense reflected in AUF's MFRs reasonable and appropriate?**

A. Yes. AUF recorded bad debt expense of \$389,420 for the test year. The Commission's policy is to set bad debt expense using a three-year average. As set forth in Exhibit SS-3, AUF's three year average calculation of bad debt expense is \$386,221. Consistent with past Commission practice, that amount is representative of the bad debt expense to be incurred by AUF.

**Q. Does this conclude your direct testimony?**

A. Yes.

1 BY MR. MAY:

2 Q Have you prepared a summary of your prefiled  
3 direct testimony?

4 A Yes, I have.

5 Q Would you please provide your summary at this  
6 time?

7 A I will.

8 Good morning, Chairman and Commissioners. My  
9 name is Stan Szczygiel. I am the Manager of Rates and  
10 Planning for the Southern and Midwest regions for Aqua.

11 My direct testimony was filed for five primary  
12 reasons. First, I provided a general overview of AUF's  
13 request for rate relief. AUF projects that its achieved  
14 rate of return will fall significantly below the rate of  
15 return which the Commission previously established.  
16 Without rate relief, Aqua Utilities Florida cannot  
17 realistically maintain a stable financial position and  
18 simultaneously meet the needs of its customers for safe  
19 and reliable services.

20 Since the last rate case, Aqua has invested  
21 over \$11 million in system improvements to address  
22 operational and service quality.

23 Second, I address the following issues in the  
24 Commission's proposed agency action order, which the  
25 Office of Public Counsel protested. My testimony shows

1 the methodology by which the affiliate transaction costs  
2 are allocated to AUF was closely reviewed and approved  
3 by the Commission in AUF's last rate case.

4 Since then, AUF also conducted a Florida  
5 market study to make clear -- that makes clear that  
6 AUF's customers benefit by having centralized services  
7 provided by affiliates such as Aqua America, Inc., or  
8 AAI. This study shows that the services AUF receives  
9 from its affiliates cost less than if AUF had secured  
10 these services from outside sources.

11 To minimize the case, the rate case expense,  
12 the cost of the rate case, AUF requested that the rate  
13 case be processed using *Florida Statute* proposed agency  
14 action, the PAA procedures. My testimony shows that the  
15 rate case expense incurred by AUF in this docket is  
16 reasonable, given the scope of the proceedings.

17 I also testified that AUF's billing  
18 determinants are reasonable and appropriate because they  
19 are based upon -- on an accurate representative number  
20 of bills, ERCs, and consumption data.

21 Third, my testimony demonstrates that the  
22 corporate information technology, the IT plant costs  
23 allocated to AUF are appropriate and reasonable.  
24 Through this allocation structure, AUF can share IT  
25 software and support costs with other affiliate

1 companies, thereby avoiding the cost of acquiring such  
2 IT software and support services solely on its own.

3 Fourth, my testimony shows that executive  
4 incentive compensation allocated to AUF is a pay for  
5 performance program that rewards reliable and  
6 efficient -- reliability and efficiency in providing  
7 water and wastewater services. AAI's executive  
8 compensation is at or below other utility benchmarks.

9 To remove the pay for performance component  
10 from the overall compensation package will cause  
11 executive compensation to fall substantially below  
12 market and make it difficult for AAI to retain qualified  
13 management.

14 Finally, my testimony shows that the bad debt  
15 expenses requested by AUF is appropriate. AUF's  
16 calculation of bad debt expense is \$386,221. This  
17 figure is consistent with the Commission's practice of  
18 setting bad debt expense using a 3-year average and is  
19 representative of the bad debt expenses to be incurred  
20 by AUF.

21 That is all.

22 **MR. MAY:** Mr. Chairman, Aqua would tender  
23 Mr. Szczygiel for cross-examination.

24 **CHAIRMAN GRAHAM:** Okay. OPC.

25 **EXAMINATION**



1 BY MS. CHRISTENSEN:

2 Q Good morning, Mr. Szczygiel.

3 A Good morning.

4 Q Let me direct you to page 14 of your direct  
5 testimony.

6 A Yes.

7 Q Lines 9 through 11. There you state that  
8 AAI's incentive compensation model is a pay for  
9 performance program that rewards reliability and  
10 efficiency in water and wastewater service; correct?

11 A That is correct.

12 Q Is customer satisfaction included in any of  
13 these factors?

14 A I would -- I believe there are customer  
15 service metrics, but I would have to look at the proxy  
16 to see what exactly those words are.

17 Q Is customer satisfaction a benchmark?

18 A As I said, I could read the proxy and see.

19 MS. CHRISTENSEN: Okay. Permission to  
20 approach the witness with an exhibit.

21 CHAIRMAN GRAHAM: Sure. Is this a new  
22 exhibit?

23 MS. CHRISTENSEN: It should be part of the  
24 composite exhibit.

25

1 BY MS. CHRISTENSEN:

2 Q Now as part of the proxy statement, does it  
3 list the criteria for the executive compensation  
4 program?

5 A I believe it's on page 25. Would you agree?

6 Q Yes. Now in that list do you see customer  
7 satisfaction?

8 A No. I see customer service.

9 Q Okay. On that -- okay. We'll set this aside  
10 for a moment.

11 A May I also add a couple of other points to  
12 this -- these metrics that are here? I believe that  
13 some of these metrics, although they're not called  
14 customer satisfaction, lead to customer satisfaction,  
15 such as water quality, customer and revenue growth,  
16 operation controls, which would help reduce your rates.  
17 So I think there's many things that lead to customer  
18 satisfaction, besides the one that simply says customer  
19 service.

20 Q Okay. But there's no -- you would agree that  
21 there's no actual separate criteria for customer  
22 satisfaction; correct?

23 A I don't see the words customer satisfaction,  
24 but the other criteria lead me to that same conclusion.

25 Q And you would also agree that there's no

1 criteria regarding the number of DEP violations and  
2 consent orders that are included in these factors;  
3 correct?

4 A Not for these individuals, other than perhaps  
5 water quality.

6 Q Okay. And you would also agree that there's  
7 no specific criteria for items such as the number of  
8 main breaks or other service disruptions included?

9 A I would think water quality, operational  
10 efficiencies, capital budget management would all lead  
11 to the, to the same place, main breaks.

12 Q Okay. But it's not specifically listed as a  
13 criteria; correct?

14 A Your words are not specifically listed.

15 Q Okay. And is there any specific criteria that  
16 lists precautionary water, boil water notices?

17 A Again, the same question as before. I see the  
18 words water quality, operational efficiencies, and  
19 capital projects, which equate to those words in my  
20 world.

21 Q Okay. And isn't it correct that the level of  
22 revenue for the company is included in these factors?

23 A Absolutely.

24 Q Okay. Now let's turn your attention to page  
25 32 of this exhibit. You would agree that this schedule

1 shows the annual total compensation for the top five  
2 executives for the company?

3 **MR. MAY:** Mr. Chairman?

4 **THE WITNESS:** Page 32 --

5 **CHAIRMAN GRAHAM:** Hold on a second.

6 Mr. May.

7 **MR. MAY:** The exhibits that were distributed,  
8 we don't have a page 32 in the exhibit.

9 **MR. CURTIN:** This is YES. Also, if you look,  
10 it appears the exhibit, 34, 36, pages are missing  
11 thereafter.

12 **MS. CHRISTENSEN:** Yeah. It appears maybe we  
13 have a double-sided copying issue. It was included as  
14 part of the Comprehensive Exhibit List and it is on part  
15 of that disk. If I would -- could approach the witness  
16 with the page that we are talking about.

17 **MS. BENNETT:** I could be of assistance. Staff  
18 has copies that has both sides, if you would like to go  
19 ahead and have Staff's exhibits handed out, and they are  
20 not part of the Comprehensive Exhibit List. We were  
21 going to identify it as Exhibit 285 or whatever the next  
22 number is. So go ahead and pass that out.

23 **MS. CHRISTENSEN:** That's fine. Yes. That  
24 would, that would facilitate. Thank you.

25 **CHAIRMAN GRAHAM:** Does this get billed back to

1 OPC for expenses?

2 MS. CHRISTENSEN: I would have to defer to  
3 Mr. Kelly for that.

4 (Laughter.)

5 CHAIRMAN GRAHAM: We will enter this as  
6 Exhibit 285, and can I get a short title for this?

7 MS. BENNETT: It is titled Late-Filed Exhibit  
8 9, AAI's Proxy Filed with the SEC. That's not very  
9 short, is it?

10 (Exhibit 285 marked for identification.)

11 MS. CHRISTENSEN: Okay. Now that I -- is  
12 everybody back?

13 BY MS. CHRISTENSEN:

14 Q Now that I think everybody has page 32, if we  
15 could turn to page 32, you would agree that that is a  
16 list of the top five executive salaries; correct?

17 A That is correct.

18 Q And you agree that these costs are allocated  
19 to AUF customers.

20 A No, not all of them. Karl Kyriss performs no  
21 work associated with AUF and charges none of his time to  
22 any AUF entity.

23 Q Okay. So aside from Mr. -- you said Crisis?

24 A Kyriss.

25 Q Kyriss. The other executives, remaining four

1 executives, would allocate a portion of their time to  
2 AUF?

3 A That is correct.

4 Q Okay. Would you agree that this chart shows  
5 an increase for the last two years from 30 -- or 3.3% up  
6 to 38%?

7 A When you say the last two years and the  
8 percentages, do you want me to get a calculator to prove  
9 that? I'm not good --

10 Q Would you take that -- would you agree,  
11 subject to check, that there has been increase of up to  
12 --

13 A Oh, I will definitely agree there's an  
14 increase. I can't give you the exact percentages.

15 Q Okay. Now let's look at Exhibit No. 5 to your  
16 deposition, which is an order from North Carolina.

17 A Exhibit 5 deals with my rebuttal?

18 Q No, I'm sorry. We're looking at -- we took --  
19 do you recall having your deposition taken?

20 A Oh, absolutely.

21 Q And do you recall being requested to provide  
22 late-filed deposition exhibits to that deposition?

23 A Yes, we did. Yes, we did.

24 Q Do you recall as part of the request for  
25 late-filed deposition exhibits that you were requested

1 to provide the order for North Carolina issued  
2 September 13th, 2011?

3 A Yes, I do.

4 MS. CHRISTENSEN: Permission to approach the  
5 witness.

6 CHAIRMAN GRAHAM: Sure.

7 MS. CHRISTENSEN: All right. Let me -- now  
8 while this was also supposed to be copy double-sided,  
9 the page that we're referring to is present in the  
10 exhibit. So for purposes of our use here today, and I  
11 think Staff may have also got, had an exhibit that  
12 includes both sides, so for purposes of the questions,  
13 we can just use this for a demonstrative and -- or  
14 should we ask that Staff go ahead and pass out their  
15 exhibit that has both, all the pages, and just go ahead  
16 and move it in at this time?

17 MS. HELTON: And, Mr. Chairman, if I could  
18 make a recommendation, just with the concern that we  
19 have a clean and clear, an easy to understand record, if  
20 there is an exhibit that has an exhibit number, then  
21 that exhibit number should be mentioned at the beginning  
22 so we all are clear what exhibit it is that's being  
23 discussed at issue. And if it doesn't have an exhibit  
24 number, that it be marked with an exhibit number when  
25 the exhibits are distributed. I do believe that will

1 make the process go a little bit more smoothly and make  
2 a much cleaner record.

3 **MS. CHRISTENSEN:** I don't believe --

4 **CHAIRMAN GRAHAM:** Does this one have an  
5 exhibit number, or is this going to be 286?

6 **MS. CHRISTENSEN:** I believe we would request  
7 that this be marked for identification as 286.

8 **CHAIRMAN GRAHAM:** Do I have a title for this?

9 **MS. CHRISTENSEN:** The short title was Order  
10 Issued by the North Carolina Utilities Commission on  
11 September 13th, 2011, in Docket No. W-218(319).

12 **CHAIRMAN GRAHAM:** Thank you for that short  
13 title.

14 **MS. CHRISTENSEN:** I'm reading off the cover  
15 sheet.

16 (Exhibit 286 marked for identification.)

17 **CHAIRMAN GRAHAM:** All right. Please continue.

18 **BY MS. CHRISTENSEN:**

19 **Q** Now that everybody has a copy of the exhibit,  
20 I would like to refer you to page 13, paragraph 36.

21 **A** I'm there.

22 **Q** Okay. You would agree that the North Carolina  
23 commission states that the level of executive  
24 compensation included in the regulated expenses for the  
25 four top executives is unreasonable and overstated;



1 correct?

2 A That's, that's what's, that's how this reads.  
3 Correct. They give four reasons for why they believe  
4 that is a true statement.

5 Q Referring to those four statements, let's look  
6 at the last sentence of that paragraph. And it states  
7 that there's been dramatic increases in the compensation  
8 for the four top executives over the past three years.

9 A Of the four reasons, and generally one person  
10 is writing multiple reasons, they go in point of  
11 significance. This is the fourth, and it does say that.

12 Q Well, let me go ahead and finish my question.

13 A Uh-huh.

14 Q And let me ask that again. You would agree  
15 that the last sentence in the paragraph states that  
16 there has been a dramatic increase in the compensation  
17 for the four top executives over the past three years  
18 that has not been proven to be reasonably increased to  
19 be re -- has not proven to be a reasonable increase,  
20 excuse me, to be recovered from customers; correct?

21 A That is correct. And that is what is in this  
22 order.

23 Q Okay. Thank you. I would like to refer you  
24 to Volume 1, Appendix 1, of the MFRs. And I believe --  
25 and I believe that that has been previously entered into

1 the record as part of the Comprehensive Exhibit List.  
2 And if you'd give me a moment, I can find the exact  
3 number for the MFRs.

4 **MR. MAY:** Mr. Chairman, could I inquire  
5 whether the witness has that document before him?

6 **THE WITNESS:** I do not have that document in  
7 front of me.

8 **MS. CHRISTENSEN:** I think we have a copy of  
9 that, and I'm hoping that it's copied correctly.

10 **THE WITNESS:** Thank you.

11 **MS. CHRISTENSEN:** If everybody doesn't have a  
12 copy of that, we can also pass out copies for everyone  
13 else, even though it's already provided, or part of the  
14 Comprehensive Exhibit List, if that would make -- I  
15 think that might make it a little bit easier for  
16 everyone to follow.

17 **CHAIRMAN GRAHAM:** Okay. Ms. Christensen, do  
18 you have --

19 **MS. BENNETT:** On the Comprehensive Exhibit  
20 List it's Exhibit 277, if you --

21 **MS. CHRISTENSEN:** Thank you.

22 **BY MS. CHRISTENSEN:**

23 **Q** Okay. Now that we all have a copy of the  
24 exhibit, is this document referenced in the B12  
25 schedules that you're sponsoring?

1           A     These are underlying supporting schedules for  
2 elements of the B12.

3           Q     And are you sponsoring these documents?

4           A     Yes.

5           Q     Okay. And would you agree that these volumes  
6 of the -- or this volume of the MFR addresses all the  
7 allocations?

8           A     It addresses allocations from affiliates, it  
9 addresses direct costs that are charged to the state,  
10 and some, and some items in here, they allocate them  
11 amongst the state utilities.

12          Q     But these are under the allocation summaries;  
13 correct?

14          A     They're under allocation summaries.

15          Q     Okay.

16          A     But the key point here is, is that they have  
17 both affiliate allocations and in-state allocations.

18          Q     Let me turn your attention to page 4. And  
19 would it be correct to say that the pages -- this page  
20 is labeled AUF Intercompany and Intracompany Allocation  
21 Summary; correct?

22          A     That is correct.

23          Q     And it would also be correct to say that the  
24 schedule behind the tab shows the various amounts of the  
25 allocations; correct?

1           A     Correct.

2           Q     Okay.  Now do you, do you have the MFRs with  
3 you today?

4           A     I have two.

5           Q     Do you have the MFRs for the wastewater rate  
6 band 2, pages 65 and 66?

7           A     I could walk back to my box of data and see if  
8 I have it.

9                   **MS. CHRISTENSEN:**  Permission to approach the  
10 witness.

11                   **CHAIRMAN GRAHAM:**  Sure.

12                   **MS. CHRISTENSEN:**  And we would ask -- oh,  
13 that's already 236 of the Comprehensive Exhibit List.

14 **BY MS. CHRISTENSEN:**

15           Q     Okay.  Let me have you turn to page 66.

16           A     Yes.

17           Q     Do you see the explanation provided for the  
18 increase in Account 734, Contractual Services Management  
19 Fees?  Can you read that?

20           A     "Shift in recording regional and corporate  
21 administrative allocations from miscellaneous expense to  
22 management fees and an increase in the annual management  
23 fees."

24           Q     Now this would mean that you moved the  
25 expenses out of miscellaneous expenses and into

1 management fees; correct?

2 A We moved certain -- from miscellaneous  
3 expenses we moved in-state administrative distributions  
4 from the 675 to the 634 or 775 and 734.

5 Q Okay. Now let's turn to page 65.

6 MR. MAY: Mr. Chairman, could I ask counsel  
7 for the Office of Public Counsel to provide me the page  
8 in this direct testimony where this is, appears? It  
9 seems me that she's addressing issues that he --

10 MS. CHRISTENSEN: He's sponsoring the MFRs,  
11 and this is part of the MFRs.

12 MR. MAY: But to me I think she's approaching  
13 and addressing issues that he addresses in his rebuttal  
14 testimony.

15 MS. CHRISTENSEN: As I said, he sponsored the  
16 MFRs. We're asking questions about the MFRs. And the  
17 sponsoring of the MFRs would have been in his direct  
18 case, unless, of course, they're saying the MFRs were  
19 not provided until the rebuttal case, which means then I  
20 would move to dismiss the case for lack of substantial  
21 competent evidence.

22 CHAIRMAN GRAHAM: If this witness is the one  
23 that sponsored the MFRs, she's within her ability to  
24 question on this.

25 MS. CHRISTENSEN: Thank you.

1 BY MS. CHRISTENSEN:

2 Q Let me turn your attention to page 65.  
3 Referring to the management fee account, that would be  
4 Account 734, you would agree that that is, shows an  
5 increase of 253.4%; correct?

6 A That is what it says, and I agree.

7 Q Okay. And you would also agree that the  
8 miscellaneous expense appears to reflect a slight  
9 decrease of 3,974; correct?

10 A Which account is miscellaneous expense, 775?

11 Q Correct.

12 A That is -- then that is correct.

13 Q And then while -- and you would also agree  
14 that the management fee shows a dramatic increase of  
15 230 -- excuse me -- \$232,540; correct?

16 A Yes.

17 MS. CHRISTENSEN: Okay. Now we have another  
18 exhibit. I would ask permission to approach the  
19 witness, and I don't believe this has been marked for  
20 identification. So I would ask that this be marked for  
21 identification -- I think we're up to 87.

22 CHAIRMAN GRAHAM: Yes, we are.

23 MS. CHRISTENSEN: Or 287. I'm sorry.

24 CHAIRMAN GRAHAM: Ms. Christensen, do you  
25 have, do you have many more of these to be passed out

1 for this witness?

2 **MS. CHRISTENSEN:** Exhibits? We have a few  
3 more. I mean, unfortunately he's the accounting  
4 witness, so we have quite a few exhibits and --

5 **CHAIRMAN GRAHAM:** That's all right. Let's go  
6 ahead and take a five-minute recess so you can pass all  
7 those exhibits out, and then we can go through them one  
8 at a time.

9 **MS. CHRISTENSEN:** That's fine. We can do  
10 that.

11 **CHAIRMAN GRAHAM:** Okay. Let's do that.

12 (Recess taken.)

13 Okay. Is that all?

14 **MS. CHRISTENSEN:** I believe so for the direct  
15 examination. And at the Commission's pleasure, what we  
16 can do before each of the next witnesses is hand out in  
17 a stack any cross-examination exhibits we intend to use  
18 during that cross-examination before we start. And if  
19 that'll facilitate it, we'll just hand it out in a stack  
20 and we'll just then enter them in and try and get that  
21 sorted before we start the cross-examination. And we  
22 can try and accomplish that while we're at lunch and  
23 over the next couple of days, and hopefully we'll make  
24 it run a little bit smoother.

25 **CHAIRMAN GRAHAM:** Okay. The exhibits are in

1 front of us. Let's give them numbers. We've already  
2 put 287, and that short title is Aqua 2010 Financial  
3 Data.

4 (Exhibit 287 marked for identification.)

5 There's four other ones in front of me that  
6 you need to tell me which is which and what you want to  
7 number it.

8 **MS. CHRISTENSEN:** 288 would be the  
9 Consolidated Group Summary.

10 **CHAIRMAN GRAHAM:** Okay.

11 (Exhibit 288 marked for identification.)

12 **MS. CHRISTENSEN:** 289 would be the Commission  
13 Rule 25-6.1351, *Florida Administrative Code*.

14 **CHAIRMAN GRAHAM:** Okay.

15 (Exhibit 289 marked for identification.)

16 **MS. CHRISTENSEN:** Exhibit 290 would be the  
17 2008 PCPS-TSCPA National Map Survey Commentary.

18 (Exhibit 290 marked for identification.)

19 **CHAIRMAN GRAHAM:** Okay. And the last one  
20 would be 2001 -- I'm sorry -- 291.

21 **MS. CHRISTENSEN:** 291, the final one, would be  
22 OPC Interrogatory No. 240.

23 And that would conclude all of our  
24 cross-examination exhibits for direct, for his direct  
25 testimony.



1 (Exhibit 291 marked for identification.)

2 CHAIRMAN GRAHAM: Okay. You have the floor.

3 BY MS. CHRISTENSEN:

4 Q Okay. Let me refer you, now that we all have  
5 the exhibits, to Aqua's 2010 financial data report. Let  
6 me refer you to page 5 at the bottom. And there's a  
7 paragraph that discusses the performance measures  
8 considered by management.

9 Do you see the sentence that starts with "In  
10 addition"?

11 A I do see it.

12 Q Can you please read that sentence into the  
13 record?

14 A "In addition, we consider other key measures  
15 in evaluating our utility business performance within  
16 our regulated segment, our number of utility customers,  
17 the ratio of operations and maintenance expense compared  
18 to the operating revenue. This percentage is termed  
19 operating expense ratio or efficiency."

20 Do you want me to continue, since you stopped  
21 underlining?

22 Q That's fine. Now let's follow up on the  
23 operating expense ratio that was mentioned, and turn to  
24 page 7 of the report, and look at the operating  
25 statistics at the bottom of the page.

1           A     Yes.

2           Q     Do you see the operations and maintenance  
3 expense ratio of 38 -- and I think it's .6%?

4           A     For 2010?

5           Q     38.6%.

6           A     Yes.

7           Q     It's in column -- under 2010?

8           A     Yes, I do.

9           Q     Okay. And this 38% reflects all of AAI's  
10 systems; correct?

11          A     It reflects all of Aqua America.

12          Q     Okay. And Aqua America is also known as AAI?

13          A     Yes.

14          Q     Okay. Now we also handed out a consolidated  
15 group summary that was filed as part of the MFRs. Can  
16 you locate that handout, please?

17          A     Consolidated group summary, that is being  
18 referred to as Exhibit 288?

19          Q     Correct.

20          A     Yes, I have that.

21          Q     Okay. Let me refer you to schedule B1 and B2.

22          A     Okay.

23          Q     Would you agree -- oh, I'm sorry. Are you  
24 there?

25          A     I'm on page 5. I'm at B1, not B2.

1           Q     Okay.  And the following schedule on page 6 is  
2 B2; is that correct?

3           A     That is correct.

4           Q     Okay.  Would you agree that AUF's operation  
5 and maintenance expense ratio for these two schedules is  
6 over 50%?

7           A     I would agree.

8           Q     Okay.  And would you agree that for the water  
9 systems the operations and maintenance expense ratio  
10 would be 59%?

11          A     I could get a calculator and prove it out, but  
12 it's --

13          Q     Subject to check?

14          A     Well, I would prove it out, but it looks like  
15 it's over 50%.

16          Q     Okay.  And for the wastewater systems, subject  
17 to check, would you agree that that operations and  
18 maintenance expense ratio also appears to be greater --  
19 or 51%, greater than 50%?

20          A     Yes, I would agree.

21          Q     Okay.  Now I also want to refer you to our  
22 next handout, and are you familiar with a rule that the  
23 Commission has -- now this would be Exhibit 289.

24          A     289 I have in front of me.

25          Q     Okay.  Are you familiar with the rule that the

1 Commission has in the electric industry that addresses  
2 cost allocations and affiliate transactions?

3 A Did you say for the electric industry?

4 Q Correct. Were you aware of that rule?

5 A I've actually seen this document before and  
6 read it once in my past.

7 Q Okay.

8 A But I'm not familiar that it's electric  
9 industry or however specific.

10 Q Okay. Are you aware that this rule addresses  
11 direct cost and fully allocated cost?

12 A It appears to.

13 Q Okay. All right. That's all I have for that  
14 exhibit.

15 Now let me ask you, in general, would you  
16 agree that peer comparisons are used in utility rate  
17 cases?

18 A Peer comparisons used in utility rate cases?  
19 For what purpose?

20 MR. MAY: I'm going to object to that  
21 question. It's vague.

22 MS. CHRISTENSEN: Let me move on.

23 BY MS. CHRISTENSEN:

24 Q Did you perform an analysis to determine  
25 whether or not the affiliate charges from its affiliates

1 are below market cost?

2 A Yes. We performed a market study.

3 Q Okay. And those results were included in your  
4 Exhibit SS-2; correct?

5 A That is correct.

6 Q All right. And you have that exhibit with you  
7 as part of your testimony; correct?

8 A Yes, I do.

9 Q Okay. Let me have you turn to page 10 of your  
10 Exhibit SS-2.

11 A Yes.

12 Q Okay. Would you agree that there are four  
13 types of employees that you used in your comparison?

14 A Yes. We grouped our service company into four  
15 groups.

16 Q Okay. And that would be accounting,  
17 engineering, legal, and management professionals;  
18 correct?

19 A Correct.

20 Q Okay. Let's start with accounting. Are you a  
21 CPA?

22 A I am a CPA.

23 Q Okay. Can you tell us what's required to  
24 become a CPA?

25 A I don't know what the current rules are, but

1 in the good old days you had to have a bachelor of  
2 science, two years of expert professional guidance under  
3 a CPA firm specifically, and you had to pass a five-part  
4 CPA exam.

5 Q Okay. And can you tell us what's required to  
6 get an accounting degree?

7 A I would assume you'd have to go to a qualified  
8 accounting school or university and complete the hours  
9 required.

10 Q Okay. So you would agree that there's a lot  
11 more required to become a CPA than just to receive an  
12 accounting degree?

13 MR. MAY: I'm going to object to that  
14 question. It's compound and it's vague.

15 MS. CHRISTENSEN: I can --

16 CHAIRMAN GRAHAM: I'll allow the question.

17 MS. CHRISTENSEN: Thank you.

18 THE WITNESS: I know a lot of great  
19 accountants that aren't CPAs.

20 BY MS. CHRISTENSEN:

21 Q Well, let me go back, though, to my question.  
22 You agree there's a lot of additional requirements to  
23 become a CPA as opposed to just earning an accounting  
24 degree.

25 A I definitely had to study more than I learned

1 in my undergraduate degree.

2 Q Okay. Let me refer you to our handout 290,  
3 which I think -- which is the 2008 PCPS-TSCPA National  
4 Map Survey Commentary.

5 A Uh-huh.

6 Q Did you use this map survey commentary to  
7 compare the accounting rates charged by ASI?

8 A I don't specifically recollect, but I believe  
9 it's similar to what we use, if not the same thing.

10 Q Can you tell us who created this document?

11 A I would have to look at who the author of this  
12 document is. Hold on. It appears that it's been  
13 created by the AICPA.

14 Q Okay. And that would be the American  
15 Institute of CPAs?

16 A Institute of Certified Public Accountants.

17 Q Okay. And can you tell me what kind of firms  
18 participated in this survey? And I think the -- page 1  
19 might help your response.

20 A I appreciate that help. Okay.

21 Q Okay. In looking at the first line, can you  
22 tell me what types of firms participated in this survey?

23 A It appears that they're saying CPA firms.

24 Q Okay. Now let me refer you to page 8 of this  
25 document. Could you please read the types of rates that

1 were included in this survey?

2 A Page 8 or page 9?

3 Q Oh, it's page 8 and 9. Nine on one side and 8  
4 on the other.

5 A Oh, I'm sorry. I see that now.

6 Q On the page 8 side of that document, can you  
7 please identify the types of rates that were included in  
8 the survey?

9 A For which year? There's three years here.

10 Q 2008.

11 A 2008. Then there's three categories, all,  
12 small, and large.

13 Q Okay. Maybe I could facilitate this. Would  
14 you agree that partner owners were included as part of  
15 the survey?

16 A Correct.

17 Q Would you also agree that directors were  
18 included as part of the survey?

19 A Correct.

20 Q Would you also agree that managers were  
21 included as part of the survey?

22 A Yes.

23 Q And would you also agree that senior  
24 associates were included?

25 A Yes.



1 Q And last, but not least, that associates were  
2 included as part of the survey.

3 A That is correct.

4 Q Now do you know the educational qualifications  
5 for each type of these employees?

6 A No. But it lists here their experience.

7 Q Okay. Would it be reasonable to assume that,  
8 for at least these types of categories listed, that the  
9 employees are also CPAs?

10 A No. I would definitely not assume that.

11 Q Okay. Do you know how many employees at ASI  
12 are CPAs?

13 A I do not know the exact number, but I know we  
14 provided that information in discovery.

15 Q Okay. We may -- we can probably come back to  
16 that later if we can get a specific number for that.

17 A Sure.

18 Q Maybe we can address that in rebuttal and just  
19 move on for now.

20 Now did you perform a comparison of the  
21 duties, activities, and responsibilities of the  
22 employees included in the survey to the accounting  
23 employees of ASI that charged their time to AUF?

24 A We attempted to categorize our employees into  
25 similar categories, as you see here, based upon our

1 knowledge and experience of how CPA firms work.

2 Q Did you provide that with your testimony or --

3 A I'm not sure if it was in the direct or in the  
4 rebuttal, but there was a breakdown by category. I  
5 believe it's in the rebuttal.

6 Q In the rebuttal?

7 A Yeah.

8 Q Okay. Well, we can address that in rebuttal  
9 then, and I'll move on.

10 Let's turn to the engineering.

11 A Sure.

12 Q Did you compare the engineering rate billed  
13 for ASI to two engineering firms in Florida?

14 A In direct we did.

15 Q Did you say directly?

16 A In direct. In the rebuttal we updated it for  
17 some additional engineering firms.

18 Q All right. But in your direct testimony you  
19 limited it to two engineering firms; correct?

20 A That is correct.

21 Q Did you perform a comparison of the duties,  
22 activities, responsibilities of the employees of the  
23 engineering firms to the engineering employees of ASI  
24 that charged their time to AUF?

25 A To the best of our ability, we tried.

1 Q Okay. Similar to the legal employees, did you  
2 prepare a similar analysis for legal employees?

3 A Yes. We did prepare a similar analysis for  
4 legal employees.

5 Q Okay. Let me turn your attention to page 12  
6 of your direct testimony. Okay. You discuss the  
7 allocation of computer costs; correct?

8 A Excuse me. Could I just get there first?

9 Q Absolutely.

10 A Yes, I am at page 12.

11 Q Okay. Let me reask the question. On page 12,  
12 you discuss the allocation of computer costs; correct?

13 A That is correct.

14 Q Now you would agree that the corporate IT  
15 costs are part of affiliate costs allocated to AUF;  
16 correct?

17 A Well, there's, there's -- no, I would not  
18 agree with that. There is a portion of an allocation  
19 that is the cost of the IT software of the operating  
20 system. Those costs are capital, and they are allocated  
21 based upon, as we've noted in our discovery, based upon  
22 project by project specific to the beneficiaries or the  
23 subsidiary beneficiaries of those projects, and then  
24 that cost is allocated appropriately. The cost of IT  
25 operations is a subset of the service company, and it's

1 dependent upon how people charge their time.

2 Q All right. Well, let me, let me direct you to  
3 line 4 of your direct testimony, page 12. It's correct  
4 that it talks about -- the question you ask is, please  
5 explain how corporate IT costs have been allocated to  
6 AUF; is that correct?

7 A Yes.

8 Q Okay. And in that response, would it also be  
9 fair to say that there's no description of individual  
10 project's direct costs to AUF?

11 A Well, in -- again, are we talking about  
12 capital or expense?

13 Q This is your explanation and your explanation  
14 of how --

15 A In my explanation here I was discussing  
16 corporate IT costs from a capital perspective. So what  
17 is your question?

18 Q Well, let me ask you this. You recall taking  
19 your deposition; correct?

20 A Sure do.

21 Q And you testified that once a project was  
22 completed, it was allocated and those costs were  
23 recorded on the state's books. Now isn't it correct  
24 that these costs may be, may serve new systems but would  
25 never be allocated to those systems?

1           A     When you make an investment, it's based upon  
2 the participants of the investment at the time. And if  
3 an entity continues to grow or shrink, just as in any  
4 business you have your, your overhead cost to acquire  
5 the assets.

6           Q     So if I'm understanding your response  
7 correctly, then the answer to my question would be, yes,  
8 if there were new systems brought on board after a  
9 system had been developed, it would not be reallocated  
10 to those new systems; correct?

11          A     Absolutely correct.

12          Q     Okay. Let me turn your attention to pages 4  
13 and 5 of your direct testimony.

14          A     Okay.

15          Q     And you agree that, on these pages of your  
16 direct testimony, pages 4 and 5, you state that to  
17 minimize the cost of rate case expense AUF requested the  
18 PAA process; correct?

19          A     That was our intention.

20          Q     Okay. And isn't it true that in the last rate  
21 case there were a lot of upset customers?

22          A     For the few service hearings I attended I  
23 would say there were upset customers.

24          Q     Okay. And wouldn't you agree that it would be  
25 reasonable to expect that customers would be upset in

1 this proceeding?

2 A I don't think anybody is happy to hear that a  
3 bill is increasing.

4 Q And you would agree that in the last rate  
5 cases, for those service hearings that you attended,  
6 they were well attended by customers; correct?

7 A I happened to attend a couple of well attended  
8 hearings.

9 Q Okay. Would you agree that -- would you agree  
10 that it would be reasonable to expect that customers  
11 would want a full hearing in this process?

12 A I don't know how to answer that.

13 Q Did AUF attend a meeting with Staff at the  
14 Commission on, in August of 2010 where Staff expressed  
15 concern about the choice of the PAA process?

16 A I was not part of that meeting.

17 Q Were you aware that Commission Staff had  
18 expressed concerns about the PAA -- choice of the PAA  
19 process?

20 A No, I'm not.

21 Q Okay. Let me turn to page 16 of your direct  
22 testimony, lines 13 through 16.

23 A 13 through 16?

24 Q Page 16, lines 13 through 16.

25 A Okay. Lines 13 through 16.

1           Q     You address the amount of rate case expense  
2     that the utility has requested.

3           A     Correct.

4           Q     Isn't it true that part of this amount are the  
5     charges for traveling between Bryn Mawr, Pennsylvania,  
6     and Tallahassee during the preparation of the MFRs?

7           A     I am sure that there is at least a plane  
8     ticket between Bryn Mawr and Tallahassee, or perhaps  
9     more appropriately, Tallahassee to Bryn Mawr.

10          Q     And wouldn't it be true that if the company  
11     was located in Florida, these costs would have been  
12     eliminated or at least significantly reduced?

13          A     If we were all located in Florida, there might  
14     be costs to travel from point A to point B. I mean, a  
15     person still receives mileage when they travel, so just  
16     being in Florida doesn't mean you incur no cost.

17          Q     But you would agree that it's likely to be  
18     significantly less than it is the cost to fly back and  
19     forth?

20          A     I honestly don't know that. I mean, I know  
21     that I can get an airplane ticket to Orlando for less  
22     than 90 bucks on occasion.

23          Q     Right. And that would require -- well, let me  
24     move along. Let's move to page 18 of your direct  
25     testimony.

1           A     Sure.

2           Q     On page 18 you discuss bad debt expense.

3           A     Yes.

4           Q     If you back bill a customer for 12 months and  
5 they are unable to pay the bill, is that amount charged  
6 to bad debt expense?

7           A     If a customer doesn't pay a bill because they  
8 simply do not want to pay, it is charged to bad debt  
9 expense. If there is a billing correction or error,  
10 that is charged to revenue as an offset.

11          Q     What if they want to pay but are unable to  
12 pay, and then -- and due to their inability to pay,  
13 wouldn't that lost revenue be --

14          A     If it results, if it results in a shutoff of  
15 service and a placement with a collection agency, yes,  
16 it does go to bad debt expense.

17          Q     Okay. Let me turn your attention to  
18 handout -- or hearing Exhibit 291, please.

19          A     Sure.

20          Q     Specifically referring to the company's  
21 response to -- is that Interrogatory No. 240?

22          A     Yes. I have it.

23          Q     Sub A.

24          A     On Page, on page 33?

25          Q     On page 34.



1           **A**     On page 34.  Yes.

2           **Q**     Okay.  Isn't it correct that Aqua states that  
3 it budgeted -- budgets bad debt expense at 1.5% of  
4 revenues; correct?

5           **A**     That is correct.

6           **Q**     Okay.  Wouldn't you expect that due to the  
7 fact that you have a deposit policy, that your bad debt  
8 percentage would be lower than companies that offer  
9 credit cards without deposit policies, such as credit  
10 cards?

11          **A**     Would you say that question again, please?

12          **Q**     Wouldn't you expect that given the fact AUF  
13 has a deposit policy, your bad debt percentage would be  
14 lower than other companies that do not have a deposit  
15 policy, such as a credit card company?

16               **MR. MAY:**  I'm going to object to that.  It  
17 assumes facts that are not yet in evidence.  I don't  
18 think he's testified as to whether the company has a  
19 deposit policy or not.

20               **MS. CHRISTENSEN:**  Well, I can ask him that.

21 **BY MS. CHRISTENSEN:**

22           **Q**     Does the company have a deposit policy?

23           **A**     Yes, we do.

24           **Q**     Okay.  Given the fact that the company has a  
25 deposit policy, would you expect that your bad debt

1 percentage would be lower than other companies that do  
2 not have a deposit policy, such as a credit card  
3 company?

4           **A**     And my response would simply be that that is  
5 looking at apples and oranges perhaps. I think you have  
6 to look at the customer profile, their ability to pay,  
7 to make a determination. The fact that you accept a  
8 credit card does not seem to answer the question of, the  
9 sole question of whether you have bad debt or not bad  
10 debt relative to deposits.

11           **MS. CHRISTENSEN:** I have no further questions.

12           **CHAIRMAN GRAHAM:** Ms. Bradley?

13           **MS. BRADLEY:** Just a couple of questions.

14   **EXAMINATION**

15           **BY MS. BRADLEY:**

16           **Q**     Sir, you mentioned something about the people  
17 at the, the hearing, and when you were asked about that,  
18 you said, well, no one is happy to see their rates go  
19 up.

20           **A**     I said no one is happy to see the bill go up.  
21 Yes.

22           **Q**     Okay. Do you understand that there's a  
23 distinction between unhappy to see rates go up and an  
24 inability to pay increased rates?

25           **A**     I can see that as a bill increases it's more

1 difficult to basically pay something if you live on a  
2 budget or you have certain limits to your means, yes.

3 Q And as the cost of a necessary service goes  
4 up, would you agree that your bad debt expense is likely  
5 to go up?

6 A No, I don't necessarily agree with that.

7 Q But generally speaking, if it's necessary  
8 people that -- a necessary service that people need,  
9 they're going to try to pay it rather than just giving  
10 it up, aren't they?

11 A If a unit were to cost a dollar and suddenly  
12 costs \$3, and a certain number of units basically don't  
13 get paid, yes, when you're charged, when you have a \$3  
14 charge for that unit versus a dollar, the dollars of bad  
15 debt expense definitely most likely would go up for  
16 those transactions.

17 Q Now you talked about your, in your direct  
18 testimony you talked about your executive incentives.

19 A Yes.

20 Q And the fact that you needed to pay them more  
21 to keep good people.

22 A That's generally the desire of many companies.

23 Q I understand that. But do you realize that in  
24 this economy a lot of companies are decreasing those  
25 incentives until they can get through this bad time?

1           A     I don't know that myself, but I do know that  
2 every year we conduct independent performance and pay  
3 surveys for our key executives. And as I've mentioned,  
4 they are benchmarked at or below utility averages. So  
5 in the event that -- and as well as peer companies, I  
6 should state. So, in your case, I think that would come  
7 out in that survey that the independent company performs  
8 for our board of directors.

9           Q     I wasn't comparing your company to other  
10 companies as far as you being at or below, but are you  
11 aware that other companies have decreased their  
12 incentives to get through this economy, this bad time?

13          A     I don't have any specific knowledge of that.

14          Q     You haven't heard anyone in your, in the  
15 country talking about that, or in the State of Florida  
16 talking about that?

17          A     No, I haven't.

18          Q     You haven't read that in the newspapers and  
19 seen it on TV?

20          A     I've seen references to Wall Street bonuses,  
21 but I don't know anything about specific companies. I'm  
22 sorry.

23          Q     Did you know that the State of Florida has  
24 been making cutbacks and laying people off and that type  
25 of thing?

1           A     I am aware many governmental agencies have  
2     been having to deal with cutbacks and budget needs.

3           Q     Okay.  Would you be willing -- you've already  
4     talked about your bad debt expense, and would your  
5     company be willing to cut back on some of the executive  
6     expense in order to allow more of their customers to pay  
7     their bills and use their services?

8           A     Well, I don't think I'm in a position to  
9     answer that.  I believe why I'm here is representing  
10    what are the expenses, the reasonable and justified  
11    expenses of the company.  And based upon the rules and  
12    regulations of how ratemaking is done in the State of  
13    Florida, we are entitled to recover all of our expenses  
14    that are reasonable and justified.

15          Q     And can you say it's reasonable and justified  
16    when it causes people to be unable to afford your  
17    services, people that need your services?

18          A     To be honest with you, I'm not a sociologist.  
19    I don't think I could answer that question.  I mean,  
20    simply said, I'm here representing the MFRs.

21          Q     And you don't make any consideration of the  
22    customers and their ability to pay when making those  
23    decisions?

24          A     In the role that I am here for, I don't have  
25    to evaluate that and I do not evaluate that.

1           Q     But you're here testifying whether it's fair  
2 and reasonable, are you not?

3           A     The cost.

4           Q     And the customers' needs or ability to pay  
5 doesn't factor into that?

6           A     I believe that my job is to present what are  
7 the costs of the company, to request a fair return based  
8 upon the rules of ratemaking, and ultimately I believe  
9 it's the Commission's decision to determine what the  
10 right answer is.

11          Q     And presenting your case for fair and  
12 reasonable, what I'm trying to understand is, though,  
13 how much factors in as far as the customers' ability to  
14 pay and what is fair and reasonable to them?

15           **MR. MAY:** Mr. Chairman, I think this is the  
16 fifth time this question has been asked, and I think  
17 Mr. Szczygiel has answered it.

18           **MS. BRADLEY:** He actually has avoided it, Mr.  
19 Chairman.

20           **CHAIRMAN GRAHAM:** I was actually quite  
21 impressed by your ability to let her ask the question  
22 five times.

23           (Laughter.)

24           I agree with the objection. I believe it was  
25 asked and answered.

1           **MS. BRADLEY:** It was asked. I don't believe  
2 it was answered. But that's all I have, if I can't get  
3 an answer.

4           **CHAIRMAN GRAHAM:** Thank you.

5           Next will be YES.

6                           **EXAMINATION**

7           **BY MR. CURTIN:**

8           **Q**     Good morning, sir.

9           **A**     Good morning.

10          **Q**     As I've stated before in private, if I  
11 mispronounce your name Szczygiel, I apologize.

12          **A**     Szczygiel. And you've -- I've heard worse.

13                   (Laughter.)

14          **Q**     That I will stipulate to.

15                   Sir, I want you to turn to Exhibit No. 285.  
16 That was your late-filed deposition No. 9. Do you have  
17 that in front of you?

18          **A**     No. 285?

19          **Q**     285. It was just proffered by OPC.

20          **A**     Oh, I'm sorry. I wasn't keeping score at that  
21 point.

22          **Q**     Yeah. Late-filed Exhibit No. 9.

23          **A**     I can go to Late-filed Exhibit No. 9. The  
24 proxy?

25          **Q**     That's it. Exactly. Can you turn to page 32.

1 That's a summary of the compensation table.

2 A Yes, we've been here before. Yeah.

3 Q You mentioned that Mr. Franklin, nothing of  
4 Mr. Franklin -- excuse me, Mr. Kyriss.

5 A Kyriss.

6 Q Kyriss, Regional President for Northeastern,  
7 none of his salary would be charged to the customers of  
8 Aqua Florida here in Florida?

9 A That is correct.

10 Q The northeastern, is that the large --  
11 Pennsylvania is where Aqua is headquartered; correct?

12 A Pennsylvania is where Aqua is headquartered.

13 Q And most of Pennsylvania -- most of Aqua  
14 America's customers are in Pennsylvania?

15 A I believe somewhere in the vicinity of 50% of  
16 Aqua America's customers are located in Pennsylvania.

17 Q And Mr. Kyriss on the northeastern, how many  
18 percentage of, approximately of Aqua America's customers  
19 are in the northeast division?

20 A I would say approximately 55 to maybe a high  
21 50 percentage.

22 Q And so then the rest would be in  
23 Mr. Franklin's division, the midwest and southern  
24 operations?

25 A That is correct.



1 Q Okay. And Mr. Franklin's salary between 2008  
2 and 2009 increased about -- my math isn't as good as a  
3 CPA -- but about a quarter of a million dollars?

4 A As a CPA, I don't trust my math without a  
5 calculator. But his salary has increased from,  
6 referring to Mr. Franklin, from 388 to 626?

7 Q Yes.

8 A That is correct.

9 Q And then Mr. Nicholas --

10 A DeBenedictis.

11 Q Thank you. I'm terrible at last names, so.

12 A You passed Szczygiel pretty good, so.

13 Q And his increased by, if I'm reading it  
14 correctly, by \$1.2 million between 2008 and 2010?

15 A Approximately.

16 Q Okay. And if you turn to page 25, that's the  
17 individual objectives?

18 A Yes, sir.

19 Q And part of the individual objectives of  
20 Mr. Nicholas DeBenedictis and Mr. Franklin are water  
21 quality, customer service, and both of them have  
22 customer revenue growth; correct?

23 A Correct.

24 Q Now the customer, the revenue growth in  
25 Florida has declined. That's one of the reasons you're

1 here.

2 A The customer growth has -- well, the customer  
3 growth has been negative unfortunately for the past few  
4 years in terms of our active connections. And our  
5 revenue has declined a little bit because of that, but  
6 primarily as a result of less usage by our customers.

7 Q Okay. So you've had less customers and less  
8 usage?

9 A And I would -- and in order of significance,  
10 it's less usage and less customers.

11 Q But yet their salary has increased by  
12 \$1.2 million and a quarter of a million dollars within  
13 that three-year period?

14 A Yes, they did.

15 Q Thank you.

16 Now has Aqua ever done any market surveys of  
17 affordability in individual regions that they practice,  
18 affordability of their water and wastewater services?

19 A Not that I'm aware of.

20 Q Have they ever done any market surveys, say,  
21 in Alachua County of the affordability of water and  
22 wastewater services in Alachua County?

23 A As I said before, I'm not aware of any  
24 surveys, and I'm not even sure what the definition of  
25 affordability would be.

1 Q Why don't you turn to Exhibit No. 287. That's  
2 the Aqua annual report, the 2010 financial data.

3 A Hold on. 287 -- well, the annual report.

4 Q The Aqua 2010 financial data.

5 A Yes, sir.

6 Q Okay. And turn to page 2, industry mission.  
7 Do you see that?

8 A Yes, sir.

9 Q And I'll read it for you. "The mission of the  
10 investor-owned water utility industry is to provide  
11 quality and reliable water service at an affordable  
12 price to customers while earning a fair return for  
13 shareholders."

14 So in your mission statement, in the  
15 industry's mission statement, it has affordable price,  
16 at an affordable price. But you're telling me that, to  
17 your knowledge, Aqua has never done any surveys in any  
18 of the geographical areas where it provides water and  
19 wastewater services as to whether they're affordable?

20 A To my knowledge, we have not performed any  
21 surveys. And as I read the industry mission and I look  
22 at the word "affordable price," the challenge for the  
23 management team is to basically deliver the lowest cost  
24 and the most efficient cost that we can. And that's  
25 back to an earlier reference of operating efficiency

1 ratios. As you attempt to basically become more  
2 efficient, you become more affordable.

3 Q But as the manager, you're the manager of  
4 rates and planning for the southern and midwest region;  
5 correct?

6 A Yes, I am.

7 Q So as the manager of rates and planning for  
8 the southern and midwest region, you have never been  
9 involved nor know of any sort of study that Aqua  
10 America, Aqua Florida, or any other subsidiary of Aqua  
11 has ever conducted on affordability?

12 A I do not know of any survey.

13 Q I want you to turn -- I've got my notebooks  
14 here. I've got more notebooks than I know what to do  
15 with.

16 A You've probably got more than me.

17 Q I want you to turn to your Exhibit SS-3, which  
18 I believe is Staff Composite 54. Do you have that in  
19 front of you? That's the bad debt expense.

20 A SS-3, the comparative year over year?

21 Q Yes.

22 A Yes, I do have it.

23 Q Now just looking at the rate bands for water,  
24 2W, 3W, 4W, your bad debt expense basically went for 2W  
25 from 9,000 in 2008 to 24,000 in 2009 to 41,000 in 2010?

1           A     Correct.

2           Q     About doubled each year?

3           A     Uh-huh.

4           Q     And the same thing for rate band 3 and rate  
5 band 4; correct?

6           A     They're increasing year over year.

7           Q     Would you agree with me that if Aqua does not  
8 provide -- well, if any company in general does not  
9 provide a quality service, that some -- the purchaser of  
10 that service may go away and may not pay for that  
11 service?

12          A     I believe that if I were to receive service  
13 that was not adequate, I might dispute the service. I  
14 don't know that I'd go away. And unfortunately, the  
15 utility, I don't know that you can away.

16          Q     And you're right. Some, some people that Aqua  
17 is providing water and wastewater services for just  
18 cannot go away.

19          A     I agree.

20          Q     Now, you know, most of the time you're  
21 providing services with individuals who are at the lower  
22 socioeconomical scale?

23          A     We have several communities throughout many of  
24 the states in the South and the Midwest that are at the  
25 lower economic scale.

1           Q     And would you agree with me, when Aqua back  
2 bills someone at a social -- lower socioeconomical scale  
3 for many, many months, six, seven, eight months to 12  
4 months, that could be a hardship on someone paying that  
5 back bill?

6           A     I think receiving a large bill could be a  
7 hardship on anybody who's trying to budget themselves.  
8 And I do believe that Aqua offers the individual an  
9 opportunity to have extended payment terms to basically  
10 correct that situation.

11          Q     Okay. But as a CPA, you understand the term  
12 "living paycheck to paycheck"?

13          A     Oh, yes, I do.

14          Q     Okay. And someone at the lower  
15 socioeconomical scale living paycheck to paycheck, even  
16 a 25, 30, \$40 extra charge a month could be detrimental  
17 to them?

18          A     I imagine it could be.

19          Q     Now as far as the rate case expense, would you  
20 agree with me it is Aqua's burden to prove that their  
21 rate case expense is reasonable?

22          A     Yes.

23               **MR. CURTIN:** I have no further questions for  
24 this direct testimony.

25               **CHAIRMAN GRAHAM:** Thank you.

1 Pasco County?

2 MR. RICHARDS: Thank you. I just have a few  
3 questions.

4 EXAMINATION

5 BY MR. RICHARDS:

6 Q Now you just mentioned in response to  
7 Mr. Curtin's questioning that revenue is declining  
8 because of less usage in Florida.

9 A That's correct.

10 Q Have, have you studied the cause of that  
11 declining usage?

12 A I have looked into what was causing, what  
13 appeared -- what was an alarming decline in consumption  
14 in a period of time I believe around 2008, after, after  
15 we put in the rates from the last rate case. And what I  
16 saw was in a particular system called Scottish  
17 Highlands, we saw a significant decline. And when I  
18 queried to the operations team, they came back and  
19 explained to me that, I don't know the exact number, but  
20 more than 50 customers, maybe 100 customers had sunk  
21 wells and basically took that irrigation flow out of our  
22 consumption pattern.

23 Q Was there any other examples of declining  
24 usage other than that one?

25 A No. I have seen general consumption decline

1 year over year for the past three years throughout Aqua  
2 Florida. I've seen a lesser decline in other systems  
3 that we own in Florida that are not part of this rate  
4 hearing, such as Sarasota and Chuluota. But the, the  
5 decline has been higher in AUF than any other systems.

6 Q And do you think your increase in rates has  
7 contributed -- contributes to that decline in usage?

8 A I believe that it could.

9 Q Have you looked at the, that issue in this  
10 current rate case as to what the effect will be on an  
11 ever increasing rate on consumption?

12 A Well, I think, yeah, I think, I think what  
13 we're trying to do here is in terms of what the company  
14 recommended for a rate design was we felt that perhaps  
15 the rate design that came with the rate case, the last  
16 rate case, was very punitive to people that were going  
17 into -- the higher users, people above 5,000 gallons or  
18 above 10,000 gallons. Some of those rates -- I believe  
19 one of the bands had got actually up to over \$20 per  
20 kilo-gallon. That's pretty high.

21 What we tried to do in this case was to first  
22 of all establish the bands to conform to current logic,  
23 which is 6,000 kilo-gals, so 6, 12 and above 12, so  
24 first of all putting more people in the lower kilo-gal  
25 range. And we tried to keep the step increment to have



1 an incentive to conserve but not a, not as large of a  
2 incentive perhaps or disincentive as was in the '07  
3 case.

4 **MR. RICHARDS:** Thank you. No further  
5 questions.

6 **CHAIRMAN GRAHAM:** Okay.

7 Staff?

8 **MS. BENNETT:** Mr. Chairman, we have four  
9 exhibits and an order that I'd like to hand out to  
10 discuss with this witness. Could we take maybe a couple  
11 minutes to do that?

12 **CHAIRMAN GRAHAM:** We'll just wait. Go ahead.

13 **MS. BENNETT:** Okay.

14 (Pause.)

15 I would like to have late-filed deposition  
16 Exhibit 1 marked as Exhibit No. 292.

17 **CHAIRMAN GRAHAM:** You want this marked as --

18 **MS. BENNETT:** Exhibit No. 292.

19 **CHAIRMAN GRAHAM:** 292. Okay.

20 (Exhibit 292 marked for identification.)

21 **MS. BENNETT:** I'd like late-filed deposition  
22 Exhibit 2, 13-month average AAI total corporate, marked  
23 as Exhibit No. 293.

24 **CHAIRMAN GRAHAM:** All right.

25 (Exhibit 293 marked for identification.)

1           **MS. BENNETT:** I would like late-filed  
2 deposition Exhibit 4, allocation adjustments related to  
3 acquisitions, marked as 294.

4           **CHAIRMAN GRAHAM:** Okay.

5           (Exhibit 294 marked for identification.)

6           **MS. BENNETT:** And late-filed deposition  
7 Exhibit 10 marked as 295.

8           **CHAIRMAN GRAHAM:** Done.

9           (Exhibit 295 marked for identification.)

10          **MS. BENNETT:** And the order is just the for  
11 reference as we discuss some topics in the prior order.  
12 So I don't need that marked as an exhibit.

13          **CHAIRMAN GRAHAM:** Okay.

14          **MS. BENNETT:** And as a preliminary matter, my  
15 understanding is that Exhibit No. 292 can be stipulated  
16 into the record, that no party objects to that  
17 deposition exhibit being put into the record, and so I  
18 don't need to inquire of the witness about this  
19 document.

20          **CHAIRMAN GRAHAM:** One more time. I missed  
21 that.

22          **MS. BENNETT:** I believe 292 can be stipulated  
23 into the record, if all of the parties agree.

24          **MR. CURTIN:** I just missed, what's 292?

25          **MS. BENNETT:** 292 is the late-filed deposition

1 Exhibit 1. It was Mr. Szczygiel's discussion of which  
2 witness sponsors which MFRs.

3 MR. CURTIN: No problem. I just missed you  
4 when you said which it was.

5 MS. BENNETT: And then another preliminary  
6 matter, I wanted to -- I'm not sure -- I guess all the  
7 parties agreed to the Exhibit 1 going into the record --  
8 or 292 going into the record.

9 CHAIRMAN GRAHAM: I see a lot of heads nodding  
10 yes.

11 MR. CURTIN: YES has no objection.

12 (Exhibit 292 admitted into the record.)

13 MS. BENNETT: And then Ms. Christensen and I  
14 discussed by email the other day late-filed Exhibit 12  
15 is the most updated rate case expense, and it consists  
16 of 800 pages of documents. If all the parties concur,  
17 we will bring this up in Mr. Szczygiel's rebuttal  
18 testimony rather than at this time. That will give OPC  
19 additional time to review that.

20 MS. CHRISTENSEN: And we would certainly  
21 appreciate it.

22 CHAIRMAN GRAHAM: Okay.

23 MS. BENNETT: With that, I am ready to start.

24 EXAMINATION

1 BY MS. BENNETT:

2 Q Mr. Szczygiel, my name is Lisa Bennett. We  
3 spoke over the telephone.

4 MR. MAY: Mr. Chairman, I was just going  
5 through and making sure I had the correct exhibits. I  
6 was looking at late-filed, I guess Exhibit No. 295, and  
7 this doesn't correspond with the late-filed Exhibit No.  
8 10 that was provided by Mr. Szczygiel. This is a,  
9 appears to be a, an earlier version of that. It doesn't  
10 --

11 MS. BENNETT: Well, we will inquire on the  
12 other documents and then at a break perhaps see if we  
13 can't find the correct document for that one. It's the  
14 one that we have.

15 THE WITNESS: I believe I have the correct  
16 copy, if you'd like to make copies of it.

17 MS. BENNETT: We will do that. Probably  
18 address it on rebuttal, unless we take a break over --  
19 and before we do redirect.

20 CHAIRMAN GRAHAM: I'm sure he can give  
21 somebody a copy. They can go make 25 copies or so while  
22 you're asking the questions.

23 They have it.

24 BY MS. BENNETT:

25 Q Okay. The first document I want to talk with

1 you about is in relationship to Issue 10, rate base, and  
2 it's about some meter replacements. I want you to turn  
3 to the, what I call the prior rate case, or the 2008  
4 order.

5 A Sure.

6 Q Page 26. And let me know when you've gotten  
7 to that page.

8 A Meter replacements?

9 Q That would be the page I'm asking about.

10 A Okay.

11 Q And my understanding is that Mr. Luitweiler  
12 and Ms. Chambers were asked these questions in  
13 deposition, and they punted to you. So I want to talk  
14 to you a little bit about this order in relationship to  
15 what Aqua is asking for in this docket.

16 In AUF's last rate case, the Commission  
17 allowed \$605,724 in pro forma meter replacements; is  
18 that correct?

19 A I don't know. But I do know that they allowed  
20 some meter replacement.

21 Q Okay. Are you aware of the amount that Aqua  
22 requested, isn't it true that it was \$2,817,930 in pro  
23 forma plant?

24 A I seem to recollect the number being  
25 approximately \$3 million.

1           Q     And the Commission removed an amount, and  
2 we've done the calculation, it's 2,212,206. Would you  
3 agree to that, subject to check?

4           A     Subject to check, but my recollection is is  
5 that a large portion of the meters were not allowed in  
6 the last case, simply because our documentation was not  
7 in the best of condition at the time of basically the  
8 case coming to an end. The meters had all been  
9 installed and were working for all but the large,  
10 several large meters, but all the residential meters  
11 were completed unfortunately prior to the last rate  
12 case.

13          Q     Okay. I think that might answer my next  
14 questions, but I'm going to confirm it. So has Aqua  
15 continued with its meter replacement program, or did you  
16 state that it's completed?

17          A     Well, at the time of the last rate case the  
18 company had replaced the residential meters for all of  
19 our customers. And as a matter of fact, I know that  
20 that's been a sub point inside of the customer service  
21 reviews and seeing if they read properly. But they were  
22 all replaced.

23                   The problem that we had in the last rate case  
24 was just simply putting it into a book appropriately.  
25 And unfortunately, as I recollect, we mixed some

1 invoices for other type of work, maybe pipe replacement  
2 and something, and appropriately we, we didn't have our  
3 I's dotted and our T's crossed at that last filing, but  
4 they were all installed at that point. They were put  
5 into service, I believe, in 2008, and then we continued  
6 to do large meters, so we did all the residential. So  
7 anybody that had a larger than five-eighths-inch meter,  
8 those replacements were done, I believe, in 2009 and  
9 then put into our, our asset records.

10 Q So are the large meters included in the  
11 historical test year for --

12 A This test year.

13 Q -- this rate case?

14 A Yes.

15 Q But the residential meters --

16 A Are.

17 Q Are?

18 A Are, yes. Because they were put into service  
19 in 2008 and 2009, and they're in this rate case with  
20 being put in service on those dates. And I do believe  
21 that they were a selection from the PSC audit staff when  
22 they performed their work in our Lady Lake office.

23 Q Was any of the 605,724 pro forma meter --  
24 dollar pro forma meter replacements allowed from the  
25 prior order included in the historical test year?

1           A     For this rate case?

2           Q     Correct.

3           A     Yes, they're all in there.

4           Q     Has Aqua Utilities Florida performed a cost  
5 benefit analysis to justify the meter replacement  
6 program that was undertaken?

7           A     Not one that I'm aware of.

8           Q     Okay. I next want to speak with you a little  
9 bit about another issue, Issue 18, which is the  
10 corporate information technology charges allocated by  
11 AUF to, from its parent, AAI.

12          A     Uh-huh.

13          Q     And I'm going to just ask you a couple  
14 questions about this issue. We've talked about it in  
15 the deposition, so I want you to refer to your direct  
16 testimony, page 12, line 21, through page 13, line 16.  
17 Let me know when you've gotten there and had an  
18 opportunity to review.

19          A     Page 12 and which lines?

20          Q     Line 21.

21          A     Uh-huh. To what line?

22          Q     Through page 13, line 16.

23          A     Okay. I'm there.

24          Q     Is it your testimony that AAI does not  
25 reallocate corporate IT costs allocated previously to



1 divested subsidiaries to AAI's surviving subsidiaries?

2 A Corporate IT cost is not reallocated at any  
3 time after the project is completed, whether the  
4 subsidiary grows or declines.

5 Q And when we discussed your testimony on  
6 corporate IT plant costs, we had a little bit of a  
7 discussion on what the correct amount of corporate IT  
8 total was for a 13-month average; is that correct?

9 A Well, I believe that Staff imputed a number  
10 that I honestly didn't know if it was right or wrong at  
11 that time, and I believe you asked me to secure for you  
12 a late-filed exhibit of what the total company's IT  
13 assets were, and then asked for it on a 13-month  
14 average.

15 Q And I'd ask you to look at Exhibit No. 293 and  
16 confirm that that is the late-filed exhibit that you  
17 provided to your deposition.

18 A Yes, it is.

19 Q And so that first page of that document would  
20 show the 13-month average, that would be the last  
21 column?

22 A Uh-huh.

23 Q And each of the prior columns would be the  
24 monthly?

25 A Month end. The month end balances.

1           Q     And then the next two pages are, as I  
2 understand this document, examples of a project that was  
3 allocated; is that correct?

4           A     No, not really. The first page is the  
5 13-month average. The second page is the balances as of  
6 the end of the test year. So if you were to look at  
7 430, 2010 on the first page, that is the total, under  
8 the grand total line, grand total, grand total.

9           Q     Yes.

10          A     So that's, that basically is just a year end  
11 accounting. And then the third page is an example of  
12 how we were explaining to you how we approach our IT  
13 projects, this being perhaps the largest single IT  
14 project that is on the Aqua Utilities Florida books. It  
15 was the conversion to our central -- CIS billing and  
16 call center systems.

17          Q     And I think that project is the Meritage  
18 project; is that --

19          A     That's what we called it, yes.

20          Q     I next want to turn your attention to -- it  
21 involves Issue 16, which talks about adjustments to  
22 allocations, and specifically we talked about whether  
23 it's appropriate to make adjustments for customers that  
24 are added subsequent to the test year. Do you recall  
25 our discussion on that?

1           A     Yes.  You specifically asked us to consider  
2     the customers that were acquired in the year 2010, I  
3     believe, based upon a data request that we had given you  
4     as to what those customers were.

5           Q     Correct.  And is -- your response to that data  
6     request, AAI acquired 22 water and/or wastewater  
7     customers, which included 5,894 customers, which were  
8     subsequent to the April 30th, 2010, test year.  Is that  
9     correct?

10          A     That is correct.

11          Q     And in a subsequent data response the utility  
12     stated that there are no net increases -- incremental  
13     increases in overhead associated with these  
14     acquisitions; is that correct?

15          A     Right.  Nothing we could directly associate to  
16     them.

17          Q     I'm sorry.  I didn't hear you.

18          A     Nothing that we could directly associate to  
19     them.  They're small -- these are very small  
20     acquisitions.

21          Q     And, again, we asked for a late-filed exhibit,  
22     that would be Exhibit No. 4, which is your document  
23     No. 293.  No. 294.

24          A     294.

25          Q     Would you take a look and let's make sure that

1 that's the correct document you provided as a late-filed  
2 exhibit?

3 A Yeah. I believe -- yeah, it is. I'm sorry.  
4 The print on this is so small.

5 Q I agree.

6 A We actually had it on a legal page. You guys  
7 have successfully shrunk it down to a regular size, I  
8 guess.

9 Q And 294, can you briefly explain to the  
10 Commission what that document, late-filed Exhibit 294  
11 is?

12 A Sure. What we attempted to do here was to  
13 take the customers that we acquired in 2010 and in  
14 essence pro forma them into the allocation percentages.  
15 In doing so, we first add in the customers that we  
16 acquired, which is the connections, we apply our  
17 customer count logic, which if you're a two-service  
18 customer, i.e., you have water and wastewater, you only  
19 are counted as .75, which is a convention that we  
20 adopted in 2008.

21 And in addition to that, I did take out the  
22 one divestiture of the sale of South Carolina for  
23 allocation, customer count allocation purposes. I then  
24 applied those reallocations to the same suballocation  
25 factors that the PSC Staff had, basically remimicked

1 their logic, and produced my results that said that  
2 instead of a recommended reduction as a result of this  
3 customer growth of 39,015, the company believes that the  
4 reduction should be 5,972 to the Aqua Utility Florida  
5 entities that are in this case.

6 Q Okay. My last set of questions are on the  
7 late-filed exhibit that we are having a new copy made.

8 CHAIRMAN GRAHAM: So is this now going to be  
9 No. 295?

10 MS. BENNETT: That's going to be 295.

11 CHAIRMAN GRAHAM: Thank you.

12 BY MS. BENNETT:

13 Q Mr. Szczygiel, during your deposition we  
14 discussed whether adjustments should be made to  
15 incentive compensation. Do you recall that discussion?

16 A I remember that conversation, and I think we  
17 then morphed into total executive compensation.

18 Q Correct. We talked about the North Carolina  
19 Public Service Commission order that the Office of  
20 Public Counsel previously entered into the record.

21 A That is correct.

22 Q And as I recall, you stated you were very  
23 familiar with that decision; is that correct?

24 A I participated in that case.

25 Q And you presented testimony in that case?

1           A     I did present testimony in that case.

2           Q     And isn't it true that the North Carolina  
3 Commission reduced the executive compensation package by  
4 25%?

5           A     That is correct.

6           Q     And during our discussion I requested a  
7 late-filed exhibit to show what the effect of a 25%  
8 reduction on executive compensation would do to the rate  
9 bands and standalone systems, and you provided that as  
10 late-filed Exhibit 10; is that correct?

11          A     That is correct.

12          Q     And the document that we now have in front of  
13 us, 295, is that a -- is that the correct late-filed  
14 Exhibit 10?

15          A     Yes. This starts out with the four executives  
16 that were discussed in the North Carolina order and are  
17 four of the five executives that are in the proxy. It  
18 provides the amount of their billing rate that is  
19 allocated to AUF Florida in total, which includes both  
20 Sarasota and other entities that are not in this rate  
21 case. We presented across the full year.

22                    Then we stepped it down to the amount that is  
23 associated with just this case, which is the thing  
24 called AUF Executive Compensation, the next to the last  
25 column on the, on the right, which totals 72,166. And

1 then we bring that down 25 percent at your request to  
2 18,042. And then at your request we then applied the  
3 allocation factors of that amount that is in this case  
4 to each of the various rate bands.

5 In addition to that, we supplied what are the  
6 elements of this cost, just basically explain that this  
7 is not just incentive compensation, this is total  
8 billing rate, which includes base salary, all forms of  
9 incentive compensation, their healthcare benefits, their  
10 pension, the rent that they have. So all the elements  
11 are listed here, including payroll taxes.

12 And this mimics a logic that North Carolina  
13 applied for an amount to be excluded from their rate  
14 case, with the caveat that they gave us four reasons for  
15 their exclusion. We only covered one of them in earlier  
16 testimony from the OPC, but perhaps their -- in  
17 significance I think it was their second item, but  
18 actually in discussions with them they were simply  
19 recommending that we capitalize a portion of that  
20 excluded cost because they spent time on capital  
21 projects.

22 So they were, in addition to excluding  
23 something from expense, they were directing us to take a  
24 portion of that and put it to capital as an overhead.

25 Q And wasn't it true that the North Carolina

1 staff recommended a 50% reduction?

2           **A**     The North Carolina staff, to be clear, it's  
3 different than the Staff in Florida. They are, they  
4 represent the ratepayers, so they perform the duties  
5 similar to an OPC, and they are the ones that  
6 recommended the 50% reduction. There is a Commission  
7 and a Commission staff, they work closely together, and  
8 they decided that the answer should be 25%.

9           **MS. BENNETT:** I have no further questions of  
10 this witness.

11           **CHAIRMAN GRAHAM:** Commissioners, any questions  
12 of this witness?

13                   Commissioner Brown.

14           **COMMISSIONER BROWN:** Thank you.

15                   And good afternoon, Mr. Szczygiel. Earlier  
16 you stated that Aqua, AUF has experienced more declining  
17 consumption than any of the other subsidiaries; is that  
18 correct?

19           **THE WITNESS:** Absolutely.

20           **COMMISSIONER BROWN:** And the parent company as  
21 well as AUF has not implemented any programs to study  
22 that pattern?

23           **THE WITNESS:** I've studied it, but I have not  
24 looked at it from a point of view of affordability.

25           **COMMISSIONER BROWN:** And you're -- and you



1 provided some discussion about what your studies have  
2 revealed. Can you repeat that?

3 **THE WITNESS:** Well, I mean, let's put it this  
4 way. What -- consumption obviously is a big driver to  
5 your revenue, so every single month I sit there and I  
6 basically pattern the consumptions, not only by the  
7 subsidiary but the underlying rate bands. I try to  
8 establish in my mind if there's any correlations that I  
9 can establish. But, I mean, you know, you hear stories  
10 of more efficient water using devices, toilets,  
11 showerheads, et cetera.

12 I don't have the ability to honestly get into  
13 what's causing that. I read a lot of studies, I see a  
14 lot of other utilities who have done some forms of  
15 side-by-side comparisons, Connecticut entities. But I  
16 have not done that other than to just make sure that I  
17 have a clear understanding of where the consumption  
18 changes are and what's happening and if they can be  
19 correlated to anything like improved efficiency devices,  
20 pricing, or weather. I try to, I try to make those  
21 honest guesses, because really there's not empirical  
22 evidence to get you to any one spot.

23 **COMMISSIONER BROWN:** Okay. Has the company  
24 contemplated producing a survey to its customers on this  
25 issue?

1           **THE WITNESS:** Not that I'm aware of.

2           **COMMISSIONER BROWN:** Okay. Just a few more  
3 questions regarding allocation.

4                   From an overall percentage standpoint, how  
5 does Aqua Florida utilize its parent company for the  
6 purposes of rate case expenses?

7           **THE WITNESS:** Well, we don't -- rate case  
8 expenses are direct charged. So when you say how do we  
9 utilize them, we have -- when we file a rate case in  
10 Florida, we try to use as much internal staff as  
11 possible, simply because they're more cost-effective.  
12 They direct charge their time to all rate cases.  
13 They're the only -- the rate group in Aqua is the only  
14 group that actually has a direct charge outside of an  
15 allocation. So the people that work on this do charge  
16 their time directly.

17                   Trust me, the work in Florida is significant.  
18 And we also have certain consultants that we've used in  
19 the past two rate cases that assist us primarily in the  
20 area of the bill analysis with myself, as well as the  
21 overall consolidation and construction of the MFR.

22           **COMMISSIONER BROWN:** Okay. With regard to the  
23 annual adjustment, your Exhibit SS-2, is it the regular  
24 practice of Aqua America to adjust its rate for its  
25 staff in accordance with this schedule?

1           **THE WITNESS:** Schedule SS-2?

2           **COMMISSIONER BROWN:** Uh-huh.

3           **THE WITNESS:** In SS-2 we're referring to a  
4 market study.

5           **COMMISSIONER BROWN:** Uh-huh.

6           **THE WITNESS:** Right?

7           **COMMISSIONER BROWN:** Right.

8           **THE WITNESS:** And so how does -- could you ask  
9 your question again for me, please?

10           **COMMISSIONER BROWN:** What I really want to get  
11 at is has the company ever not adjusted its salaries on  
12 an annual basis?

13           **THE WITNESS:** Well, we give merit increases,  
14 or employees are eligible for merit increases on an  
15 annual basis, and generally those merit increases are  
16 upwards. There are people who receive no salary  
17 increase, so they stay even.

18           And, again, we rate our people's performance.  
19 And if someone is performing in an unsatisfactory way,  
20 we encourage them to improve, but, if not, we actually  
21 terminate them.

22           **COMMISSIONER BROWN:** I thought I read in one  
23 of these exhibits that the company awards a CPI -- an  
24 inflation adjustment annually; is that correct?

25           **THE WITNESS:** No. I would say to you that a

1 merit increase looks at a person's performance. But in  
2 the underlying, let's call it the range, I do believe  
3 that our HR department does look to market to see what  
4 other companies are doing. I don't know that it's  
5 actually off of CPI. I think it's more peer or  
6 competitive type evaluations.

7 But ultimately it's the decision of our board  
8 of directors what that range should be, and ultimately  
9 the eventual increase that the individual receives is  
10 based upon their performance, more so than everybody  
11 gets a 3% or a 2% CPI.

12 **COMMISSIONER BROWN:** Right. And we've seen  
13 that the executive compensation of those in the annual  
14 report have seen a significant increase over the past  
15 two years.

16 **THE WITNESS:** They have seen increases both in  
17 their base pay and in their incentive portions. If  
18 you -- trust me, I don't even profess to know all the  
19 rules of the proxy requirements that now are in front of  
20 our fine public accountants, but they're all-inclusive  
21 is all I can tell you. And you can see that there's  
22 elements in there where the company did perform well  
23 relative to the benchmarks and standards, and there was  
24 a good portion of incentive increase, as well as base  
25 salary increase.

1                   **COMMISSIONER BROWN:** Okay. That's all. Thank  
2 you.

3                   **CHAIRMAN GRAHAM:** Commissioner Balbis.

4                   **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.  
5                   And thank you, Mr. Szczygiel, for coming here  
6 and for correctly pronouncing your name.

7                   **THE WITNESS:** Well, my mom would be proud;  
8 more my dad.

9                   **COMMISSIONER BALBIS:** I have a few questions  
10 for you, and hopefully you'll be able to answer them.

11                   You stated that one of the primary reasons for  
12 submitting this rate case was that your projected ROE  
13 was below the acceptable range; is that correct?

14                   **THE WITNESS:** They're below the range that we  
15 were awarded at the last rate case. And, in my opinion,  
16 they're below an acceptable range.

17                   **COMMISSIONER BALBIS:** Okay. And obviously  
18 there's several ways to increase the ROE. You can  
19 either increase the revenues by increasing the rates or  
20 decrease your expenses.

21                   **THE WITNESS:** There's actually a -- not that I  
22 would say it's a third way, but there's a way to kind of  
23 forestall it. You could also stop making capital  
24 investments in excess of depreciation.

25                   **COMMISSIONER BALBIS:** Correct. Or just your

1 rate base.

2 So the question then -- so focusing on your  
3 expenses, the largest percentage of your expenses are in  
4 O&M for -- let's just focus on water. Would you say  
5 that's true?

6 **THE WITNESS:** Sure.

7 **COMMISSIONER BALBIS:** And just looking at, as  
8 an example, rate band 1 on your Schedule B5, the  
9 largest -- you have your usual suspects, if you will, on  
10 O&M expenses. You have salaries and wages. You have  
11 purchased power. And then normally you have chemicals,  
12 but since these systems do not really treat water, your  
13 chemical expenses are low.

14 **THE WITNESS:** Well, we do treat the water with  
15 chemicals, but --

16 **COMMISSIONER BALBIS:** Most of the treatment is  
17 adding --

18 **THE WITNESS:** Chlorine.

19 **COMMISSIONER BALBIS:** -- hydrochloride --

20 **THE WITNESS:** Yes, sir.

21 **COMMISSIONER BALBIS:** -- and aeration in some  
22 cases. But the question then comes on the other items,  
23 which are almost 40% of your O&M expenses, which are  
24 your contractual services management fees and then your  
25 contractual services other.

1           **THE WITNESS:** I, as I looked at the expense  
2 increase, first of all, what we -- and this is, this is  
3 an area of confusion I think in this case. The  
4 affiliate charges, the charges that are the service  
5 company, what we call ASI, Aqua service company, and  
6 ACO, which is the customer service company, those  
7 charges have actually declined in dollars from the last  
8 rate case. So what you're left with is to say, okay,  
9 well, then what's increasing here? And the things that  
10 are increasing are items like the healthcare benefits  
11 that we give our employees, not that we're giving a  
12 premium plan, it's just that the price of the healthcare  
13 is going up. The price of insurance based on our claim  
14 history has gone up, and other operating costs.

15           **COMMISSIONER BALBIS:** Okay. Thank you. But  
16 that wasn't really my question.

17           **THE WITNESS:** I'm sorry. I'll be happy to try  
18 it.

19           **COMMISSIONER BALBIS:** No. I just want -- I  
20 have several specific questions that if you could answer  
21 would help me out.

22                   What is included in your contractual services  
23 management fees, which in the case of rate band 1, the  
24 test year adjusted amount is \$430,000 out of the  
25 \$1.4 million O&M expense?

1           **THE WITNESS:** In this test year -- in the  
2 account 634 or 734?

3           **COMMISSIONER BALBIS:** 634.

4           **THE WITNESS:** 634. There's three elements.  
5 One is the management fees from the corporate office,  
6 which is ASI. That's the first element. The second  
7 element is a thing called regional management fee, which  
8 is really nothing more than certain individuals from  
9 other affiliates that spend some time assisting Florida.  
10 And the third thing in this case is between the '07 case  
11 and this case, we took the in-state administrative cost  
12 that gets distributed throughout the state, took it out  
13 of the 675 account, reclassified it up into the 634.

14           And the reason we did that was for our  
15 operators. We want our operators to be fiscally  
16 responsible people, understand the P&Ls, and help us  
17 become more efficient. So we felt that if we put all of  
18 the, in essence, the costs that they're not directly  
19 associated to manage into one account grouping, it would  
20 be easier for them to understand the financials. And  
21 unfortunately I believe it's caused quite a problem in  
22 this case, because a lot of people are having a hard  
23 time with the 675/634 reclassification.

24           **COMMISSIONER BALBIS:** I agree. And I'm glad  
25 you went in that direction. Because, again, if you look



1 at the backup as to what is the other expense, it just  
2 points back to miscellaneous expense. And then if you  
3 go to your Exhibit 277, which has the flow chart of  
4 intercompany and intracompany expenses.

5 **THE WITNESS:** Yes. If you don't mind, I'll  
6 get that. Volume 1, Appendix 1?

7 **COMMISSIONER BALBIS:** I believe --

8 **THE WITNESS:** On page 3?

9 **COMMISSIONER BALBIS:** Yeah. Page 3 of that  
10 exhibit.

11 **THE WITNESS:** Yes, sir.

12 **COMMISSIONER BALBIS:** And then if you go to  
13 page 5, it lists the table of the amounts for all of  
14 Aqua's costs associated with those segments. And the --  
15 is the largest majority 18, \$18.8 million sundry  
16 distribution? What is sundry distribution?

17 **THE WITNESS:** Sundry is the service company.  
18 18 million is the entire company. On a customer count  
19 basis, the State of Florida, the Florida subsidiary is  
20 about 3.6% of our customer count. But to really  
21 appreciate how things get charged to the subsidiary of  
22 Florida, every employee charges their time to what they  
23 believe are the appropriate subsidiaries they're  
24 supporting.

25 A general, general accountant might charge it

1 to all utilities. An executive like Nick DeBenedictis  
2 charges 50% of his time to Pennsylvania and 50% of his  
3 time to all utilities. So in essence Florida for Nick  
4 DeBenedictis is only receiving approximately half of  
5 that 3.6 or 1.8% of his salary.

6 But -- so there's a very stringent logic  
7 inside the service company. It's not just take the  
8 18 million or 25 million and just spread it on some  
9 single percentage.

10 **COMMISSIONER BALBIS:** So then the ASI charges  
11 would be included in the sundry?

12 **THE WITNESS:** The ASI charges are included in  
13 the -- there's two elements. There's a thing called  
14 service, that's the 18 million. That's the salaries of  
15 the employees. And the sundries would be the other  
16 costs, like us perhaps having a consultant, us having a  
17 compensation survey done or something of that nature.

18 **COMMISSIONER BALBIS:** And then the ACO  
19 charges, where are those?

20 **THE WITNESS:** The ACO charges appear on a  
21 separate line item. They appear in the 636/720 account.

22 **COMMISSIONER BALBIS:** Okay. And then, again,  
23 just to be specific here, so if you go to your Exhibit  
24 1, SS-1, the corporate charges allocation manual.

25 **THE WITNESS:** Yes, sir.

1                   **COMMISSIONER BALBIS:** One of the concerns I  
2 have is that, you know, it seems like you have an  
3 accurate way to track the time spent on an appropriate  
4 division or cost center. I cannot find in this exhibit  
5 any mention of, or any way to track that they're  
6 efficiently charging their time.

7                   So, for example, if you have a task, and you  
8 expect the task to take ten hours, that employee would  
9 code that ten hours into the appropriate cost center.  
10 But if that task takes 20 hours, there's nothing in here  
11 that I can find that assures that those hours are being  
12 spent efficiently. So couldn't an employee just code 20  
13 hours for a ten-hour task and your accounting system  
14 captures that, and it gets passed along to these rate  
15 bands with no, that I can see, no accountability in this  
16 manual on how you budget for the time and pass those on  
17 effectively and efficiently?

18                   **THE WITNESS:** You're absolutely in your  
19 statement. What I can tell you is, is that our company  
20 measures everybody's performance, and it's the  
21 individual managers', my job to evaluate my employees,  
22 that they're being effective and efficient when I do  
23 their performance review.

24                   To sit there and say that I have time-studied  
25 every task they do and I measure it and I say this is

1 the standard cost and this is the variance, no, we don't  
2 do that.

3 **COMMISSIONER BALBIS:** So how do you benchmark  
4 it then?

5 **THE WITNESS:** Well, I would say to you what I,  
6 what I attempt to do personally is I have expectations  
7 of how long a task should take somebody. How long it  
8 should take to build a budget, how long it should take  
9 to perform a financial analysis. I set a deadline. And  
10 if somebody can't make that deadline, I try to ascertain  
11 what the issues are and make my own judgment as to is  
12 this person, do they have the skill set necessary to do  
13 the job, to do it effectively and efficiently, and if  
14 not, can I train them or do I unfortunately have to  
15 replace them.

16 **COMMISSIONER BALBIS:** But the ultimate  
17 repercussion for the company would be your expenses  
18 would go up, your ROE would go down, and you could find  
19 yourself in a position of submitting for a rate case to  
20 have an appropriate level of ROE.

21 **THE WITNESS:** If there were inefficiencies,  
22 you could come to that conclusion.

23 **COMMISSIONER BALBIS:** Okay. Just one or two  
24 more questions.

25 You mentioned, I believe it was in your next

1 exhibit on the market studies for engineers --

2 THE WITNESS: Yes, sir.

3 COMMISSIONER BALBIS: -- and accountants.

4 When you compared the engineering costs, you listed the  
5 duties of the engineers as preparing RFPs, reviewing  
6 responses to RFPs. Are they performing any actual  
7 design services?

8 THE WITNESS: I don't know specifically. I  
9 could -- I don't know.

10 COMMISSIONER BALBIS: Okay. Because what I'm  
11 afraid of is that the comparable salaries listed from a  
12 consultant, that they may be performing actual design  
13 services as a professional engineer, rather than a more  
14 administrative duty, and I don't know if that's  
15 clarified in your exhibit or not.

16 THE WITNESS: I guess if I were to take that  
17 the one step -- take it to a different pew, but a  
18 similar -- your concept. Like our internal attorneys,  
19 you might argue that they're more administrative,  
20 because they're not actually practicing in the various  
21 jurisdictions where the issues are, because they're not  
22 qualified or of good standing. So I can definitely say  
23 that to you for attorneys. I can't answer for the  
24 engineers.

25 COMMISSIONER BALBIS: Okay. And two more

1 questions. The pro forma plant additions or any other  
2 capital improvements made to the AUF systems, are there  
3 any others like the meter replacements that were  
4 performed without a cost benefit analysis that are  
5 included in this rate case?

6 **THE WITNESS:** Well, first of all, I answer  
7 that I'm not aware of a cost benefit analysis. That  
8 doesn't mean that there wasn't one. So, please, if you  
9 could, just understand the limitations of my knowledge.

10 But I do believe that our engineering group  
11 tries to look at what is necessary to either continue  
12 the good operating condition of the system or to remedy  
13 an issue that may come up. I get to punt one time, I'm  
14 told, in this case, and I'll punt that perhaps to  
15 Mr. Luitweiler, who may be able to address that a little  
16 better than me, sir.

17 **COMMISSIONER BALBIS:** Okay. Thank you.

18 **CHAIRMAN GRAHAM:** Commissioner Brisé?

19 **COMMISSIONER BRISÉ:** Thank you, Mr. Chairman.

20 I have a few questions, and I'll begin with  
21 the analysis described in Exhibit SS-2 where it shows  
22 analysis of whether AUF's expenses are in line with  
23 going market rate and are otherwise inherently fair or  
24 unfair.

25 Does this analysis consider any difference in

1 the amount paid by government agencies or regulated  
2 industries as opposed to unregulated free market  
3 industry? So in your analysis did you all take that  
4 into consideration?

5 **THE WITNESS:** No. I believe we only looked at  
6 what I would call for profit or free market companies.

7 **COMMISSIONER BRISÉ:** Okay.

8 **THE WITNESS:** And, again, those companies may  
9 be performing services for the municipal markets. You  
10 know, accounting firms have all kinds of clients,  
11 engineers have all types of clients, but I couldn't  
12 answer that question for you.

13 **COMMISSIONER BRISÉ:** Okay. So then from that  
14 perspective, would the ROE that would be looked at as,  
15 say, an average or so forth, would that be appropriate  
16 when comparing to what would be appropriate in this  
17 case, considering that it's a regulated industry?

18 **THE WITNESS:** Well, again, in this element of  
19 the ROE, this is the expense side. We're doing things  
20 in the most cost efficient -- the least costly manner,  
21 below cost or market. I think by looking at this what  
22 we're demonstrating or attempting to demonstrate is that  
23 by basically having our employees who are billed out at  
24 cost, there is no profit margin, there's nothing other  
25 than just the cost and, again, the ability for them to

1 work at our organization and really learn the business.

2 If you went to the open market and just  
3 secured similar services, there's generally a profit  
4 margin included in that vendor's evaluation or price  
5 that they give you, but also they may basically have a  
6 higher priced individual, or even a same priced  
7 individual, but they don't have the technical knowledge  
8 or in-depth expertise that really gives the benefit to  
9 this company, which goes to the previous Commissioner's  
10 question about efficiency perhaps.

11 **COMMISSIONER BRISÉ:** Okay. I'm going to go to  
12 the incentive compensation, which has been talked about  
13 a little bit.

14 I know this question has been posed, but I  
15 don't think it's clear for me as far as what factors are  
16 really taken in to impact the decision whether to  
17 incentivize in a compensatory fashion or not, and so  
18 I'll just throw it out there.

19 As was -- AUF was rated marginal, for  
20 instance, from our perspective.

21 **THE WITNESS:** Correct.

22 **COMMISSIONER BRISÉ:** What type of impact does  
23 that have in the incentive compensation for those who  
24 are incentivized?

25 **THE WITNESS:** Well, there is an element of --



1 and, again, are we focusing on the four executives or  
2 are we focusing on every single person that gets some  
3 form of an incentive compensation?

4 **COMMISSIONER BRISÉ:** And that's a good  
5 question. I was trying to figure out which way would be  
6 the easiest approach to take that. So I guess we'll  
7 start with the four in question, and then we'll do the  
8 next layer.

9 **THE WITNESS:** Okay.

10 **COMMISSIONER BRISÉ:** If that makes sense.

11 **THE WITNESS:** Oh, I can step you down to the  
12 lowest level of incentive compensation.

13 Our executives, clearly in the proxy it lists  
14 out what their measurements are. Some of the  
15 measurements are just financial performance, some of  
16 them are items like customer satisfaction, water  
17 quality, items like that.

18 To the extent that a single state of someone's  
19 responsibility who might have seven states it would  
20 probably weigh a little more, i.e., someone like Chris  
21 Franklin. To someone like Nick DeBenedictis, who is  
22 responsible for 10 or 13 states, probably a little less  
23 is my answer.

24 Now as you start to go through the  
25 organization, when you now get into, let's say, what

1 I'll call the service company employees, myself, as  
2 incentive compensation, I have goals and objectives that  
3 are based upon both stated goals, you know, filing  
4 business plans, being accurate in our projections,  
5 filing rate cases unfortunately. And to the extent that  
6 it also affects potentially the bottom line of the  
7 company, I am, I am, I do have an impact -- it does  
8 impact my compensation.

9 As you step down into the employees of  
10 Florida, there's two elements, two types of employees  
11 that are in Florida. One has got an element of the  
12 financial performance of the state plus specific  
13 measurements and goals. Yes, it does impact them  
14 directly. And if you go to the lowest level, which are  
15 just goal-oriented, if their goals cover the area of  
16 customer service, again, a, a facility operator probably  
17 wouldn't have it impact them, but somebody in meter  
18 operations certainly would have an impact.

19 **COMMISSIONER BRISÉ:** Okay. So I guess we can  
20 both agree that there is, if it were to be weighted,  
21 financial impact of their decision-making versus pure  
22 customer service impact, then the, the heavier side of  
23 that would fall on the financial side in terms of the  
24 bottom line, rather than the perception that the  
25 customers are, are happy with, with the service that

1 they're receiving.

2 **THE WITNESS:** I -- I'll give you my answer.

3 **COMMISSIONER BRISÉ:** Sure.

4 **THE WITNESS:** I don't know that, you know --  
5 it's, again, the utility industry, and I've worked in a  
6 lot of industries, this is a very basic business model.  
7 You execute certain things in a timely and consistent  
8 fashion and your cost hopefully stays somewhat flat, to  
9 the extent that they are in your control. And so in my  
10 world, if you follow and you do your P's and Q's  
11 properly, your financial results follow.

12 So to say that the financial results is the  
13 leading incentivizer, that would lead to people perhaps  
14 deferring expenses or not doing everything they need to  
15 do, and that's absolutely wrong.

16 We have -- when we, when we basically give our  
17 employees the key goals and strategies of the company,  
18 the customer-centric approach is critical. I wish I  
19 actually could remember all four strategic goals that we  
20 in fact recite to all our of employees, but they're  
21 highly customer-oriented, quality-oriented type goals.  
22 You know, we, we don't lead with the financial  
23 performance. That should be a by-product, in all  
24 honesty.

25 **COMMISSIONER BRISÉ:** Okay. And the final

1 question that I have for you at this time, do you think  
2 that any billing or meter reading issues have  
3 contributed to the bad debt expense?

4 **THE WITNESS:** I mean, I could build scenarios.  
5 I think I heard one today where surely if you back bill  
6 somebody for a period of time and they simply don't have  
7 the wherewithal to pay the bill, they may sit there and  
8 say it's better for me just to pull up stake and leave.  
9 And that, in all honesty that could contribute to it.

10 Our billing issues, trust me, I'll let the  
11 next witness, Ms. Chambers, talk more to how it is. But  
12 I can tell you that our bad debt write-offs have been at  
13 a very, very consistent level for four years, adjusted  
14 for any rate changes or stuff like that.

15 So, you know, I don't see the exact  
16 correlation to bad billing. Unfortunately I think it  
17 may be our customer base, maybe it has something to do  
18 with the economy, but this -- I mean, we've been in this  
19 economy doldrums for years now. But as I look at three  
20 years up to the test year, and even the time after the  
21 test year, which now is almost a year and a half, our  
22 bad debt expense has remained relatively flat and the  
23 same, unfortunately at a pretty high level.

24 **COMMISSIONER BRISÉ:** Thank you very much.

25 **CHAIRMAN GRAHAM:** Commissioner Balbis.

1                   **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.

2                   I have two quick questions that Commissioner  
3 Brisé teased out of me, and it goes back to your Exhibit  
4 SS-1. I believe it was SS-1, on the method of tracking  
5 appropriate charges either to the ASI or ACO.

6                   **THE WITNESS:** Right. The allocations manual.

7                   **COMMISSIONER BALBIS:** The allocations manual.  
8 And going back to how can we as a Commission be assured  
9 that it's being allocated correctly, one of the things  
10 that was entered into the record was the audit report  
11 that was agreed to by all parties and stipulated into  
12 the record, that there were several discrepancies found  
13 in the small sampling that our audit group did.

14                   **THE WITNESS:** That is correct.

15                   **COMMISSIONER BALBIS:** So, again, they took a  
16 small sample of costs, if you will, and they found some  
17 irregularities. How can we be assured that those  
18 irregularities aren't consistent throughout the  
19 remaining costs that were not sampled?

20                   **THE WITNESS:** Right. First of all, I would  
21 not say to you absolutely that they were the only  
22 errors. I don't know that.

23                   Again, when you look at the service company,  
24 let's just call it \$25 million total. 18 million is  
25 basically salaries and associated cost benefits and

1 items like that. And there -- it's really the  
2 responsibility of the individual and an individual's  
3 supervisor to make sure that they're distributing their  
4 time appropriately. I know I personally take that very  
5 seriously, as I know other people in the company. When  
6 I say I'm supporting seven states, I make sure that I'm  
7 not sending my time to 13 states. So the timekeeping is  
8 really, again, the individual and their supervisor.

9           Where the Staff auditor found some coding  
10 errors, and they were -- it's like a vein of issues. It  
11 had to deal with some legal bills was the primary area.  
12 They primarily dealt with the fact that they were for a  
13 specific subsidiary; I believe it was primarily New  
14 York. And the individual who was coding the bills and  
15 the individual that was approving the bills just wasn't  
16 up to their -- wasn't -- they weren't as thorough as  
17 they should have been. It was a mistake.

18           I can tell you that in -- because, again,  
19 other, other states come to our, come to our facilities,  
20 work on-site in a fashion similar to Florida. These  
21 include North Carolina, which we reference a lot in the,  
22 this, this hearing so far, as well as Virginia. And to  
23 be honest with you, they all will occasionally catch  
24 what I will call a random miscoding, but it's not  
25 rampant and it's not large by any imagination.

1                   **COMMISSIONER BALBIS:** Okay. Thank you. And  
2 one last question. And I have to draw on my experience  
3 both in the private and public sector, where a lot of my  
4 biggest battles were challenging other groups allocating  
5 their costs to either my project or my cost center.

6                   So the question for you, is there any ability  
7 for the employee that's in charge in Florida or, you  
8 know, AUF, to question the charges that are passed along  
9 as affiliated charges?

10                  **THE WITNESS:** Absolutely. First all, on a  
11 monthly basis, a detailed listing of every employee  
12 that -- every employee in the service company, the hours  
13 that they charge, in honesty they can't argue the  
14 billing rate. The billing rate is my salary, my  
15 particular benefit program, my incentive compensation,  
16 and a portion of my rent, so they can't argue that. But  
17 they can definitely pick and say, hey, why did Stan  
18 charge me ten hours when I think it should only be two?  
19 They can clearly do that.

20                  In the sundry area, they receive a complete  
21 listing of all the bills, and I can tell you that I as  
22 well as the state controllers, because we have a state  
23 controller in every subsidiary, have challenged our  
24 corporate office on certain bills or have wanted to gain  
25 a better understanding of what the charge was.

1                   COMMISSIONER BALBIS: Have they ever  
2 eliminated?

3                   THE WITNESS: Have I ever made corrections?  
4 Yes.

5                   COMMISSIONER BALBIS: Has AUF Florida, have  
6 they had affiliated charges removed or reduced?

7                   THE WITNESS: Or reduced. Yes, they have.

8                   COMMISSIONER BALBIS: Okay. Thank you.  
9 That's all I have.

10                  CHAIRMAN GRAHAM: All right. We have  
11 redirect. We have -- it's about a quarter after 1:00.  
12 So if you don't mind, we're going to break for lunch and  
13 come back to your redirect.

14                  MR. MAY: That would be fine, Mr. Chairman.  
15 Thank you.

16                  CHAIRMAN GRAHAM: Okay. Let's take an hour.  
17 Let's get back here at quarter after 2:00.

18                               (Recess taken.)

19                               (Transcript continues in sequence with Volume  
20 2.)

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1 STATE OF FLORIDA )  
 2 COUNTY OF LEON ) : CERTIFICATE OF REPORTER

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I, LINDA BOLES, RPR, CRR, Official Commission Reporter, 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' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 7<sup>th</sup> day of December, 2011.

Linda Boles  
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